Fellow Shareholders,

Birchcliff is pleased to report its third quarter financial and operating results for the three and nine months ended September 30, 2012. Our third quarter results are very strong and well ahead of expectations.

Our current production is approximately 27,500 boe per day, well ahead of our previous exit production guidance of 26,000 boe per day. As a result, we have increased our guidance for fourth quarter average daily production to approximately 26,400 boe per day. Production is strong for a number of reasons including, the addition of new Montney/Doig horizontal natural gas wells, the strength of our asset base, new infrastructure, including the Phase III expansion of the Pouce Coupe South Gas Plant (the "**PCS Gas Plant**"), new gathering pipelines and other upgrades to our 100% owned infrastructure.

I am also pleased to report average third quarter production of 21,426 boe per day. We reduced our operating costs on a per boe basis as compared to the same period last year and also as compared to the second quarter of 2012.

In addition, operating costs per boe are expected to decrease further as we continue to increase the proportion of Birchcliff's natural gas production, which is processed at low cost through our PCS Gas Plant.

During the quarter we completed a $50 million Perpetual Preferred Share Equity issue, the proceeds of which were used to pay down debt and strengthen our financial position during a time of weak natural gas prices.

The execution by our Birchcliff team, together with an outstanding asset base, all of which is essentially operated by Birchcliff, has given us the ability to exceed all of our targets.

2012 THIRD QUARTER RESULTS

Production

Current production is approximately 27,500 boe per day.

Third quarter 2012 production averaged 21,426 boe per day (78% natural gas and 22% light oil and natural gas liquids) and is 21% greater than the third quarter of 2011.

Average daily production in the third quarter of 2012, as expected, was lower than the second quarter of 2012 as the Pouce Coupe South Gas Plant (the "**PCS Gas Plant**") was temporarily shut down for completion of construction of the Phase III expansion.

Funds Flow

Funds flow was $28.2 million or $0.20 per common share for the third quarter of 2012 down from $33.8 million or $0.27 per common share in the third quarter of 2011 and up from $26 million or $0.19 per common share for the second quarter of 2012. The decline of 17% from the third quarter of 2011 is mainly attributable to significantly lower natural gas prices, notwithstanding an increase in average daily production.

Earnings

Net income for the third quarter was $2.7 million and net income available to common shareholders was $2.2 million or $0.02 per common share for the third quarter of 2012 as compared to $11.4 million or $0.09 per common share in the third quarter of 2011. During the third quarter of 2012, the AECO natural gas spot price averaged $2.30 per Mcf and our realized price averaged $2.47 per Mcf. During the third quarter of 2011, the AECO natural gas spot price averaged $3.66 per Mcf and our realized price averaged $3.92 per Mcf. Achieving earnings in the face of these low natural gas prices highlights our low cost operating structure.

It is noteworthy that per unit general and administrative ("**G&A**") costs were down to $2.03 per boe, which is a 32% reduction from the third quarter of 2011 and a 51% decrease from the first quarter of 2012, which was impacted by the one-time corporate sales process costs. With these one-time costs behind us, we expect to see more normalized G&A costs per boe in our future quarters. We also expect our growing production volumes to continue to lower our future G&A costs per boe.

Capital Expenditures and Drilling Results

During the third quarter of 2012, net capital spending aggregated to $88.1 million. We spent significant facilities and drilling capital in preparation for the start-up of Phase III of the PCS Gas Plant, which occurred ahead of schedule, in early October 2012. A specific breakdown of capital expenditures can be found under "**Results of Operations - Capital Expenditures**" in the Management's Discussion and Analysis section of our Third Quarter Report.

Birchcliff drilled 10 (9.03 net) wells during the third quarter of 2012, including 3 (3.0 net) Montney/Doig horizontal natural gas wells, 1 (1.0 net) Montney/Doig vertical exploration well, 5 (5.0 net) Charlie Lake horizontal light oil wells at Worsley, and 1 (0.03 net) non operated, Charlie Lake horizontal well, all of which were successful with no dry holes.

Birchcliff also spent significant time and effort evaluating and developing new resource plays in the Peace River Arch area of Alberta with a focus on oil plays.

Birchcliff expects that its outstanding indebtedness at year-end will not be materially different than at September 30, 2012.

Operating Costs

Operating costs during the third quarter of 2012 were $6.01 per boe. This is 6% lower than $6.39 per boe recorded for the third quarter of 2011 and 3% lower than $6.22 per boe recorded in the second quarter of 2012.

During the first nine months of 2012, 41% of our total sales volumes were processed through our PCS Gas Plant as compared to 37% during the first nine months of 2011. Once Phase III of the PCS Gas Plant is operational for a whole quarter, operating costs per boe are expected to trend further downward as the majority of our future increased natural gas production volumes are expected to be processed through our low cost, 100% owned PCS Gas Plant.

The following table sets forth historical netback and cost data for natural gas processed through the PCS Gas Plant.

	Nine months ended September 30, 2012		Twelve months ended December 31, 2011	
PRODUCTION PROCESSED THROUGH THE PCS GAS PLANT				
Average daily production, net to Birchcliff:				
Natural gas (Mcf)		51,235		40,334
Oil & NGLs (bbls)		189		96
Total boe (6:1)		**8,729**		6,818
NETBACK AND COST	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.54(1)	15.24	3.98(1)	23.88
Royalty expense	(0.08)	(0.48)	(0.26)	(1.55)
Operating expense, net of recoveries	(0.33)	(1.98)	(0.21)	(1.28)
Transportation and marketing expense	(0.23)	(1.36)	(0.27)	(1.59)
Estimated operating netback(2)	**$1.90**	**$11.42**	$3.24	$19.46

(1) Premium pricing resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of recovered condensate. AECO natural gas spot price averaged $2.12 per Mcf during the nine months ended September 30, 2012 and $3.63 per Mcf during 2011.

(2) The estimated operating netback is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure, and is disclosed on a production month basis.

Land

Birchcliff continues to grow its undeveloped land base in the Peace River Arch. As at September 30, 2012, Birchcliff has increased its undeveloped land position to 558,755 gross (521,004 net) acres from its year end 2011 undeveloped land position of 531,903 gross (493,968 net) acres, resulting in a 93% average working interest. Birchcliff's very high average working interest in its undeveloped land base reflects its longstanding strategy of acquiring high working interest undeveloped land proximate to its operated high working interest production base and infrastructure.

Indebtedness

The aggregate credit limit under Birchcliff's bank credit facilities is $540 million. At September 30, 2012, the amount outstanding under Birchcliff's bank credit facilities was approximately $390.5 million. Birchcliff's working capital deficiency as at September 30, 2012 was $77.6 million, for a total debt of $468.2 million at September 30, 2012. The working capital deficiency does not reduce the amount Birchcliff can draw under its credit facilities.

The majority of our 2012 capital program was spent in the first nine months of the year, preparing for the start-up of the Phase III expansion of the PCS Gas Plant. Accordingly, Birchcliff expects that its outstanding indebtedness at year-end will not be materially different than at September 30, 2012.

$50 million Preferred Unit Equity Issue

On August 8, 2012 Birchcliff completed a preferred unit equity issue for gross proceeds of $50 million (the "**Preferred Unit Offering**"). The proceeds of the Preferred Unit Offering were used to pay down debt and to strengthen our balance sheet so that Birchcliff has the financial flexibility it requires to properly manage its business at a time when natural gas prices are very weak.

Each preferred unit was sold for $25.00 and consisted of one Series A Preferred Share with an initial 5 year, 8% yield ("**Preferred Share**") and three warrants ("**Warrants**"). Each Warrant carries the right to buy one common share for $8.30 until August 8, 2014. Two million Preferred Shares and six million Warrants were issued in the Preferred Unit Offering.

The Warrants, if exercised, will raise an additional $49.8 million of equity prior to their expiry in August 2014, without fees or commission.

Birchcliff has the right, but not the obligation, to redeem the Series A Preferred Shares at the end of five years. Alternatively, Birchcliff can reset the dividend rate at the end of the five year term at a rate equal to the five-year Government of Canada bond yield plus 6.83 per cent and continue to pay dividends for another five years. The Series A Preferred Shares provide Birchcliff with long term equity financing that does not participate in the significant upside potential of Birchcliff's assets. This long term capital more closely aligns the capital structure of Birchcliff with the long term assets that we are building in the exploitation of our resource plays.

The Series A Preferred Shares are listed for trading on the TSX under the symbol BIR.PR.A and the Warrants are listed for trading on the TSX under the symbol BIR.WT. The Series A Preferred Shares and the Warrants can be bought and sold freely, in the same way common shares are bought and sold.

2012 OPERATIONS UPDATE

Pouce Coupe South Gas Plant Update

The Phase III expansion of the 100% owned and operated PCS Gas Plant was completed and operational on October 2, 2012, one month ahead of schedule. The completion of Phase III of the PCS Gas Plant, together with the associated infrastructure, is a significant milestone for Birchcliff as it continues to allow Birchcliff to expand its future production through 100% owned facilities.

Birchcliff had previously received approval from the Energy Resources Conservation Board to increase the processing capacity of the PCS Gas Plant to 150 MMcf per day (raw inlet capacity) from the then licensed processing capacity of 120 MMcf per day. To operate the PCS Gas Plant at 150 MMcf per day will require some modifications to pipelines and sales meters on the NOVA pipeline system, but the capital required is not material.

To date in 2012, Birchcliff has installed over 31,600 metres of line pipe that feeds into the PCS Gas Plant. Approximately 30% of these pipelines are main trunklines that are between 8 inches and 12 inches in diameter. Our pipeline infrastructure has been designed to provide maximum operating flexibility and efficiency, which in turn has led to lower wellhead pressures resulting in increased well productivity.

Montney/Doig Natural Gas Resource Play Update

In the third quarter of 2012, Birchcliff's activities on the Montney/Doig Natural Gas Resource Play included the drilling of 3 (3.0 net) horizontal wells utilizing multi-stage fracture stimulation techniques and 1 (1.0 net) vertical exploration well. All wells were successful.

To date in 2012, Birchcliff has drilled and cased 21 (21.0 net) Montney/Doig horizontal wells, of which 20 (20.0 net) wells have been completed, and 19 (19.0 net) are on production. One (1.0 net) of these wells has been drilled since the end of the third quarter 2012, and is a Middle/Lower Montney exploration well that continues to expand this play trend. Since the end of the third quarter Birchcliff has also drilled and cased a second vertical exploration well, that appears to be successful.

Birchcliff has continued with a full cycle exploration, exploitation and development strategy for the Montney/Doig Natural Gas Resource Play. One key element of this strategy is continued efforts on re-classifying resources from Undiscovered to the Discovered category and to an appropriate reserves classification. To date in 2012 Birchcliff has drilled and cased 2 vertical exploration wells on lands that penetrated resources that were considered "Undiscovered" in its 2011 year-end "Montney/Doig Natural Gas Resource Assessment". We expect these resources will be classified as "Discovered" resources.

We also recently drilled, cased and completed a horizontal Montney/Doig exploration well in the Middle/Lower Montney play, which drilled resources were considered "Discovered" at year end 2011, but no reserves were attributed to the particular play interval. With the successful results of this exploration well, we expect significant reserves will be attributed to this well in our 2012 year-end reserves evaluation.

Birchcliff continues to be very focused on reducing drilling and completion costs and one key initiative on the reduction of drilling costs is multi-well pad drilling. To date in 2012 we have drilled, cased completed and brought production on-stream from three 2-well pads, one 4-well pad and one 7-well pad. Currently, we are drilling our last well of this year's program that is on a 2-well pad. We continue to see cost savings with these multi-well pads.

We are fortunate to have strong relationships with our third party contractors. This has allowed us to contract one of the most operationally efficient top drive, diesel-electric drilling rigs in the industry. As well, continued optimization of our fracture fluid systems and completion operations has demonstrated very successful results. These improvements to our drilling and completion operations has resulted in further cost reductions which we are expecting to continue to realize on future multi-well pad drilling projects.

Birchcliff believes that it has at least 1,850 net future Montney/Doig horizontal natural gas drilling locations on its lands based on a development scenario of four wells per section per stratigraphic play.

Worsley Light Oil Resource Play Update

The Worsley Light Oil Resource Play has demonstrated consistent and prolific production performance. Successful expansion of the pool, water flood performance and the application of horizontal drilling and multi-stage fracture stimulation technology have all contributed to its continued reserve growth, production growth and high netbacks.

In the third quarter of 2012, Birchcliff's activities on the Worsley Light Oil Resource Play included the drilling of 5 (5.0 net) horizontal wells utilizing multi-stage fracture stimulation techniques. To date in 2012, Birchcliff has drilled, cased and completed 11 (11.0 net) horizontal wells, all of which were successful and are on production. Birchcliff has added facility and pipeline capital in the northwest end of the pool, to accommodate the production growth in that area.

Recently Birchcliff received approval from the ERCB to expand the Waterflood area, and is currently conducting the field operations to convert wells to injection and install pipelines and related facilities.

New Resource Play Update

In our Peace River Arch core area, numerous industry competitors have announced significant developments on a number of new resource plays with a strong bias to new tight/shale oil resource plays. Continuing from 2011 there have been significant Crown lands posted and acquired in the Peace River Arch and numerous new wells drilled and completed targeting these new resource plays, including the Montney, Charlie Lake, Nordegg and the Duvernay.

Birchcliff has been successful in acquiring further lands since June 30, 2012. As a result its undeveloped land position has increased to 558,755 gross (521,004 net) acres from its June 30, 2012 undeveloped land position of 552,355 gross (514,814 net) acres, resulting in a 93% average working interest.

Birchcliff believes that virtually all of its undeveloped land has potential in at least one of these new resource plays. Accordingly, we continue to spend a significant amount of time analyzing and evaluating these various new resource plays.

OUTLOOK

Birchcliff is focused on the day to day running of its business. We are enjoying record production and low operating costs per boe. We have already exceeded our year-end production targets because of the underlying strength of all our existing natural gas wells, infrastructure additions, optimizations and the addition of recent Montney/Doig natural gas wells and Worsley light oil wells.

The Phase III expansion of our PCS Gas Plant was completed ahead of schedule and, as expected, has taken Birchcliff to record production levels.

Birchcliff completed the vast majority of its 2012 capital program by the end of the third quarter. Accordingly, Birchcliff expects that its outstanding indebtedness at year-end will not be materially different than at September 30, 2012.

All of the horizontal wells we have drilled on the Montney/Doig Natural Gas Play have been successful. Since November 2007, we have drilled and cased 92 (80.2 net) Montney/Doig horizontal natural gas wells, of which 90 (78.2 net) have been brought on production.

We continue to develop and expand our Worsley Light Oil Resource Play and have laid the foundation to exploit several New Tight/Shale Oil Resource Plays.

Our day to day business has been and continues to be very successful.

With the issuance of the Preferred Shares we have created a much stronger capital structure for Birchcliff as we have increased our equity and reduced our debt and positioned ourselves for the future.

Preliminary guidance for 2013

We expect to have a very strong production profile entering 2013. Initially we will be targeting average production of 26,400 boe per day for 2013. Although our budget for 2013 has not yet been determined, we estimate on a preliminary basis that capital expenditures of approximately $160 million will be sufficient to maintain 2013 average daily production at approximately 26,400 boe per day.

We are excited about our 2013 capital spending program; we will not be required to allocate capital to any major facility projects as we have done in prior years. Capital efficiencies will improve as most of our capital will go to the drilling, completing and tie-in of new wells.

As in the past, Birchcliff expects to release its unaudited 2012 year end results, 2012 Year End Reserves and Finding Costs and 2013 Budget in the middle of February 2013.

Summary

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

Our significant production growth at very low finding and development costs, together with low operating costs is evidence that our strategy is working.

Our strategy has not changed, notwithstanding the weakness in natural gas prices. We believe that we can economically find, develop and produce natural gas from the Montney/Doig Natural Gas Resource Play at low costs. We also believe that technology advances will continue to reduce our finding costs per boe and our operating costs per boe and increase our recovery factors. We note that our 2010 and 2011 finding costs per boe were in the top decile as compared to others in the industry and 2012 results to date continue to be very positive.

Current production far exceeds our previous 2012 exit rate guidance of 26,000 boe per day at year end. We are confident that we will achieve our new fourth quarter average production guidance of 26,400 boe/day, which will set a new quarterly production record for Birchcliff.

Finally, we continue to acknowledge and thank Mr. Seymour Schulich, our largest shareholder, who provides us with significant moral and financial support during a difficult time in the natural gas industry. With his support, we are proud to do our part and deliver excellent operational and financial results. Thank you Mr. Schulich.

We look forward to reporting our progress to you in the coming months.

On behalf of our Management Team and Directors, I thank all of our shareholders for their continued support and our staff for their hard work and dedication.

(signed) "*A. Jeffery Tonken*"

A. Jeffery Tonken

President and Chief Executive Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
OPERATING				
Average daily production				
Light oil – (barrels)	4,076	4,050	4,365	3,796
Natural gas – (thousands of cubic feet)	100,075	78,996	98,725	79,420
NGLs – (barrels)	671	432	689	539
Total – barrels of oil equivalent (6:1)	**21,426**	**17,648**	**21,508**	**17,571**
Average sales price ($ Canadian)				
Light oil – (per barrel)	82.45	86.40	84.77	90.68
Natural gas – (per thousand cubic feet)	2.47	3.92	2.28	4.03
NGLs – (per barrel)	79.74	84.25	85.11	87.45
Total – barrels of oil equivalent (6:1)	**29.73**	**39.42**	**30.39**	**40.47**
Undeveloped land				
Gross (acres)	558,755	528,703	558,755	528,703
Net (acres)	521,004	489,938	521,004	489,938
NETBACK AND COST				
($ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	29.75	39.46	30.41	40.51
Royalty expense	(2.39)	(4.19)	(3.06)	(4.55)
Operating expense	(6.01)	(6.39)	(6.13)	(6.70)
Transportation and marketing expense	(2.33)	(2.71)	(2.36)	(2.63)
Netback	**19.02**	**26.17**	**18.86**	**26.63**
General & administrative expense, net	(2.03)	(2.97)	(2.79)	(2.91)
Interest expense	(2.67)	(2.36)	(2.43)	(2.78)
Funds flow netback	**14.32**	**20.84**	**13.64**	**20.94**
Stock-based compensation expense, net	(0.56)	(1.46)	(0.68)	(1.40)
Depletion and depreciation expense	(11.05)	(10.97)	(11.36)	(10.41)
Accretion expense	(0.23)	(0.27)	(0.22)	(0.28)
Amortization of deferred financing fees	(0.10)	(0.12)	(0.10)	(0.14)
Gain on sale of assets	-	1.88	0.66	0.45
Income tax expense	(0.99)	(2.87)	(0.77)	(2.67)
Net income	1.39	7.03	1.17	6.49
Preferred share dividends	(0.29)	-	(0.10)	-
Net income available to common shareholders	**1.10**	**7.03**	**1.07**	**6.49**
FINANCIAL				
Petroleum and natural gas revenue ($000)	58,643	64,069	179,205	194,326
Funds flow from operations ($000)(1)	28,230	33,844	80,411	100,426
Per common share – basic ($)(1)	0.20	0.27	0.59	0.80
Per common share – diluted ($)(1)	0.20	0.26	0.58	0.77
Net income ($000)	2,744	11,411	6,891	31,121
Net income available to common shareholders ($000)	2,165	11,411	6,312	31,121
Per common share – basic ($)	0.02	0.09	0.05	0.25
Per common share – diluted ($)	0.02	0.09	0.05	0.24
Common shares outstanding				
End of period – basic	141,534,645	126,679,577	141,534,645	126,679,577
End of period – diluted	162,945,783	140,149,250	162,945,783	140,149,250
Weighted average shares for period – basic	141,474,489	126,630,446	135,572,012	126,131,596
Weighted average shares for period – diluted	143,571,758	131,374,723	138,456,300	131,000,989
Capital expenditures, net ($000)	88,099	71,978	266,766	156,457
Preferred share dividends ($000)	579	-	579	-
Working capital deficiency ($000)	77,643	26,990	77,643	26,990
Non-revolving five-year term facility ($000)	68,863	68,811	68,863	68,811
Revolving credit facilities ($000)	321,678	290,495	321,678	290,495
Total debt ($000)	468,184	386,296	468,184	386,296

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

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 November 14, 2012. The unaudited interim condensed financial statements with respect to the three and nine months ended September 30, 2012 (the "**Reporting Periods**") as compared to the three and nine months ended September 30, 2011 (the "**Comparable Prior Periods**") 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 unaudited interim condensed financial statements of the Corporation and related notes for the Reporting Periods and Comparable Prior Periods. All financial information is expressed in thousands of Canadian dollars, unless otherwise stated.

The Corporation's interim condensed financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, within International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**").

THIRD QUARTER OVERALL PERFORMANCE

Production

Production in the third quarter of 2012 averaged 21,426 boe per day. This is a 21% increase from the 17,648 boe per day the Corporation averaged in the third quarter of 2011. This increase was achieved through the success of Birchcliff's capital drilling program. Production from new Montney/Doig horizontal natural gas wells has been tied into Birchcliff's 100% owned and operated Pouce Coupe South Natural Gas Plant ("**PCS Gas Plant**"). Birchcliff's production averaged 21,508 boe per day in the first three quarters of 2012.

Production consisted of approximately 78% natural gas and 22% crude oil and natural gas liquids in the third quarter of 2012 as compared to 75% natural gas and 25% crude oil and natural gas liquids in the third quarter of 2011.

Commodity Prices

The Edmonton Par oil price averaged $84.33 per barrel in the third quarter of 2012, an 8% decrease from $91.74 per barrel in the third quarter of 2011. Oil sales prices at the wellhead averaged $82.45 per barrel in the third quarter of 2012, a 5% decrease from $86.40 per barrel in the third quarter of 2011.

The AECO natural gas spot price averaged $2.30 per Mcf in the third quarter of 2012, a 37% decrease from $3.66 per Mcf in the third quarter of 2011. Natural gas sales prices at the wellhead averaged $2.47 per Mcf in the third quarter of 2012, a 37% decrease from $3.92 per Mcf in the third quarter of 2011.

The prices received for Birchcliff's petroleum and natural gas sales are impacted by world events that dictate the level of supply and demand for petroleum and natural gas. Birchcliff currently does not have any commodity contracts in place and is therefore subject to fluctuations in commodity prices.

PCS Gas Plant Netbacks

Despite contending with very low AECO natural gas spot prices, the estimated operating netback for Birchcliff's natural gas production flowing to the PCS Gas Plant was $1.90 per Mcfe in the nine month Reporting Period. Birchcliff's strong netback for its natural gas production flowing to the PCS Gas Plant is a result of the low cost structure of the PCS Gas Plant and the premium price received for its natural gas and condensate. Some of the financial and operational highlights of the PCS Gas Plant for the nine month Reporting Period include:

- **Premium pricing** of $2.54 per Mcfe, due to the heat content for Birchcliff's natural gas sales production processed at the PCS Gas Plant and the value of recovered condensate. AECO natural gas spot price averaged $2.12 per Mcf;
- **Low operating costs** at the PCS Gas Plant, averaging $0.33 per Mcfe ($1.98 per boe);
- **High operating margin** of 75% at the PCS Gas Plant which is determined by dividing the estimated operating netback by petroleum and natural gas revenue; and
- **Significant production** processed at the PCS Gas Plant. Approximately 52% of Birchcliff's total natural gas sales volumes and 41% of total corporate sales volumes were processed at the PCS Gas Plant.

The following table details Birchcliff's net production and operating netback for wells producing to the PCS Gas Plant for the nine months ended September 30, 2012 and the twelve months ended December 31, 2011:

	Nine months ended September 30, 2012		Twelve months ended December 31, 2011	
PRODUCTION PROCESSED THROUGH THE PCS GAS PLANT				
Average daily production, net to Birchcliff:				
Natural gas (Mcf)		51,235		40,334
Oil & NGLs (bbls)		189		96
Total boe (6:1)		**8,729**		6,818
NETBACK AND COST	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue	2.54[1]	15.24	3.98[1]	23.88
Royalty expense	(0.08)	(0.48)	(0.26)	(1.55)
Operating expense, net of recoveries	(0.33)	(1.98)	(0.21)	(1.28)
Transportation and marketing expense	(0.23)	(1.36)	(0.27)	(1.59)
Estimated operating netback[2]	**1.90**	**11.42**	3.24	19.46
Operating margin[3]	**75%**	**75%**	81%	81%

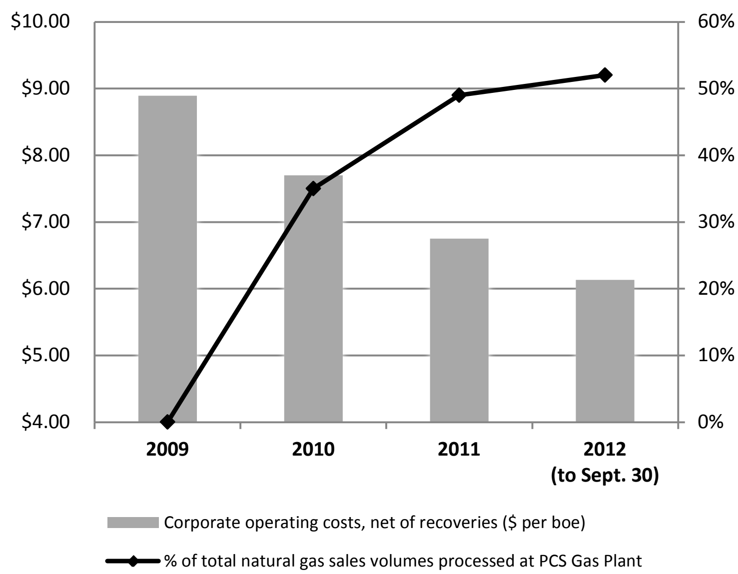
(1) Premium pricing resulting from the heat value of natural gas being processed at the PCS Gas Plant and the value of recovered condensate. AECO natural gas spot price averaged $2.12 per Mcf during the nine months ended September 30, 2012 and $3.63 per Mcf during 2011.

(2) The estimated operating netback is a non-GAAP measure and is based upon certain cost allocations and accruals directly related to the PCS Gas Plant and related wells and infrastructure, and is disclosed on a production month basis.

(3) Operating margin is a non-GAAP measure and is calculated by dividing the estimated operating netback by petroleum and natural gas revenue for the period.

As illustrated in the table below, after we began processing natural gas at the PCS Gas Plant in early 2010, total corporate operating costs on a per boe basis has trended downward as increasing production volumes have been processed at the PCS Gas Plant:

Corporate Operating Costs per Boe vs. % of Total Natural Gas Sales Volumes Processed at the PCS Gas Plant



Processing natural gas through Birchcliff's low cost PCS Gas Plant has significantly improved the economics of the Montney/Doig horizontal natural gas wells tied into the PCS Gas Plant, allowing the Corporation to not only generate positive netbacks but also achieve high operating margins.

Funds Flow and Earnings

Funds flow from operations is a non-GAAP measure 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 September 30,		**Nine months ended September 30,**	
	2012	2011	**2012**	2011
Cash flow from operating activities	24,360	30,868	64,270	93,814
Adjustments:				
Decommissioning expenditures	212	30	306	708
Changes in non-cash working capital	3,658	2,946	15,835	5,904
Funds flow from operations(1)	**28,230**	33,844	**80,411**	100,426
Per common share – basic ($)(1)	**0.20**	0.27	**0.59**	0.80
Per common share – diluted ($)(1)	**0.20**	0.26	**0.58**	0.76

(1) Funds flow from operations and funds flow per common share amounts as presented does not have any standardized meaning prescribed by 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.

Funds flow from operations in the third quarter of 2012 was $28.2 million as compared to $33.8 million in the third quarter of 2011. The decrease in aggregate funds flow is mainly attributed to significantly lower natural gas prices, with the AECO natural gas spot price having decreased by 37% from the third quarter of 2011. Funds flow was also negatively impacted by lower realized oil wellhead prices and increased interest expense, positively offset by higher average daily production and lower net general and administrative and royalty expenses. Higher average production also resulted in increases to aggregate operating expenses and transportation and marketing costs in the current quarter.

In the third quarter of 2012, despite AECO natural gas spot prices averaging $2.30 per Mcf, Birchcliff achieved positive net earnings as a result of its low cost structure. Birchcliff's net income available to common shareholders was approximately $2.2 million ($0.02 per common share) in the third quarter of 2012 as compared to $11.4 million ($0.09 per common share) in the third quarter of 2011. This decrease in net income was mainly attributable to lower funds flow from operations (mainly attributable to lower commodity prices), increase in depletion expense resulting from higher average daily production in the current quarter, payment of preferred share dividends and a gain on sale of assets reported in the comparative quarter, offset by lower net stock-based compensation expense and income taxes in the third quarter of 2012.

Capital Expenditures

Total capital expenditures (excluding minor acquisitions and dispositions) in the third quarter of 2012 were $88.1 million as compared to $73.7 million in the third quarter of 2011. Of the $88.1 million, approximately $16.6 million (19%) was related to construction of Phase III of the PCS Gas Plant and approximately $43.3 million (49%) was for the drilling and completion of Montney/Doig horizontal natural gas wells that will produce to the PCS Gas Plant.

The remaining $28.2 million (32%) in capital was spent on other infrastructure, expansion of the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play, acquisition of land and on other oil and gas exploration and development projects in the Peace River Arch. See *Results of Operations – Capital Expenditures* for further details of the Corporation's capital expenditures in the third quarter of 2012.

Equity Issue

On August 8, 2012, Birchcliff completed a bought deal preferred unit equity financing for gross proceeds of $50 million (the "**August Financing**"). The Corporation issued 2,000,000 preferred units at a price of $25.00 per preferred unit for gross proceeds of $50 million. Each preferred unit was comprised of one cumulative redeemable five year rate reset preferred share, Series A (a "**Series A Preferred Share**") of Birchcliff, to yield initially 8% per annum, and three common share purchase warrants of Birchcliff. Each warrant provides the right to purchase one common share of the Corporation until August 8, 2014, at an exercise price of $8.30 per common share. The Series A Preferred Shares pay cumulative dividends of $2.00 per Series A Preferred Share per annum, payable quarterly if, as and when declared by Birchcliff's Board of Directors. The net proceeds of the August Financing were used to reduce indebtedness under the revolving credit facilities and for other general corporate purposes. See "*Major Transactions Affecting Financial Results – Equity Financings*".

OUTLOOK

Production

Current production of 27,500 boe per day far exceeds our previous 2012 exit rate guidance of 26,000 boe per day at year end. Birchcliff expects to average 26,400 boe per day in the fourth quarter of 2012. This estimate assumes that no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells, that existing wells continue to meet production expectations and any future wells, scheduled to come on production, meet production expectations.

Bank Debt and Liquidity

The recent equity financings, together with the increased credit limit under the Corporation's bank credit facilities (see "*Major Transactions Affecting Financial Results*"), provide Birchcliff with the financial flexibility necessary to develop and expand its two major resource plays while protecting its balance sheet during this low natural gas price environment. The Corporation does not foresee any liquidity issues with respect to the operation of its oil and natural gas business in the fourth quarter of 2012 and into 2013. Birchcliff expects to meet its future obligations as they become due.

The Corporation intends to finance its business primarily through funds flow from operations, working capital, potential sales of non-core 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 except to fund a significant acquisition or to significantly increase its capital spending 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 sufficient to meet both its short term and long term growth requirements.

Birchcliff expects that its outstanding indebtedness at year-end will not be materially different than at September 30, 2012. This forecast year-end indebtedness is based on Birchcliff's fourth quarter forecast of $3.03 per GJ for natural gas at AECO and a WTI price of $US 89.86 per bbl for crude oil, a Canadian dollar at par with the US dollar, a differential to the wellhead of $4.50, and forecast average production of 26,400 boe per day.

Capital Expenditures

The Corporation's 2012 capital spending program is largely focused on the Phase III expansion of the PCS Gas Plant and the drilling, completion and tie-in of Montney/Doig horizontal natural gas wells that will produce to the expanded PCS Gas Plant. The Corporation also continues to develop the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play and other associated infrastructure.

Birchcliff's funds flow from operations, the net proceeds from the recent equity offerings and bank indebtedness will be used to fund the ongoing capital spending program.

PCS Gas Plant and Resource Plays

The wholly owned and operated PCS Gas Plant will continue to increase the value of the Montney/Doig Natural Gas Resource Play by allowing for production growth, reducing operating costs per boe and increasing Birchcliff's strategic control over the Pouce Coupe area.

Birchcliff has a very strong asset base with its two main resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. The extensive portfolio of development opportunities on these resource plays will provide Birchcliff with repeatable, low risk, long life future production and reserves additions that are readily available with the investment of additional capital. Birchcliff continues to investigate and work towards development of new resource plays in its core area, the Peace River Arch.

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.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Equity Financings

On August 8, 2012, Birchcliff completed the August Financing, a bought deal preferred unit equity financing for gross proceeds of $50 million. The Corporation issued 2,000,000 preferred units at a price of $25.00 per preferred unit for gross proceeds of $50 million. Each preferred unit was comprised of one cumulative redeemable five year rate reset Series A Preferred Share of Birchcliff, to yield initially 8% per annum, and three common share purchase warrants of Birchcliff. Each warrant provides the right to purchase one common share of the Corporation until August 8, 2014, at an exercise price of $8.30 per common share. A total aggregate of two million Series A Preferred Shares and six million warrants were issued in the August Financing. The net proceeds of the August Financing totaling approximately $48.1 million were used to reduce indebtedness under the revolving credit facilities and for general corporate purposes.

The Series A Preferred Shares pay cumulative dividends of $2.00 per Series A Preferred Share per annum, payable quarterly if, as and when declared by Birchcliff's Board of Directors, with the first quarterly dividend paid on September 30, 2012, for the initial five year period ending September 30, 2017. Holders of the Series A Preferred Shares have the right, at their option, to convert their Series A Preferred Shares into cumulative redeemable floating rate series B preferred shares, subject to certain conditions, on September 30, 2017 and on September 30 of every five years thereafter. Further details regarding the August Financing can be found in the Corporation's short form prospectus dated July 30, 2012, which is available on the SEDAR website at www.sedar.com.

On April 19, 2012, Birchcliff completed a bought deal common share equity financing and a private placement for gross proceeds of $110 million (the "**April Financing**"). The Corporation issued 8,075,000 common shares at a price of $7.65 per share for gross proceeds of $61.8 million and 1,100,000 common shares on a "flow-through" basis pursuant to the *Income Tax Act* (Canada), at a price of $9.20 per share for gross proceeds of $10.1 million. Birchcliff's major shareholder purchased 5,000,000 common shares issued at a price of $7.65 per share in a concurrent private placement for gross proceeds of $38.3 million. The aggregate net proceeds of the April Financing totaling $106.2 million were used to reduce indebtedness under the revolving credit facilities. Further details regarding the April Financing can be found in the Corporation's short form prospectus dated April 12, 2012, which is available on the SEDAR website at www.sedar.com.

Credit Facilities

On June 26, 2012, the Corporation's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $470 million from $450 million and extended the conversion date of those facilities to May 17, 2013 (the "**Revolving Credit Facilities**"). The amended Revolving Credit Facilities include an increased credit limit for the extendible revolving term credit facility (the "**Syndicated Credit Facility**") of $440 million from $420 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $30 million. The aggregate maximum amount under the Corporation's bank credit facilities is $540 million, of which $70 million is under the non-revolving five-year term credit facility with a maturity date of May 25, 2016 (the "**Non-Revolving Five-Year Term Facility**") and $470 million is under the Revolving Credit Facilities.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Corporation's working capital deficit (current assets minus current liabilities) increased to $77.6 million at September 30, 2012 from $48.6 million at December 31, 2011. The deficit at September 30, 2012 is largely comprised of costs incurred for the Phase III expansion of the PCS Gas Plant and associated wells and related infrastructure.

At September 30, 2012, the major components of Birchcliff's current assets were: joint interest billings to be received from its partners (19%) and revenue to be received from its marketers in respect of September 2012 production (69%), which was subsequently received in October 2012. In contrast, current liabilities largely consisted of trade payables (66%) and accrued capital and operating costs (30%). 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 during this period of low natural gas prices.

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 third quarter of 2012.

Total Debt and Bank Debt

Total debt, including the working capital deficit, was $468.2 million at September 30, 2012 as compared to $437.0 million at December 31, 2011. Total debt from the end of 2011 was increased by $186.4 million in total capital expended in the first three quarters of 2012 in excess of funds flow during that period and was reduced by aggregate net proceeds of $154.3 million from the April Financing and August Financing. The amount outstanding under Birchcliff's bank credit facilities at September 30, 2012 was $390.5 million (December 31, 2011 – $388.4 million), which is net of $4.9 million (December 31, 2011 – $4.8 million) in unamortized interest and fees.

A significant portion of the funds drawn under Birchcliff's bank credit facilities in the Reporting Periods was to pay costs relating to the Phase III expansion of the PCS Gas Plant, including drilling and completion of new Montney/Doig horizontal natural gas wells that will produce to Phase III in the fourth quarter of 2012 and for drilling activities on the Worsley Light Oil Resource Play.

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

As at,	September 30, 2012	December 31, 2011
Maximum borrowing base limit(1)(2):		
Non-Revolving Five-Year Term Facility	70,000	70,000
Revolving Credit Facilities	470,000	450,000
	540,000	520,000
Principal amount utilized:		
Drawn Non-Revolving Five-Year Term Facility(3)	(70,000)	(70,000)
Drawn Revolving Credit Facilities(3)	(325,484)	(323,221)
Outstanding letters of credit(4)	(698)	(2,668)
	(396,182)	(395,889)
Total unused credit (2) (based on maximum borrowing base)	**143,818**	124,111

(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.

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. The Corporation was compliant with these financial covenants as at September 30, 2012 and December 31, 2011.

At September 30, 2012, Birchcliff's aggregate principal amount utilized under its bank credit facilities was $396 million and the debt to EBITDA covenant would have restricted Birchcliff's aggregate credit available on that day to a maximum of $517 million.

(3) The drawn amounts are not reduced for unamortized costs and fees. The drawn Revolving Credit Facilities at the end of the Reporting Period consists of approximately $19.5 million (2011 – $19.2 million) applicable to the Working Capital Facility (including outstanding cheques) and $306 million (2011 - $304 million) applicable to the Syndicated 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 September 30, 2012 and December 31, 2011.

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 September 30, 2012:

	2012	2013	2014 - 2016	Thereafter
Accounts payable and accrued liabilities	104,398	-	-	-
Drawn Non-Revolving Five-Year Term Facility	-	700	69,300	-
Drawn Revolving Credit Facilities	-	-	325,484	-
Office lease(1)	804	3,295	9,885	3,018
Transportation and processing	4,433	16,098	17,640	-
Total estimated contractual obligations(2)	**109,635**	**20,093**	**422,309**	**3,018**

(1) The Corporation is committed under an operating lease relating to its office premises, beginning December 1, 2007 and expiring on November 30, 2017. Birchcliff does not presently use all of the leased premises and has sublet approximately 24% of the excess space to an arms' length party on a basis that recovers all of the rental costs for the first five years.

(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 September 30, 2012 to be approximately $109.5 million and will be incurred as follows: 2012 - $0.5 million, 2013 - $2.2 million, 2014 to 2016 - $8.5 million and $98.3 million thereafter. The estimate for decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

Capital Resources

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

Three months ended September 30,	**2012**	2011
Funds flow from operations	28,230	33,844
Changes in non-cash working capital from operations	(3,658)	(2,946)
Decommissioning expenditures	(212)	(30)
Issue of common shares	486	1,259
Issue of preferred shares and warrants	50,000	-
Share issue costs	(1,886)	-
Dividends paid on preferred shares	(579)	-
Net change in Non-Revolving Five-Year Term Facility	(403)	3
Net change in Revolving Credit Facilities	(10,118)	20,053
Changes in non-cash working capital from investing	26,239	19,795
Total capital resources	**88,099**	71,978

Nine months ended September 30,	**2012**	2011
Funds flow from operations	80,411	100,426
Changes in non-cash working capital from operations	(15,835)	(5,904)
Decommissioning expenditures	(306)	(708)
Issue of common shares	112,768	8,557
Issue of preferred shares and warrants	50,000	-
Share issue costs	(5,858)	-
Dividends paid on preferred shares	(579)	-
Financing fees paid on credit facilities	(600)	(1,356)
Net change in Non-Revolving Five-Year Term Facility	(166)	69,459
Net change in Revolving Credit Facilities	2,285	(42,955)
Changes in non-cash working capital from investing	44,627	24,140
Total capital resources	**266,747**	151,659

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 as at or during the three and nine months ended September 30, 2012.

OUTSTANDING SHARE INFORMATION

The common shares and preferred shares of Birchcliff are the only class of shares outstanding as at September 30, 2012. 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 Periods:

	Common shares
Balance at December 31, 2011	126,745,577
Issue of common shares upon exercise of options	260,000
Balance at March 31, 2012	127,005,577
Issue of common shares(1)	13,075,000
Issue of flow-through common shares(1)	1,100,000
Issue of common shares upon exercise of options	253,067
Balance at June 30, 2012	141,433,644
Issue of common shares upon exercise of options	101,001
Balance at September 30, 2012	**141,534,645**

(1) Issued in conjunction with the April Financing.

At November 14, 2012, there were outstanding 141,593,779 common shares, 2,000,000 Series A Preferred Shares, 12,322,538 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 September 6, 2012, the Board of Directors declared an initial quarterly cash dividend (for a partial quarter) of $579,240 or $0.28962 per Series A Preferred Share, payable to the shareholders of record as at the close of business on September 17, 2012. The dividend is designated an eligible dividend for purposes of the *Income Tax Act (Canada).*

RESULTS OF OPERATIONS

Petroleum and Natural Gas Revenues

Petroleum and Natural Gas ("**P&NG**") revenues totalled $58.6 million ($29.75 per boe) for the three month Reporting Period and $179.2 million ($30.41 per boe) for the nine month Reporting Period as compared to $64.1 million ($39.46 per boe) and $194.3 million ($40.51 per boe) for the Comparable Prior Periods. The decrease in P&NG revenues from the Comparable Prior Periods was largely due to lower average oil and natural gas prices realized at the wellhead offset by an increase in average daily oil and natural gas production in the Reporting Periods. The following table details Birchcliff's P&NG revenues, production and percentage of production and sales prices by category:

	Three months ended September 30, 2012				Three months ended September 30, 2011			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	30,917	4,076	19	82.45	32,192	4,050	23	86.40
Natural gas (Mcf)	22,766	100,075	78	2.47	28,469	78,996	75	3.92
Natural gas liquids (bbls)	4,921	671	3	79.74	3,351	432	2	84.25
Total P&NG sales	58,603	**21,426**	100	29.73	64,012	17,648	100	39.42
Royalty revenue	40			0.02	57			0.04
Total P&NG revenues	**58,643**			**29.75**	64,069			39.46

	Nine months ended September 30, 2012				Nine months ended September 30, 2011			
	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)	Total Revenue ($000's)	Average Daily Production	%	Average ($/unit)
Light oil (bbls)	101,389	4,365	20	84.77	93,959	3,796	22	90.68
Natural gas (Mcf)	61,641	98,725	77	2.28	87,318	79,420	75	4.03
Natural gas liquids (bbls)	16,073	689	3	85.11	12,864	539	3	87.45
Total P&NG sales	179,103	**21,508**	100	30.39	194,141	17,571	100	40.47
Royalty revenue	102			0.02	185			0.04
Total P&NG revenues	**179,205**			**30.41**	194,326			40.51

Commodity Prices

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
Average natural gas sales price ($/Mcf)	2.47	3.92	2.28	4.03
Average AECO natural gas spot price ($/Mcf)(1)	2.30	3.66	2.12	3.78
Positive differential	**0.17**	0.26	**0.16**	0.25

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

The price the Corporation receives for its petroleum and natural gas production depends on a number of factors, including Canadian dollar AECO spot market prices for natural gas, Canadian dollar Edmonton Par oil prices, US dollar oil prices, the US-Canadian dollar exchange rate and transportation and product quality differentials. 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 Periods and Comparable Prior Periods, but it actively monitors the market to determine if any are required. The Corporation has no current intention to enter into any such contracts at the date hereof.

Royalties

Birchcliff recorded a royalty expense of $4.7 million ($2.39 per boe) for the three month Reporting Period and $18.0 million ($3.06 per boe) for the nine month Reporting Period as compared to $6.8 million ($4.19 per boe) and $21.8 million ($4.55 per boe) for the Comparable Prior Periods. Royalties are paid primarily to the Alberta Government and, to a lesser extent, to other land and mineral rights owners.

The following table details the Corporation's royalty expense:

	Three months ended September 30, 2012	Three months ended September 30, 2011	**Nine months ended September 30, 2012**	Nine months ended September 30, 2011
Oil & natural gas royalties ($000's)	**4,717**	6,804	**18,011**	21,804
Oil & natural gas royalties ($/boe)	**2.39**	4.19	**3.06**	4.55
Effective royalty rate (%)(1)	**8%**	11%	**10%**	11%

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

The decrease in the effective royalty rate from the Comparable Prior Periods was mainly due to significantly lower natural gas prices realized at the wellhead during the Reporting Periods and the effect these lower prices have on the sliding scale royalty calculation. This was offset by reduced royalty credits applied against natural gas royalties payable during the Reporting Periods. Average natural gas prices realized at the wellhead decreased by 37% and 43% from the three and nine months ended September 30, 2011.

Operating Costs

Operating costs were $11.8 million ($6.01 per boe) for the three month Reporting Period and $36.2 million ($6.13 per boe) for the nine month Reporting Period as compared to $10.4 million ($6.39 per boe) and $32.1 million ($6.70 per boe) for the Comparable Prior Periods. The following table provides a breakdown of total operating costs:

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	($000's)	$/boe	($000's)	$/boe
Field operating costs	13,417	6.81	12,194	7.51
Recoveries	(1,571)	(0.80)	(1,740)	(1.07)
Field operating costs, net	11,846	6.01	10,454	6.44
Expensed workovers and other	(3)	-	(72)	(0.05)
Total operating costs	**11,843**	**6.01**	10,382	6.39

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	($000's)	$/boe	($000's)	$/boe
Field operating costs	41,138	6.98	37,324	7.78
Recoveries	(5,201)	(0.88)	(5,553)	(1.16)
Field operating costs, net	35,937	6.10	31,771	6.62
Expensed workovers and other	217	0.03	363	0.08
Total operating costs	**36,154**	**6.13**	32,134	6.70

Total operating costs per boe decreased by 6% and 9% from the three and nine month Comparable Prior Periods largely due to the cost benefits achieved from processing natural gas at the PCS Gas Plant, offset by a decrease in recoveries. 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 $4.6 million ($2.33 per boe) for the three month Reporting Period and $13.9 million ($2.36 per boe) for the nine month Reporting Period as compared to $4.4 million ($2.71 per boe) and $12.6 million ($2.63 per boe) for the Comparable Prior Periods. These aggregate costs consist primarily of transportation expenses that were higher in the Reporting Periods mainly due to an increase in production volumes of both oil and natural gas.

Administrative Expenses

Net administrative expenses were $5.1 million ($2.59 per boe) for the three month Reporting Period and $20.5 million ($3.47 per boe) for the nine month Reporting Period as compared to $7.2 million ($4.43 per boe) and $20.7 million ($4.31 per boe) for the Comparable Prior Periods. The components of net administrative expenses are detailed in the table below:

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	($000's)	%	($000's)	%
Cash:				
Salaries and benefits[1]	3,408	58	3,273	52
Other[2]	2,516	42	2,969	48
	5,924	100	6,242	100
Operating overhead recoveries	(202)	(3)	(235)	(4)
Capitalized overhead[3]	(1,718)	(29)	(1,186)	(19)
General & administrative, net	4,004	68	4,821	77
General & administrative, net per boe	$2.03		$2.97	
Non-cash:				
Stock-based compensation	2,422	100	3,648	100
Capitalized stock-based compensation[3]	(1,309)	(54)	(1,270)	(35)
Stock-based compensation, net	1,113	46	2,378	65
Stock-based compensation, net per boe	$0.56		$1.46	
Total administrative expenses, net	**5,117**		7,199	
Total administrative expenses, net per boe	**$2.59**		$4.43	

(1) Includes salaries, benefits and bonuses 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 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.

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	($000's)	%	($000's)	%
Cash:				
Salaries and benefits[(1)(4)]	13,035	61	9,751	54
Other[(2)]	8,234	39	8,305	46
	21,269	100	18,056	100
Operating overhead recoveries	(659)	(3)	(797)	(4)
Capitalized overhead[(3)]	(4,187)	(20)	(3,295)	(18)
General & administrative, net	16,423	77	13,964	78
General & administrative, net per boe	$2.79		$2.91	
Non-cash:				
Stock-based compensation	6,748	100	10,087	100
Capitalized stock-based compensation[(3)]	(2,712)	(40)	(3,379)	(33)
Stock-based compensation, net	4,036	60	6,708	67
Stock-based compensation, net per boe	$0.68		$1.40	
Total administrative expenses, net	**20,459**		20,672	
Total administrative expenses, net per boe	**$3.47**		$4.31	

(1) Includes salaries, benefits and bonuses 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 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 approximately $2.4 million in retention payments paid to employees (excluding executives) that were accrued for in the first quarter of 2012 and subsequently paid in April 2012 as a result of the termination of the corporate sale process.

Net cash general and administrative expense increased on an aggregate basis from the nine month Comparable Prior Period largely due to one-time costs totalling $2.9 million incurred in respect of the corporate sale process which was terminated on March 29, 2012. Such costs included accrued employee retention payments ($2.4 million), legal fees, printing costs, travel, investor relations and compliance and regulatory costs.

Non-cash stock-based compensation expense decreased on an aggregate basis from the Comparable Prior Periods mainly due to a lower Black-Scholes fair value expense calculated for stock options granted in the Reporting Periods.

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

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2011	10,466,941	8.73
Exercised	(260,000)	(4.03)
Outstanding, March 31, 2012	10,206,941	8.85
Granted[1]	3,400,900	5.97
Exercised	(253,067)	(4.31)
Forfeited	(380,834)	(9.68)
Expired	(115,200)	(10.34)
Outstanding, June 30, 2012	12,858,740	8.14
Granted	103,000	6.72
Exercised	(101,001)	(4.81)
Forfeited	(389,333)	(9.59)
Outstanding, September 30, 2012	**12,471,406**	**8.11**

(1) On April 26, 2012, the Corporation issued 3,345,400 stock options to officers and employees of Birchcliff at an exercise price of $5.96 per common share as a result of its annual compensation review.

There are 2,939,732 performance warrants with an exercise price of $3.00 per common share, outstanding and exercisable, at September 30, 2012 and 6,000,000 warrants with an exercise price of $8.30 per common share, outstanding at September 30, 2012. 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 $21.8 million ($11.05 per boe) for the three month Reporting Period and $67.0 million ($11.36 per boe) for the nine month Reporting Period as compared to $17.8 million ($10.97 per boe) and $49.9 million ($10.41 per boe) for the Comparable Prior Periods. D&D expenses increased on an aggregate basis mainly due to a 21% and 22% increase in average daily production from the three and nine months ended September 30, 2011, respectively.

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.

Impairment Test

In light of the low natural gas price environment, Birchcliff performed an impairment review of its petroleum and natural gas assets on a cash-generating unit basis to assess for recoverability. The Corporation's assets were not impaired at September 30, 2012. In determining the recoverable amount of the Corporation's cash-generating unit, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on commodity price forecasts of the Corporation's independent reserves evaluator at September 30, 2012.

Finance Expenses

Finance expenses were $5.9 million ($3.00 per boe) for the three month Reporting Period and $16.2 million ($2.75 per boe) for the nine month Reporting Period as compared to $4.5 million ($2.75 per boe) and $15.4 million ($3.20 per boe) for the Comparable Prior Periods. The components of the Corporation's finance expenses are shown in the table below:

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	($000's)	$/boe	($000's)	$/boe
Cash:				
Interest on credit facilities	5,265	2.67	3,829	2.36
Non-cash:				
Accretion on decommissioning obligations	448	0.23	443	0.27
Amortization of deferred financing fees	187	0.10	200	0.12
Total finance expenses	**5,900**	**3.00**	4,472	2.75
	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	($000's)	$/boe	($000's)	$/boe
Cash:				
Interest on credit facilities	14,303	2.43	13,362	2.78
Non-cash:				
Accretion on decommissioning obligations	1,321	0.22	1,326	0.28
Amortization of deferred financing fees	599	0.10	691	0.14
Total finance expenses	**16,223**	**2.75**	15,379	3.20

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

Birchcliff's average outstanding total credit facilities balance was approximately $395 million and $401 million during the three and nine month Reporting Periods as compared to $344 million and $339 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts. These increases were largely due to significant capital expended on the PCS Gas Plant project.

The effective interest rate applicable to the Working Capital Facility was 5.0% at the end of the Reporting Period as compared to 5.5% 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 5.4% and 4.8% in the three and nine month Reporting Periods as compared to 5.3% and 5.5% for the Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the Non-Revolving Five-Year Term Facility was 5.8% and 5.0% in the three and nine month Reporting Periods as compared to 5.1% in the Comparable Prior Periods.

Asset Dispositions

There were no assets disposed of during the current quarter. During the third quarter of 2011, Birchcliff disposed of minor non-core assets for proceeds of $3.3 million and recorded a gain of $3.1 million ($2.3 million, net of tax) or $1.88 per boe in that period.

Income Taxes

Birchcliff recorded an income tax expense of $2.0 million ($0.99 per boe) for the three month Reporting Period and $4.5 million ($0.77 per boe) for the nine month Reporting Period as compared to $4.6 million ($2.87 per boe) and $12.8 million ($2.67 per boe) for the Comparable Prior Periods. The decrease in income tax expense was due to lower net income before taxes in the Reporting Periods.

The Corporation's estimated income tax pools totaled approximately $1.2 billion at September 30, 2012. Management expects that future taxable income will be available to utilize accumulated tax pools. Birchcliff's estimated tax pools at September 30, 2012 are comprised of the following:

	Tax pools as at September 30, 2012
Canadian oil and gas property expense	269,022
Canadian development expense	329,624
Canadian exploration expense	183,272
Undepreciated cost of capital	243,447
Non-capital losses	161,088
Financing costs	5,717
Total estimated income tax pools	**1,192,170**

The Corporation's income tax pools totalling $39.3 million in respect of the Veracel Inc. ("**Veracel**") transaction continues to be under review by Canada Revenue Agency. The Verecal tax pools in dispute include approximately $16,226,489 in non-capital losses, $15,558,003 in scientific research and experimental development expenditures and $7,499,916 in investment tax credits. 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 September 30, 2012.

Capital Expenditures

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

Three months ended September 30,	**2012**	2011
Land	1,575	768
Seismic	144	148
Workovers	1,457	2,662
Drilling and completions	52,889	54,397
Well equipment and facilities	31,827	15,550
Total finding and development costs (F&D)	87,892	73,525
Acquisitions	-	1,650
Dispositions	-	(3,345)
Total finding, development and acquisition costs (FD&A)	87,892	71,830
Administrative assets	207	148
Total capital expenditures	**88,099**	71,978
Nine months ended September 30,	**2012**	2011
Land	6,192	12,229
Seismic	594	3,025
Workovers	7,124	9,985
Drilling and completions	153,107	100,304
Well equipment and facilities	99,303	32,910
Total finding and development costs (F&D)	266,320	158,453
Acquisitions	25,006[1]	6,005
Dispositions	(24,942) [1]	(8,885)
Total finding, development and acquisition costs (FD&A)	266,384	155,573
Administrative assets	382	884
Total capital expenditures	**266,766**	156,457

(1) Birchcliff completed a transaction whereby it disposed of a non-core 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 transaction was estimated at $25 million. This transaction resulted in a gain on sale of approximately $3.9 million during the nine month Reporting Period.

SUMMARY OF QUARTERLY RESULTS

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

Quarters Ended ($000's, except for production, share and per common share amounts)	**September 30, 2012**	June 30, 2012	March 31, 2012	December 31, 2011
Petroleum and natural gas production (boe per day)	21,426	22,039	21,061	19,812
Petroleum and natural gas commodity price at wellhead ($ per boe)	29.73	28.77	32.77	38.54
Natural gas commodity price at wellhead ($ per Mcf)	2.47	2.05	2.32	3.40
Petroleum commodity price at wellhead ($ per bbl)	82.45	81.45	90.10	95.52
Total petroleum and natural gas revenues, net royalties	53,926	51,703	55,565	62,676
Total capital expenditures, net	88,099	58,815	119,852	81,023
Net income available to common shareholders	2,165	416	3,731	3,333
Per common share - basic ($)	0.02	-	0.03	0.03
Per common share - diluted ($)	0.02	-	0.03	0.03
Funds flow from operations	28,230	25,985	26,196	30,400
Per common share - basic ($)	0.20	0.19	0.21	0.24
Per common share - diluted ($)	0.20	0.19	0.20	0.23
Book value of total assets	1,420,582	1,350,759	1,314,633	1,225,497
Non-Revolving Five-Year Term Facility	68,863	69,232	68,267	68,925
Revolving Credit Facilities	321,678	331,644	374,064	319,500
Total debt	468,184	455,708	529,883	437,023
Shareholders' equity	826,331	772,671	663,872	656,602
Preferred share dividends	579	-	-	-
Preferred shares outstanding – end of period	2,000,000	-	-	-
Common shares outstanding – end of period				
Basic	141,534,645	141,433,644	127,005,577	126,745,577
Diluted	162,945,783	157,232,116	140,152,250	140,152,250
Weighted average common shares outstanding				
Basic	141,474,489	138,425,779	126,753,764	126,731,919
Diluted	143,571,758	138,837,321	131,008,290	132,216,022

Quarters Ended ($000's, except for production, share and per common share amounts)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Petroleum and natural gas production (boe per day)	17,648	17,324	17,742	16,375
Petroleum and natural gas commodity price at wellhead ($ per boe)	39.42	42.76	39.28	37.83
Natural gas commodity price at wellhead ($ per Mcf)	3.92	4.15	4.02	3.94
Petroleum commodity price at wellhead ($ per bbl)	86.40	99.31	87.03	81.89
Total petroleum and natural gas revenues, net royalties	57,265	58,663	56,594	52,684
Total capital expenditures, net(1)	71,978	32,300	52,179	45,730
Net income available to common shareholders(1)	11,411	10,117	9,593	7,431
Per common share - basic ($)(1)	0.09	0.08	0.08	0.06
Per common share - diluted ($)(1)	0.09	0.08	0.07	0.06
Funds flow from operations(1)	33,844	34,269	32,313	27,865
Per common share - basic ($)(1)	0.27	0.27	0.26	0.22
Per common share - diluted ($)(1)	0.26	0.26	0.25	0.22
Book value of total assets(1)	1,138,075	1,080,314	1,069,322	1,038,555
Non-Revolving Five-Year Term Facility	68,811	68,773	-	-
Revolving Credit Facilities	290,495	270,278	335,220	333,468
Total debt	386,296	349,190	352,804	337,424
Shareholders' equity(1)	648,905	632,588	616,909	599,140
Common shares outstanding – end of period				
Basic	126,679,577	126,496,677	126,127,244	125,129,234
Diluted	140,149,250	140,137,084	139,963,084	137,316,486
Weighted average common shares outstanding				
Basic	126,630,446	126,322,814	125,424,658	124,994,761
Diluted(1)	131,374,723	131,380,901	129,715,133	128,418,091

(1) 2010 comparative quarter has been restated to comply with International Financial Reporting Standards.

DISCUSSION OF QUARTERLY RESULTS

Production

Production in the third quarter of 2012 averaged 21,426 boe per day, a 3% decrease from 22,039 boe per day in the second quarter of 2012 and a 21% increase from 17,648 boe per day in the third quarter of 2011. The decrease in production volumes from the second quarter of 2012 was as expected and due to Phases I and II of the PCS Gas Plant being shut down temporarily in August 2012 for the completion of the Phase III expansion of the PCS Gas Plant and a scheduled third-party plant turnaround, offset by new Montney/Doig horizontal natural gas wells that were tied into the PCS Gas Plant in the third quarter. The increase in production volumes from the third quarter of 2011 was achieved through the success of Birchcliff's capital drilling program with increased incremental production from new Montney/Doig horizontal natural gas wells that were tied into Phases I and II of the PCS Gas Plant.

Funds Flow and Earnings

Funds flow from operations in the third quarter of 2012 was $28.2 million as compared to $26.0 million in the second quarter of 2012 and $33.8 million in the third quarter of 2011. Funds flow as compared to the second quarter of 2012 was positively impacted by higher realized oil and natural gas wellhead prices, lower net general and administrative expenses and lower aggregate royalty, production and transportation costs, negatively offset by increased interest expense and slightly lower average daily production in the current quarter. The decrease in funds flow from the third quarter of 2011 was mainly attributed to significantly lower natural gas prices, with the AECO natural gas spot price having decreased 37% from the comparative quarter. Funds flow from operations was also negatively impacted by lower realized oil wellhead prices and increased interest expense, positively offset by higher average daily production and lower net general and administrative and royalty expenses. Higher average production resulted in some increases to aggregate operating expenses and transportation and marketing costs in the current quarter.

Notwithstanding this very low natural gas price environment, Birchcliff has reported net income in each of its last 13 recently completed quarters. Birchcliff's net income available to common shareholders totalled $2.2 million in the third quarter of 2012 as compared to $0.4 million in the second quarter of 2012 and $11.4 million in the third quarter of 2011. The increase from the second quarter of 2012 was largely due to higher funds flow from operations, lower depletion expense in the current quarter resulting from slightly lower average daily production and decreased net stock-based compensation expense, offset by higher income taxes and payment of preferred share dividends in the third quarter of 2012. The decrease from the third quarter of 2011 was mainly attributable to lower funds flow from operations, increase in depletion expense resulting from higher average daily production in the current quarter, payment of preferred share dividends and a gain on sale of assets reported in the comparative quarter, offset by lower net stock-based compensation expense and income taxes in the third quarter of 2012.

Capital Expenditures

Total capital expenditures (excluding minor acquisitions and dispositions) in the third quarter of 2012 were $88.1 million as compared to $58.8 million in the second quarter of 2012 and $73.7 million in the third quarter of 2011. Of the $88.1 million, approximately $59.9 million (68%) was spent on the construction of Phase III of the PCS Gas Plant and the drilling and completion of Montney/Doig horizontal natural gas wells that will produce to the plant in the fourth quarter of 2012. The remaining $28.2 million (32%) was spent on other infrastructure, expanding the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play, acquiring land and on other oil and gas exploration and development projects in the Peace River Arch.

Total Debt

Total debt (including working capital deficit) increased to $468.2 million at September 30, 2012 as compared to $437.0 million at December 31, 2011. Total debt at the end of the Reporting Period was reduced by net proceeds of $106.2 million from the April Financing and $48.1 million from the August Financing which were used to pay down the Revolving Credit Facilities, offset by an increase in capital spending in excess of funds flow totalling $186.4 million during the nine month Reporting Period. A significant portion of the capital spent during the Reporting Periods was on the construction of the PCS Gas Plant, and related wells and infrastructure, and drilling on the Worsley Light Oil Resource Play.

Outstanding Shares

As a result of the April Financing, both the end of period and weighted average common shares outstanding at September 30, 2012 increased from September 30, 2011. Birchcliff also issued 2,000,000 Series A Preferred Shares in the current quarter as part of the August Financing.

MERGERS AND ACQUISITIONS

Within its focus area, the Corporation is always reviewing potential property acquisitions and corporate mergers and acquisitions for the purposes of determining whether any such potential transaction is of interest to the Corporation and the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential property acquisitions and corporate merger and acquisition opportunities, but the Corporation is not committed to any such potential transaction and cannot be reasonably confident that it can complete any such potential transaction until appropriate legal documentation has been signed by 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 September 30, 2012 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 September 30, 2012 and have concluded that the Corporation's ICFR was effective at September 30, 2012 for the purposes described above. No changes were made to the Corporation's ICFR during the three months ended September 30, 2012 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:

Reserves

Estimation of 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 and liabilities 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 crude oil, 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 oil and natural gas production; and (iii) evidence that the necessary production, processing 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 pursuant to National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook*.

Decommissioning obligations

The Corporation estimates future remediation costs of production wells, facilities, 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 judgment regarding abandonment date, future environmental and regulatory legislation, the extent of abandonment and reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates that are used to determine the present value of these cash flows.

Stock-based compensation

All share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In determining the share-based compensation expense for the period, estimates have to be made regarding the expected volatility in share price, option life, dividend yield and risk-free rate used to calculating fair value and estimating forfeitures at the initial grant date. Due to the time period and the number of estimates involved, it is likely that the actual fair value of the options will differ from what has been recorded in the financial statements.

Impairment of assets

The impairment testing of PP&E is based on estimates of proved plus probable reserves, production rates, forecasted petroleum and natural gas prices, future costs and other relevant assumptions. Birchcliff's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Corporation's assets in future periods.

Income taxes

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. All tax filings are subject to audit and potential reassessment. Accordingly, the actual income tax liability may differ significantly from amounts estimated and recorded in the financial statements.

CHANGES IN ACCOUNTING POLICIES

The following accounting standards and interpretations have been issued but are not yet effective.

In 2011, the IASB issued the following new and revised IFRSs effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted providing that IFRS 10, IFRS 11, IFRS 12 and IFRS 13 are adopted together, except that IFRS 12 may be adopted earlier. Birchcliff is currently assessing the impact of adopting these pronouncements, however, it anticipates that these standards will not have a material impact on the Corporation's financial statements.

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.

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.

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.

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.

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2013, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Corporation's financial statements.

Other accounting policies

Share capital

Common shares and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and preferred 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.

Per common share amounts

The Corporation calculates basic and diluted per common share amounts using net income available to Birchcliff's shareholders, adjusted for preferred share dividends and divided by the weighted-average number of common shares outstanding. 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, 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.

ADVISORIES

Unaudited Numbers: *All financial amounts referred to in this "MD&A" and the Corporation's third quarter report ("**Q3 Report**") for the Reporting Periods and the Comparable Prior Periods are management's best estimates and are unaudited.*

Non-GAAP Measures: *This MD&A and the Q3 Report uses "funds flow", "funds flow from operations", "funds flow netback", "funds flow per common share", "netback", "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. 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 denotes net income plus income tax expense (less any recovery), depletion and depreciation expense, accretion expense, stock-based compensation expense, amortization of deferred financing fees and gains or losses on divestitures. Funds flow per common share denotes funds flow divided by the weighted average number of common shares. Operating margin 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 Conversions: *Thousands of cubic feet of gas equivalent ("**Mcfe**") amounts have been calculated by using the conversion ratio of one barrel of oil (1 bbl) to six thousand cubic feet (6 Mcf) of natural gas. Mcfe amounts may be misleading, particularly if used in isolation. A Mcfe conversion ratio of 1 bbl to 6 Mcf 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 Conversion: *$1.00/MMbtu equals $1.00/Mcf based on a standard heat value Mcf.*

Forward Looking Information: *This Press Release 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 Press Release contains forward-looking information relating to expected annual and fourth quarter average production rates, year-end indebtedness, planned 2013 capital spending and sources of funding; and intention to drill and complete future wells.*

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. Estimates as to average annual and fourth quarter average production rates assume that no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells, that existing wells continue to meet production expectations and any future wells, scheduled to come on production, meet production expectations. Forecast year-end indebtedness is based on Birchcliff's fourth quarter forecast of $3.03 per GJ for natural gas at AECO and a WTI price of $US 89.86 per bbl for crude oil, a Canadian dollar at par with the US dollar, a differential to the wellhead of $4.50, and forecast average production of 26,400 boe per day. With respect to future wells, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate the commercially economic reserves can be recovered from the Corporation's land as a result of drilling such future wells, are valid.

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 future wells, a key assumption is that geological and other technical interpretations performed by the Corporation's technical staff, which indicate the commercially economic reserves can be recovered from the Corporation's land as a result of drilling such future wells, are valid.

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

Forward-looking information necessarily involves both known and unknown risks associated with oil and gas exploration, production, transportation and marketing such as 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 the Q3 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,	**September 30, 2012**	December 31, 2011
ASSETS		
Current assets:		
Cash	**46**	65
Accounts receivable	**23,980**	37,699
Prepaid expenses and deposits	**2,729**	2,240
	26,755	40,004
Non-current assets:		
Exploration and evaluation *(Note 3)*	**2,085**	1,858
Petroleum and natural gas properties and equipment *(Note 4)*	**1,391,742**	1,183,635
	1,393,827	1,185,493
Total assets	**1,420,582**	1,225,497
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	**104,398**	88,602
Non-revolving term credit facilities	**350**	-
	104,748	88,602
Non-current liabilities:		
Non-revolving term credit facilities	**68,513**	68,925
Revolving credit facilities *(Note 5)*	**321,678**	319,500
Decommissioning obligations *(Note 6)*	**66,995**	64,023
Deferred premium on flow-through common shares *(Note 7)*	**828**	-
Deferred income taxes	**31,489**	27,845
	489,503	480,293
Total liabilities	**594,251**	568,895
SHAREHOLDERS' EQUITY		
Share capital *(Note 7)*		
Common shares	**677,247**	567,816
Preferred shares	**41,477**	-
Contributed surplus *(Note 7)*	**55,579**	43,070
Retained earnings	**52,028**	45,716
	826,331	656,602
Total shareholders' equity and liabilities	**1,420,582**	1,225,497

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

APPROVED BY THE BOARD

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

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

BIRCHCLIFF ENERGY LTD.

Condensed Statements of Net Income and Comprehensive Income

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
REVENUE				
Petroleum and natural gas	**58,643**	64,069	**179,205**	194,326
Royalties	**(4,717)**	(6,804)	**(18,011)**	(21,804)
	53,926	57,265	**161,194**	172,522
EXPENSES				
Operating	**11,843**	10,382	**36,154**	32,134
Transportation and marketing	**4,584**	4,389	**13,903**	12,636
Administrative, net	**5,117**	7,199	**20,459**	20,672
Depletion and depreciation *(Note 4)*	**21,780**	17,817	**66,974**	49,920
Finance	**5,900**	4,472	**16,223**	15,379
(Gain) on sale of assets *(Note 4)*	**-**	(3,050)	**(3,875)**	(2,135)
	49,224	41,209	**149,838**	128,606
INCOME BEFORE TAXES	**4,702**	16,056	**11,356**	43,916
Income tax expense	**1,958**	4,645	**4,465**	12,795
NET INCOME AND COMPREHENSIVE INCOME AVAILABLE TO BIRCHCLIFF'S SHAREHOLDERS	**2,744**	11,411	**6,891**	31,121
Net income per common share *(Note 7)*				
Basic	**$ 0.02**	$0.09	**$ 0.05**	$0.25
Diluted	**$ 0.02**	$0.09	**$ 0.05**	$0.24
Weighted average common shares *(Note 7)*				
Basic	**141,474,489**	126,630,446	**135,572,012**	126,131,596
Diluted	**143,571,758**	131,374,723	**138,456,300**	131,000,989

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, except share information)*

	Share Capital				
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	Total
As at December 31, 2010	554,419	-	33,459	11,262	599,140
Exercise of stock options	12,751	-	(4,194)	-	8,557
Stock-based compensation	-	-	10,087	-	10,087
Net income and comprehensive income	-	-	-	31,121	31,121
As at September 30, 2011	567,170	-	39,352	42,383	648,905
As at December 31, 2011	567,816	-	43,070	45,716	656,602
Issue of common shares *(Note 7)*	100,024	-	-	-	100,024
Issue of preferred shares *(Note 7)*	-	42,891	-	-	42,891
Issue of warrants *(Note 7)*	-	-	7,109	-	7,109
Issue of flow-through common shares *(Note 7)*	8,415	-	-	-	8,415
Share issue costs, net of tax *(Note 7)*	(2,979)	(1,414)	-	-	(4,393)
Dividends on preferred shares *(Note 7)*	-	-	-	(579)	(579)
Stock-based compensation *(Note 8)*	-	-	6,748	-	6,748
Exercise of stock options *(Note 8)*	3,971	-	(1,348)	-	2,623
Net income and comprehensive income	-	-	-	6,891	6,891
As at September 30, 2012	**677,247**	**41,477**	**55,579**	**52,028**	**826,331**

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)*

Cash provided by (used in):	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
OPERATING				
Net income	**2,744**	11,411	**6,891**	31,121
Adjustments for items not affecting operating cash:				
Depletion and depreciation	**21,780**	17,817	**66,974**	49,920
Stock-based compensation	**1,113**	2,378	**4,036**	6,708
Finance	**5,900**	4,472	**16,223**	15,379
(Gain) on sale of assets	**-**	(3,050)	**(3,875)**	(2,135)
Income taxes	**1,958**	4,645	**4,465**	12,795
Interest paid	**(5,265)**	(3,829)	**(14,303)**	(13,362)
Decommissioning expenditures *(Note 6)*	**(212)**	(30)	**(306)**	(708)
Changes in non-cash working capital	**(3,658)**	(2,946)	**(15,835)**	(5,904)
	24,360	30,868	**64,270**	93,814
FINANCING				
Issue of common shares *(Note 7)*	**486**	1,259	**112,768**	8,557
Issue of preferred shares and warrants *(Note 7)*	**50,000**	-	**50,000**	-
Share issue costs *(Note 7)*	**(1,886)**	-	**(5,858)**	-
Financing fees paid on credit facilities	**-**	-	**(600)**	(1,356)
Dividends paid on preferred shares *(Note 7)*	**(579)**	-	**(579)**	-
Net change in non-revolving term credit facilities	**(403)**	3	**(166)**	69,459
Net change in revolving credit facilities	**(10,118)**	20,053	**2,285**	(42,955)
	37,500	21,315	**157,850**	33,705
INVESTING				
Acquisition of petroleum and natural gas properties and equipment	**-**	(1,649)	**-**	(6,005)
Sale of petroleum and natural gas properties and equipment	**-**	3,344	**-**	8,885
Additions of exploration and evaluation assets	**(43)**	(28)	**(226)**	(308)
Development of petroleum and natural gas properties and equipment	**(88,056)**	(73,645)	**(266,540)**	(159,029)
Changes in non-cash working capital	**26,239**	19,795	**44,627**	24,140
	(61,860)	(52,183)	**(222,139)**	(132,317)
NET CHANGE IN CASH	**-**	-	**(19)**	(4,798)
CASH, BEGINNING OF PERIOD	**46**	65	**65**	4,863
CASH, END OF PERIOD	**46**	65	**46**	65

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

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, Series A Preferred Shares 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 November 14, 2012.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements (the "**Financial Statements**") present Birchcliff's financial results of operations and financial position under International Financial Reporting Standards ("**IFRS**") as at and for the three and nine months ended September 30, 2012, including the 2011 comparative periods. 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, 2011. 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, 2011.

These Financial Statements have been 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 share and per share information. There are no subsidiary companies.

3. EXPLORATION AND EVALUATION ASSETS

The components of Exploration and Evaluation ("**E&E**") assets are as follows:

	E&E(1)(2)
As at December 31, 2010	1,540
Additions	318
As at December 31, 2011	1,858
Additions	227
As at September 30, 2012	**2,085**

(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. There were no costs reclassified from E&E to petroleum and natural gas properties and equipment during the reporting periods ended September 30, 2012 and December 31, 2011.

(2) At the end of each of the above reporting periods, the Corporation performed an asset impairment review of its E&E assets to ensure that the carrying values of those assets are recoverable. The Corporation's E&E assets were not impaired.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

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

	P&NG	**Corporate**	**Total**
Cost:			
As at December 31, 2010	1,037,653	5,375	1,043,028
Additions	264,979	888	265,867
Acquisitions	6,005	-	6,005
Dispositions	(7,159)	-	(7,159)
As at December 31, 2011	1,301,478	6,263	1,307,741
Additions	270,450	766	271,216
Acquisitions	25,006	-	25,006
Dispositions(1)	(22,503)	-	(22,503)
As at September 30, 2012(2)	1,574,431	7,029	1,581,460
Accumulated depletion and depreciation:			
As at December 31, 2010	(50,260)	(2,518)	(52,778)
Depletion and depreciation expense	(70,757)	(979)	(71,736)
Dispositions	408	-	408
As at December 31, 2011	(120,609)	(3,497)	(124,106)
Depletion and depreciation expense	(66,317)	(657)	(66,974)
Dispositions(1)	1,362	-	1,362
As at September 30, 2012	(185,564)	(4,154)	(189,718)
Net book value(3):			
As at December 31, 2011	1,180,869	2,766	1,183,635
As at September 30, 2012	**1,388,867**	**2,875**	**1,391,742**

(1) In March 2012, Birchcliff completed a transaction whereby it disposed of a non-core 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 transaction was estimated at $25 million. As a result of the disposition, Birchcliff recorded a gain on sale of approximately $3.9 million during the nine months ended September 30, 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.

(3) In light of the low natural gas prices, the Corporation performed an asset impairment test to ensure that the carrying value of its P&NG properties and equipment is recoverable and does not exceed its fair value at the end of the reporting period. Birchcliff's P&NG properties and equipment were not impaired at September 30, 2012 and December 31, 2011. In determining the recoverable amount, Birchcliff applied a pre-tax discount rate of 10% on cash flows from proved plus probable reserves. The petroleum and natural gas future prices are based on period-end commodity price forecasts determined by the Corporation's independent reserves evaluator.

5. REVOLVING CREDIT FACILITIES

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

As at,	**September 30, 2012**	December 31, 2011
Syndicated credit facility	306,000	304,000
Working capital facility	19,484	19,221
Drawn revolving credit facilities	325,484	323,221
Unamortized prepaid interest on bankers' acceptances	(3,450)	(3,471)
Unamortized deferred financing fees	(356)	(250)
Total revolving credit facilities	**321,678**	319,500

On June 26, 2012, the Corporation's bank syndicate approved an increase to the revolving credit facilities to an aggregate limit of $470 million from $450 million and extended the conversion date of those facilities to May 17, 2013. The terms under the amended revolving credit facilities have essentially remained unchanged from those disclosed in the annual audited financial statements for the year ended December 31, 2011. At September 30, 2012, the revolving credit facilities consisted of an extendible revolving term credit facility with an authorized limit of $440 million and an extendible revolving working capital facility with an authorized limit of $30 million.

6. DECOMMISSIONING OBLIGATIONS

A reconciliation of the decommissioning obligations is provided below:

As at,	**September 30, 2012**	December 31, 2011
Balance, beginning	64,023	42,106
Obligations incurred	1,983	2,999
Obligations acquired, net dispositions	(26)	237
Changes in estimate	-	5,988
Changes in discount rate	-	12,003
Accretion expense	1,321	1,747
Actual expenditures	(306)	(1,057)
Balance, ending(1)	**66,995**	64,023

(1) A pre-tax risk-free discount rate of 2.6% and an inflation rate of 2% were used to calculate the discounted fair value of the obligation at September 30, 2012 and December 31, 2011.

7. 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:

Nine months ended,	**September 30, 2012**	September 30, 2011
Preferred shares - Series A:		
Outstanding at end of period(1)	**2,000,000**	-
Common shares		
Outstanding at beginning of period – Jan 1	126,745,577	125,129,234
Issue of common shares(2)	13,075,000	-
Issue of flow-through common shares(2)	1,100,000	-
Exercise of stock options	614,068	1,550,343
Outstanding at end of period	**141,534,645**	126,679,577

(1) On August 8, 2012, Birchcliff completed a bought deal equity financing for gross proceeds of $50 million. The Corporation issued 2,000,000 preferred units at a price of $25.00 per preferred unit for gross proceeds of $50 million (the "**August Financing**"). Each preferred unit was comprised of one cumulative redeemable five year rate reset preferred share, series A (a "**Series A Preferred Share**") of Birchcliff, to yield initially 8% per annum; and three common share purchase warrants (each a "**warrant**") of Birchcliff. Each warrant provides the right to purchase one common share of the Corporation until August 8, 2014, at an exercise price of $8.30 per common share. A total aggregate of two million Series A Preferred Shares and six million warrants were issued.

Of the $50 million raised in the August financing, Birchcliff allocated $7.1 million to the warrants ($1.18 per warrant) using the Black-Scholes fair value model and recorded this amount to contributed surplus. The remaining difference of $42.9 million was allocated to preferred share capital. The Black-Scholes assumptions used in calculating the fair value of each warrant includes; share price of $6.77 per common share, exercise price of $8.30 per common share, risk-free rate of 1.2%, volatility of 43.1% and expected life of 2 years. Birchcliff recognized a deferred income tax benefit of $0.5 million in respect of share issue costs related to the August Financing totalling approximately $1.9 million. The aggregate net proceeds of the August Financing totalling approximately $48.1 million were used to reduce outstanding indebtedness under the revolving credit facilities.

The Series A Preferred Shares pay cumulative dividends of $2.00 per Series A Preferred Share per annum, payable quarterly if, as and when declared by Birchcliff's Board of Directors, with the first quarterly dividend paid on September 30, 2012, for the initial five year period ending September 30, 2017. Thereafter, the dividend rate will be reset every five years at a rate equal to the then current five year Government of Canada bond yield plus 6.83%. The Series A Preferred Shares are redeemable at $25.00 per preferred share at the option of the Corporation on or after September 30, 2017, and on September 30 in every fifth year thereafter.

Holders of the Series A Preferred Shares have the right, at their option, to convert their Series A Preferred Shares into cumulative redeemable floating rate series B preferred shares (a "**Series B Preferred Share**"), subject to certain conditions, on September 30, 2017 and on September 30 in every fifth year thereafter. The holders of the Series B Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, if declared by Birchcliff's Board of Directors, at a rate equal to the sum of the then current 90 day Government of Canada Treasury Bill rate plus 6.83%.

In the event of liquidation, dissolution or winding-up of Birchcliff, the holders of the Series A Preferred Shares and Series B Preferred Shares will be entitled to receive $25.00 per share as well as all accrued unpaid dividends before any amounts will be paid or any assets will be distributed to the holders of any other shares ranking junior to the Series A Preferred Shares and the Series B Preferred Shares. The holders of the Series A Preferred Shares and the Series B Preferred Shares will not be entitled to share in any further distribution of the assets of the Corporation. Further details regarding the August Financing can be found in the Corporation's short form prospectus dated July 30, 2012, which is available on the SEDAR website at www.sedar.com.

(2) On April 19, 2012, the Corporation raised $110 million through an equity financing comprised of a bought deal equity offering whereby it issued 8,075,000 common shares at a price of $7.65 per share for gross proceeds of $61.8 million, 1,100,000 common shares issued on a "flow-through share" basis at a price of $9.20 per share for gross proceeds of $10.1 million and 5,000,000 common shares at a price of $7.65 per share on a concurrent private placement basis with its major shareholder for gross proceeds of $38.3 million (the "**April Financing**"). The implied premium on the flow-through shares was determined to be $1.7 million or $1.55 per share. This premium is reduced on a pro-rata basis as qualified Canadian exploration expenditures for purposes of the Income Tax Act are incurred. During the nine months ended September 30, 2012, Birchcliff incurred approximately $5.2 million on eligible Canadian exploration expenditures and therefore has reduced the deferred premium on the flow-through shares to $0.8 million. As at September 30, 2012, Birchcliff is committed to spending an additional $4.9 million on eligible Canadian exploration expenditures on or before December 31, 2013, and renounce to each subscriber of flow-through shares effective on or before December 31, 2012. Birchcliff recognized a deferred income tax benefit of $1.0 million in respect of share issue costs related to the April Financing totalling approximately $4.0 million. The net proceeds of $106.2 from the April Financing were used to reduce outstanding indebtedness under the revolving credit facilities. Further details regarding the April Financing can be found in the Corporation's short form prospectus dated April 12, 2012, which is available on the SEDAR website at www.sedar.com.

Warrants

On August 8, 2012, Birchcliff issued 6,000,000 warrants as part of the preferred unit equity offering as described above. Each warrant is exercisable until August 8, 2014 at a price of $8.30 to purchase one common share of Birchcliff. As at September 30, 2012, there were 6,000,000 warrants outstanding.

Preferred share dividends

On September 6, 2012, the Board of Directors declared an initial quarterly cash dividend (for a partial quarter) of $579,240 or $0.28962 per Series A Preferred Share, payable to the shareholders of record as at the close of business on September 17, 2012. The dividend is designated an eligible dividend for purposes of the *Income Tax Act (Canada).*

Included in income tax expense during the three months ended September 30, 2012 is a Part VI.I dividend tax on distributions totalling approximately $0.2 million.

Per common share amounts

The Corporation calculates basic and diluted per common share amounts using net income available to Birchcliff's shareholders, adjusted for preferred share dividends 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 September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Net income	2,744	11,411	6,891	31,121
Preferred share dividends	(579)	-	(579)	-
Net income available to Birchcliff's common shareholders	2,165	11,411	6,312	31,121
Weighted average common shares:				
Weighted average common shares outstanding (basic)	141,474,489	126,630,446	135,572,012	126,131,596
Effect of dilutive stock options & performance warrants	2,097,269	4,744,277	2,884,288	4,869,393
Weighted average common shares outstanding (diluted)(1)	143,571,758	131,374,723	138,456,300	131,000,989
Net income per common share				
Basic	**$ 0.02**	$0.09	**$ 0.05**	$0.25
Diluted	**$ 0.02**	$0.09	**$ 0.05**	$0.24

(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, 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 for the nine months ended September 30, 2012 excludes 9,202,635 of stock options and performance warrants and 6,000,000 of warrants that are anti-dilutive.

8. SHARE-BASED PAYMENTS

Stock options

During the three and nine months ending September 30, 2012, the Corporation recorded $1.1 million and $4.0 million (September 30, 2011 – $2.4 million and $6.7 million) of stock-based compensation expense, net of $1.3 million and $2.7 million (September 30, 2011 – $1.3 million and $3.3 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 September 30, 2012, the Corporation applied a weighted average estimated forfeiture rate of 14% (September 30, 2011 – 15%).

As of September 30, 2012, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum of 14,153,465 (September 30, 2011 –12,667,958) common shares. At September 30, 2012, there remained available for issuance options in respect of 1,682,059 (September 30, 2011 – 2,138,017) common shares. For stock options exercised during the three months ended September 30, 2012, the weighted average share trading price was $6.61 (September 30, 2011 – $12.64) per common share.

A summary of the outstanding stock options is presented below:

	Number	Weighted Average Exercise Price ($)
Outstanding, December 31, 2011	10,466,941	8.73
Exercised	(260,000)	(4.03)
Outstanding, March 31, 2012	10,206,941	8.85
Granted[(1)]	3,400,900	5.97
Exercised	(253,067)	(4.31)
Forfeited	(380,834)	(9.68)
Expired	(115,200)	(10.34)
Outstanding, June 30, 2012	12,858,740	8.14
Granted	103,000	6.72
Exercised	(101,001)	(4.81)
Forfeited	(389,333)	(9.59)
Outstanding, September 30, 2012	**12,471,406**	**8.11**

(1) On April 26, 2012, the Corporation issued 3,345,400 stock options to officers and employees of Birchcliff at an exercise price of $5.96 per common share as part of its annual compensation review.

The weighted average fair value per option granted during the three months ended September 30, 2012 was $2.71 (September 30, 2011 - $5.43). The weighted average assumptions used in calculating the Black-Scholes fair values are set forth below:

Three months ended,	**September 30, 2012**	September 30, 2011
Risk-free interest rate	1.2%	1.3%
Option life (years)	3.8	3.7
Expected volatility	51.8 %	55.4%
Dividend yield	-	-

A summary of the stock options outstanding and exercisable under the plan at September 30, 2012 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
$4.00	$6.00	5,173,971	3.30	$5.61	1,996,571	1.28	$5.06
$6.01	$9.00	1,879,367	1.22	$7.61	1,535,531	0.74	$7.60
$9.01	$12.00	4,945,268	2.80	$10.48	2,490,468	2.62	$10.24
$12.01	$13.60	472,800	3.06	$12.75	222,797	2.41	$12.73
		12,471,406	**2.78**	**$8.11**	**6,245,367**	**1.72**	**$8.02**

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 and an amended expiration date of January 31, 2015. There are 2,939,732 performance warrants outstanding and exercisable at September 30, 2012.

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

9. 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 as at and during the three and nine months ended September 30, 2012.

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

As at,	**September 30, 2012**	December 31, 2011
Maximum borrowing base limit(1)(2):		
Non-revolving five-year term credit facility	70,000	70,000
Revolving credit facilities	470,000	450,000
	540,000	520,000
Principal amount utilized:		
Drawn non-revolving five-year term credit facility	(70,000)	(70,000)
Drawn revolving credit facilities	(325,484)	(323,221)
Outstanding letters of credit(3)	(698)	(2,668)
	(396,182)	(395,889)
Total unused credit(2) (based on maximum borrowing base)	**143,818**	124,111

(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. On June 26, 2012, the Corporation's borrowing base limit under its revolving credit facilities was increased to an aggregate limit of $470 million from $450 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 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. The Corporation was compliant with these financial covenants as at September 30, 2012 and December 31, 2011.

At September 30, 2012, Birchcliff's aggregate principal amount utilized under its bank credit facilities was $396 million and the debt to EBITDA covenant would have restricted Birchcliff's aggregate credit available on that day to a maximum of $517 million.

(3) 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 September 30, 2012 and December 31, 2011.

The capital structure of the Corporation is as follows:

As at,	**September 30, 2012**	December 31, 2011	Change
Total shareholders' equity(1)	826,331	656,602	26%
Total shareholders' equity as a % of total capital	64%	60%	
Working capital deficit(2)	77,643	48,598	
Drawn non-revolving five-year term credit facility	70,000	70,000	
Drawn revolving credit facilities	325,484	323,221	
Total drawn debt	473,127	441,819	7%
Total drawn debt as a % of total capital	36%	40%	
Total capital	**1,299,458**	1,098,421	18%

(1) Shareholders' equity is defined as share capital plus contributed surplus plus retained earnings, less any deficit. The increase in shareholders' equity from December 31, 2011 was attributed to both the April Financing and August Financing as described in Note 7.

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

OFFICERS

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President & Chief Executive Officer

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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

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Werner A. Siemens
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President & Chief Executive Officer
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AUDITORS

KPMG LLP, Chartered Accountants
Calgary, Alberta

RESERVES EVALUATOR

Deloitte and Touche LLP (AJM Deloitte)
Calgary, Alberta

BANKERS

The Bank of Nova Scotia
HSBC Bank Canada
Alberta Treasury Branch
Union Bank
The Toronto Dominion Bank
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