BIR:2010
Annual Report

The sun is rising on our resource plays.

Birchcliff Energy Ltd.

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SHAREHOLDERS' MEETING

The Annual and Special Meeting of Shareholders will be held at 3:00 pm on Thursday, May 19th, 2011 in the Devonian Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Financial and operational highlights:

	Three months ended Dec. 31, 2010	Three months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2009
OPERATING				
Average daily production				
Light oil *(barrels)*	3,486	3,045	3,135	2,934
Natural gas *(thousands of cubic feet)*	73,978	43,170	56,970	47,805
NGLs *(barrels)*	559	274	448	314
Total – barrels of oil equivalent (6:1)	16,375	10,515	13,079	11,216
Average sales price *($ Canadian)*				
Light oil *(per barrel)*	81.89	75.01	78.76	64.35
Natural gas *(per thousand cubic feet)*	3.94	4.81	4.21	4.28
NGLs *(per barrel)*	76.14	67.94	72.82	55.52
Total – barrels of oil equivalent (6:1)	37.83	43.23	39.72	36.65
Undeveloped land				
Gross *(acres)*	500,069	398,308	500,069	398,308
Net *(acres)*	456,952	353,150	456,952	353,150
NETBACK AND COST				
($ per barrel of oil equivalent at 6:1)				
Petroleum and natural gas revenue	37.88	43.32	39.80	36.80
Royalties	(2.91)	(5.35)	(3.55)	(3.75)
Operating expense	(6.92)	(7.64)	(7.70)	(8.89)
Transportation and marketing expense	(2.56)	(2.47)	(2.59)	(2.39)
Netback	25.49	27.86	25.96	21.77
General and administrative expense, net	(3.25)	(3.54)	(2.12)	(2.77)
Interest expense	(2.60)	(2.72)	(2.82)	(2.52)
Cash flow netback	19.64	21.60	21.02	16.48
Depletion and depreciation expense	(14.51)	(15.80)	(15.64)	(20.40)
Accretion expense	(0.33)	(0.60)	(0.38)	(0.43)
Stock-based compensation expense	(1.67)	(1.84)	(2.22)	(2.40)
Amortization of deferred financing fees	(0.17)	(0.51)	(0.34)	(0.29)
Future income tax recovery (expense)	(1.23)	(1.18)	(1.20)	1.12
Net income (loss)	1.73	1.67	1.24	(5.92)
FINANCIAL				
Petroleum and natural gas revenue *($000)*	57,072	41,908	189,978	150,669
Cash flow from operations *($000)*	29,592	20,900	100,351	67,476
Per share – basic *($)*	0.24	0.17	0.81	0.57
Per share – diluted *($)*	0.23	0.17	0.79	0.56
Net income (loss) *($000)*	2,612	1,616	5,902	(24,252)
Per share – basic *($)*	0.02	0.01	0.05	(0.21)
Per share – diluted *($)*	0.02	0.01	0.05	(0.21)
Daily production per weighted average million basic share *(boe/d)*	131.01	85.12	104.94	95.06
Proved reserves per basic share – end of period *(boe)*	0.91	0.73	0.91	0.73
Proved plus probable reserves per basic share – end of period *(boe)*	1.61	1.27	1.61	1.27
Common shares outstanding				
End of period – basic	125,129,234	123,815,002	125,129,234	123,815,002
End of period – diluted	137,316,486	134,464,987	137,316,486	134,464,987
Weighted average shares for period – basic	124,994,761	123,538,213	124,629,761	117,993,314
Weighted average shares for period – diluted	129,264,791	126,358,921	127,662,373	117,993,314
Capital expenditures, net *($000)* (1)(2)	47,456	44,368	220,034	101,690
Working capital deficiency *($000)*	3,956	20,291	3,956	20,291
Revolving credit facilities *($000)*	333,468	201,230	333,468	201,230
Total debt *($000)*	337,424	221,521	337,424	221,521

1) Included as a reduction of net capital expenditures in the twelve months ended December 31, 2010 are proceeds of $17.5 million relating to the sale of a minor asset.

2) Included as a reduction of net capital expenditures in the twelve months ended December 31, 2010 is an expected recovery of $9.9 million (December 31, 2009 – $6.3 million) relating to the Alberta Drilling Royalty Credit Program.

2010 snapshot:

Proved plus probable (2P) reserves

201

MMboe

4th quarter production

16,375

boe/day

Cash flow

$100

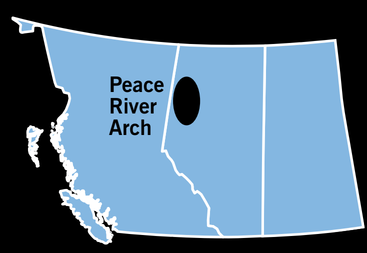
million

2P reserves

28%

increase

One core area



Earnings

$5.9

million

Reserve life index (years)

29.8

on 2P basis assuming 18,500 boe/day production rate

PCS Gas Plant expanded processing capacity

60

MMcf/day

Operating costs per boe

13%

reduction

\\ Corporate profile

With an enterprise value of approximately $1.9 billion, Birchcliff Energy Ltd. is a Calgary, Alberta based intermediate oil and gas company that explores for, develops and produces natural gas, light oil and natural gas liquids from its two extensive resource plays – the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play – both located in northern Alberta's Peace River Arch.

In 2010, Birchcliff's fourth quarter production averaged 16,375 boe per day, a 56% increase from the fourth quarter of 2009. We expect 2011 production to average 18,500 boe per day with an average of 17,500 boe per day during the first half of the year and 19,500 boe per day during the second half of the year.

Complementing our production growth, in 2010 we completed Phase I and Phase II of the 100%-owned Pouce Coupe South Gas Plant (PCS Gas Plant), with processing capacity of 60 MMcf per day of natural gas. This strategic asset has allowed us to reduce our operating costs per boe, control our production and strengthen our foothold on our Montney/Doig Natural Gas Resource Play.

Significant reserves additions during 2010 increased our proved plus probable reserves to 201 MMboe, a 28% increase from 2009.

Our strategy is to continue to grow our natural gas and light oil-focused asset base by the drill bit and to continue to purchase land in Crown land sales or by private acquisitions.

Birchcliff's shares are listed on the Toronto Stock Exchange under the symbol BIR and are included in the Standard and Poor's S&P/TSX Composite Index.

Report to shareholders:

In 2010, we delivered on the PCS Gas Plant. Phase I, capable of processing 30 MMcf per day, commenced operation in March and Phase II, which doubled the processing capacity to 60 MMcf per day, commenced operation in November. Construction of both Phase I and Phase II was on budget and completed ahead of schedule.

Birchcliff significantly increased its portfolio of potential future drilling locations for both its Montney/Doig Natural Gas Resource Play and its Worsley Light Oil Resource Play. As of today's date, we have in excess of 1,000 net potential Montney/Doig horizontal natural gas drilling locations.

Fellow Shareholder,

On behalf of the directors, management and staff of Birchcliff, I am very pleased to report our 2010 results and to take the opportunity to provide you with an update of recent activities and our current outlook for 2011 and beyond.

Birchcliff had another very successful year. We met or exceeded our goals. We increased our average annual production and reserves. We continued to add reserves with very low finding and development costs, which together with increased production rates, higher oil prices and lower depletion costs, resulted in earnings in 2010. Our recycle ratios continued to be excellent.

We expanded our large undeveloped land base while maintaining a 91% average working interest.

Birchcliff significantly increased its portfolio of potential future drilling locations for both its Montney/Doig Natural Gas Resource Play and its Worsley Light Oil Resource Play. As of today's date, we have in excess of 1,000 net potential Montney/Doig horizontal natural gas drilling locations.

In the current low natural gas price environment, we continue to have a very large portfolio of Montney/Doig horizontal natural gas well drilling opportunities that are economic to pursue. We are continuing to expand Birchcliff's footprint on both of its established resource plays. In addition, we are doing the technical work and planning required in developing a new oil resource play opportunity on our map sheet, in the Peace River Arch.

2010 was highlighted by the construction of our Pouce Coupe South Gas Plant (the "PCS Gas Plant") which commenced processing natural gas in March 2010 at a design capacity of 30 mmcf per day, (Phase I). We expanded the plant to a processing capacity of 60 mmcf per day and it began processing natural gas in November 2010, (Phase II). We have also obtained a permit from the Energy Resources Conservation Board ("ERCB") for the doubling of processing capacity to 120 mmcf per day (Phase III). Construction of both Phases I and II was on budget and completed ahead of schedule. The PCS Gas Plant is the culmination of several years of work, with respect to both the development of production and reserves on our Montney/Doig Natural Gas Resource Play and the execution of our business strategy to develop a core producing property with significant undeveloped land surrounding the production where we own and control the infrastructure.

v **A. Jeffery Tonken**
President and Chief Executive Officer

Report to shareholders:

^ Alan Fritz, our Health, Safety and Environment Manager at the PCS Gas Plant.

I note that Birchcliff is one of the few companies of its size in this industry that has earnings. The PCS Gas Plant plays a major part in this because our processing costs in our own plant are very low. Our low depletion costs per boe (which follow from low finding and development costs) and low operating costs resulted in $5.9 million of earnings in 2010. This was accomplished when gas averaged $3.80 per GJ at AECO during 2010. In fact, we had $2.6 million in earnings in the fourth quarter when natural gas averaged $3.45 per GJ at AECO.

As a measure of last year's success, I note in a year where our business environment was challenging, Birchcliff increased its proved plus probable reserves by 28% (27% per share) and added those reserves for approximately $4.49 per boe without future capital, and $8.34 per boe including future capital. Birchcliff also increased its 2010 average production by 17% over 2009 (10% per share) while maintaining its proved plus probable reserve life index at 29.8 years assuming average production of 18,500 boe/day in 2011.

With our success in 2010, we have accomplished four important objectives:

- **We have established a large reserve and production base at low finding and development costs from which we can generate sustainable profitable production growth for many years.**
- **We have successfully constructed two phases of our PCS Gas Plant that is now processing our natural gas at a low cost and we have obtained an ERCB permit to double its current processing capacity.**
- **We have increased our technical knowledge base with respect to our two established resource plays to the point where the risks associated with the further expansion and development of these resource plays are substantially reduced.**
- **Using the material scientific knowledge we have gained from the development of our two established resource plays, we are focused on the development of new oil resource play opportunities in the Peace River Arch. In that regard, we have accumulated land which we think is prospective for new oil resource play opportunities.**

The pace of development of the production and reserves associated with our Montney/Doig Natural Gas Resource Play is now primarily a function of the future expansion of gas processing capacity by both Birchcliff and others, and the resulting economics based upon future natural gas prices.

We have identified an inventory of at least 1,000 net potential horizontal Montney/Doig natural gas drilling locations, representing in excess of $5 billion of drilling opportunities. This inventory has the potential to significantly expand our reserves and production in the coming years.

Our Worsley Light Oil Resource Play continues to expand with delineation drilling increasing the size of the Worsley pool and a combination of infill drilling and expansion of the water flood slowing production declines and adding reserves each year. This asset continues to outperform our expectations and we believe we can successfully continue to expand this resource play in the area on lands that we control.

These two strong assets will allow Birchcliff to grow production and reserves with the drill bit, stay focused on its map sheet and focus its attention on its core business.

Birchcliff's 2011 average production is expected to be 18,500 boe per day, a 41% increase from 2010. To further increase production, we are planning the Phase III expansion of the PCS Gas Plant. The decision to proceed with construction of Phase III will be made in the second quarter of 2011 and is primarily subject to the outlook for natural gas prices.

To continue growing production, we need to spend significant future capital in developing our resource plays. It is therefore important to note that our year-end bank debt of $337 million (including working capital deficiency) as against $375 million of available credit facilities gives Birchcliff significant financial flexibility. We expect to expand our current bank facilities in the near future based on the significant reserves additions we have achieved.

2011 CAPITAL BUDGET

In light of our success in 2010, we have set our 2011 capital expenditure budget at $159 million.

Birchcliff's capital budget is described below and a significant portion, $73 million, is focused on the continued development of its Montney/Doig Natural Gas Resource Play. Birchcliff expects to drill 44 (36.3 net) wells in 2011. Highlights of the budget include:

- **$73.3 million for the drilling, completing, equipping and tie-in of 17 (13.6 net) Montney/Doig horizontal natural gas wells;**
- **$33.5 million for the Worsley Light Oil Resource Play including the drilling of 11 (11.0 net) horizontal light oil wells and 4 (4.0 net) vertical light oil wells and capital to support expansion of the water flood; and**
- **$52.2 million for other drilling, facilities, production optimization, land and capital projects, sustaining capital and seed capital for new growth opportunities.**

This capital expenditure program is expected to be funded out of cash flow and Birchcliff's credit facilities.

Report to shareholders:

2011 OUTLOOK

The outlook for 2011 is very positive. We intend to continue to expand our footprint on both of our established resource plays by maximizing exploitation opportunities and drilling development and exploration wells. Further, we will continue to purchase undeveloped land and build infrastructure, which we expect will further increase the reserves attributable to Birchcliff's lands.

We expect 2011 to be a year of continued low cost reserve additions, further reduction of operating costs per boe and significant production growth. The increased cash flow that results from our increased production will provide the capital for future sustainable growth. We expect to increase our average production by more than 40% over 2010 and position ourselves for continued production growth in 2012.

CONCLUSION

2010 was another very successful year for Birchcliff. Our success has been through the drill bit. We believe our results are repeatable because we have captured large resources in place on lands that we control.

In the coming years, we are determined to increase our processing capacity in order to convert reserves into production. With the quality of our resource plays and the land holdings we have acquired, we expect to continue to add significant long life reserves and corresponding net asset value in the future at very low finding and development costs. Our massive drilling inventory will sustain production growth for years to come.

It is important to recognize both our office staff who developed and planned each of the individual initiatives that have brought us this success and our field staff who have safely and efficiently executed the field operations that turned good ideas into actual physical results. I gratefully acknowledge that without the hard work and tireless dedication of our staff, Birchcliff could not have achieved the success we now enjoy.

I would also like to thank our Directors for their continued dedication, input and guidance.

We welcome Ken Cullen as a director of Birchcliff. In addition to Mr. Cullen's accounting background, he has significant knowledge of our industry and is an excellent addition to our board.

A special thank you to our executive and management teams, who work very long hours for the benefit of our employees and shareholders.

Finally, we all thank Mr. Seymour Schulich for his support and advice which has played an integral role in our success. During 2010, Mr. Schulich increased his share position to 33 million common shares, which is approximately 26% of the outstanding shares of Birchcliff. Without Mr. Schulich's support it would have been extremely difficult to execute on our business plan.

On behalf of the Executive Team.

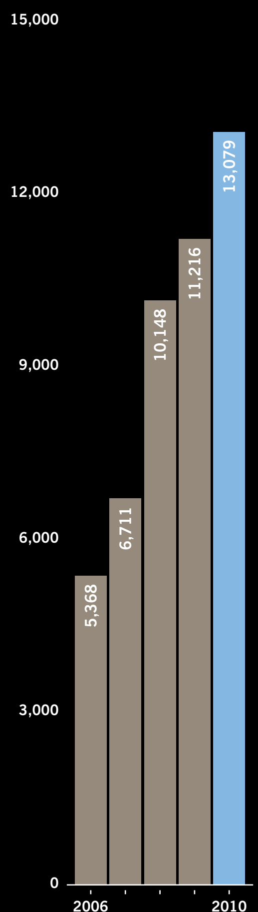
Respectfully,

(signed) "A. Jeffery Tonken"

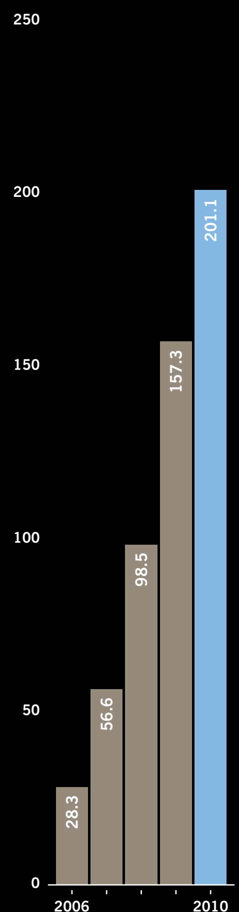
A. Jeffery Tonken
President and Chief Executive Officer

March 25, 2011

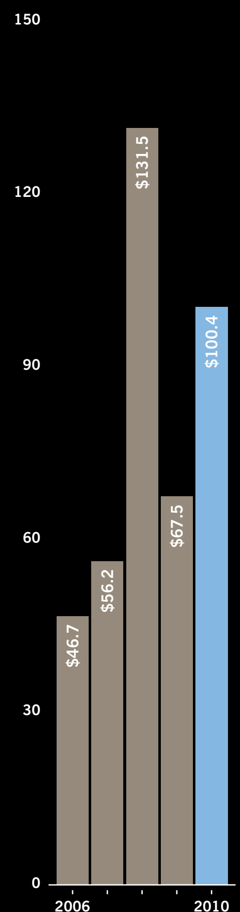
> Wayne Brown, our Production Manager.



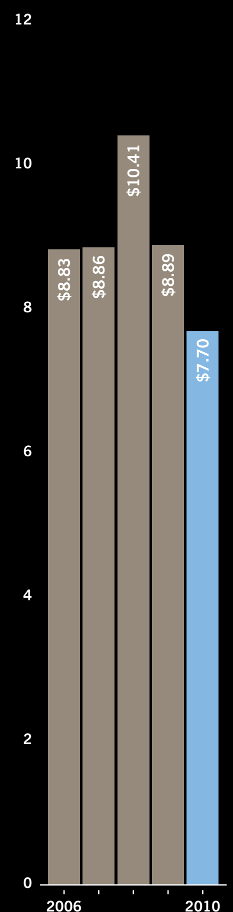
Production growth
(annual average boe/day)



2P reserves growth
(millions of boe)



Cash flow
(millions of dollars)



Operating costs per boe
(dollars)

\\ Financial performance

During 2010, Birchcliff had strong production growth, all by the drill bit, while maintaining financial flexibility. We carefully deployed $234 million of capital in exploration and development activities designed to enhance the long-term sustainability and profitability of our enterprise.

Throughout 2010, despite operating in an extended period of low natural gas prices, Birchcliff was able to generate cash flow of $100.4 million ($0.81 per share) resulting in solid earnings of $5.9 million ($0.05 per share).

Our drilling success resulted in low finding, development and acquisition costs of $4.49 per boe excluding future development capital and $8.34 per boe including future development capital (both on a proved plus probable basis).

By building the PCS Gas Plant, we enhanced our control of strategic infrastructure and strengthened our ability to process more of our own and third party production, which reduced operating costs, increased netbacks and resulted in earnings.

Financial performance:

Cash flow

$100

million

2010 FINANCIAL HIGHLIGHTS

- Finding, development and acquisition costs ("FD&A") on a proved plus probable ("2P") basis are $4.49 per boe, excluding future development capital and $8.34 per boe, including future development capital.
- Cash flow of $100.4 million or $0.81 per share.
- Earnings of $5.9 million or $0.05 per share, notwithstanding low natural gas prices.
- Operating costs (excluding transportation and marketing) of $7.70 per boe, down 13.4% from $8.89 per boe in 2009.
- Operating netback recycle ratio of 5.8 and cash flow netback recycle ratio of 4.7 (2P basis, excluding future development capital).
- Net asset value of $16.80 per fully diluted share, a 6.4% increase from 2009 of $15.79 per fully diluted share. This increase is especially meaningful as the natural gas forecast for the years 2011 to 2015, used to value our reserves, decreased by more than 31%. Net asset value is calculated using net present value of all reserves at a 10% discount rate, deducting total debt, assuming exercise of all options and warrants and without including any value for undeveloped land.

FINDING, DEVELOPMENT AND ACQUISITION COSTS

During 2010, net capital expenditures were $220 million. This reflects approximately $234 million invested in exploration and development and $1.5 million spent on administrative assets, less $15.5 million of net dispositions.

The following table sets out our finding and development costs ("F&D") per boe based on $234 million of capital and our FD&A per boe based on $218.5 million of capital, as follows:

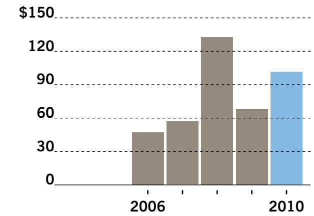
FD&A costs at December 31, 2010:

	2010	2009	2008	3 year average
$/boe				
EXCLUDING FUTURE DEVELOPMENT CAPITAL				
F&D				
Proved	9.09	2.57	9.09	6.29
Proved plus probable	5.49	1.57	4.99	3.71
Acquisitions				
Proved	0.62	8.84	37.11	3.96
Proved plus probable	0.31	6.32	21.59	2.09
FD&A				
Proved	7.61	2.63	9.40	6.02
Proved plus probable	4.49	1.61	5.17	3.53
INCLUDING FUTURE DEVELOPMENT CAPITAL *(1)*				
F&D				
Proved	13.01	7.12	20.17	12.48
Proved plus probable	9.89	5.36	13.98	9.24
Acquisitions				
Proved	0.62	8.84	37.11	3.96
Proved plus probable	0.31	6.32	21.59	2.09
FD&A				
Proved	11.12	7.13	20.36	11.97
Proved plus probable	8.34	5.37	14.06	8.81

1) Includes the increase in future development capital for 2010 over 2009 of $100.8 million on a proved basis and $187.2 million on a proved plus probable basis.

Future development costs used in the evaluation by AJM Petroleum Consultants ("AJM") were $769.3 million on a proved basis and $1.14 billion on a proved plus probable basis, which includes approximately $57 million for the Phase III expansion of our PCS Gas Plant from 60 MMcf to 120 MMcf per day of total capacity.

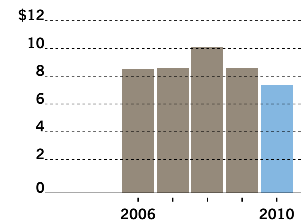
Cash flow
(millions of dollars)



CASH FLOW AND NET INCOME

In 2010, Birchcliff had cash flow of $100.4 million ($0.81 per share) and recorded net income of $5.9 million ($0.05 per share) as compared to a net loss of $24.3 million ($0.21 per share) in 2009. These earnings are significant: notwithstanding extremely low natural gas prices, Birchcliff was profitable on a full cycle basis, indicating that our resource plays continue to be economic.

Operating cost per boe
(dollars)



OPERATING COSTS AND NETBACKS

Operating costs in 2010 (excluding transportation and marketing costs) were $7.70 per boe, down 13% from 2009.

Our 2010 operating netback was $25.96, a 19% increase over 2009 and our 2010 cash flow netback was $21.02, a 28% increase over 2009. Operating netback is a measure of all of the revenues generated per boe, net of royalties, less production, transportation and marketing costs. Cash flow netback is the operating netback less interest and general and administration expenses.

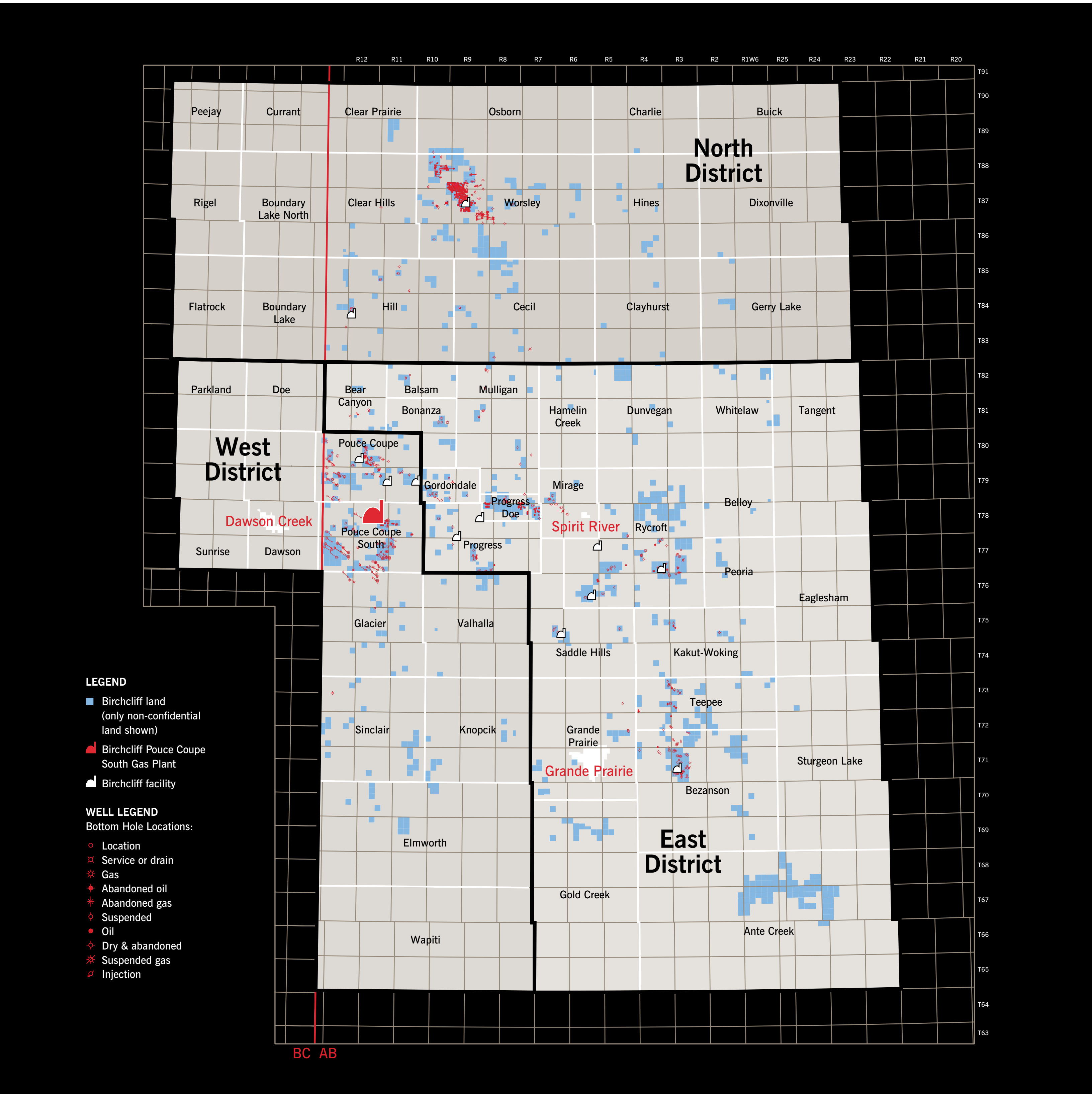
RECYCLE RATIOS

Recycle ratios measure profitability by comparing the netback on each barrel of oil equivalent to the cost of discovering and extracting each barrel of oil equivalent. The average "operating netback" or "cash flow netback" per boe, as the case may be, is divided by each of the F&D and FD&A per boe.

During 2010, the average WTI price of crude oil was US $79.52 per barrel and the average price of natural gas at AECO was Cdn $4.01 per MMbtu.

Operating and cash flow netback recycle ratios at December 31, 2010:

	Operating netback recycle ratio		Cash flow netback recycle ratio	
	2010	2009	2010	2009
EXCLUDING FUTURE DEVELOPMENT CAPITAL				
F&D proved plus probable	4.7	13.9	3.8	10.5
FD&A proved plus probable	5.8	13.5	4.7	10.3
INCLUDING FUTURE DEVELOPMENT CAPITAL				
F&D proved plus probable	2.6	4.1	2.1	3.1
FD&A proved plus probable	3.1	4.1	2.5	3.1


R12 R11 R10 R9 R8 R7 R6 R5 R4 R3 R2 R1W6 R25 R24 R23 R22 R21 R20
T91 T90 T89 T88 T87 T86 T85 T84 T83 T82 T81 T80 T79 T78 T77 T76 T75 T74 T73 T72 T71 T70 T69 T68 T67 T66 T65 T64 T63
North District
West District
East District
Peejay
Currant
Clear Prairie
Osborn
Charlie
Buick
Rigel
Boundary Lake North
Clear Hills
Worsley
Hines
Dixonville
Flatrock
Boundary Lake
Hill
Cecil
Clayhurst
Gerry Lake
Parkland
Doe
Bear Canyon
Balsam
Mulligan
Bonanza
Hamelin Creek
Dunvegan
Whitelaw
Tangent
Pouce Coupe
Gordondale
Mirage
Progress Doe
Belloy
Dawson Creek
Spirit River
Rycroft
Pouce Coupe South
Progress
Sunrise
Dawson
Peoria
Eaglesham
Glacier
Valhalla
Saddle Hills
Kakut-Woking
Teepee
Sinclair
Knopcik
Grande Prairie
Grande Prairie
Sturgeon Lake
Bezanson
Elmworth
Gold Creek
Ante Creek
Wapiti
BC AB
LEGEND
Birchcliff land (only non-confidential land shown)
Birchcliff Pouce Coupe South Gas Plant
Birchcliff facility
WELL LEGEND
Bottom Hole Locations:
Location
Service or drain
Gas
Abandoned oil
Abandoned gas
Suspended
Oil
Dry & abandoned
Suspended gas
Injection

\\ Operations review

Birchcliff is delivering growth by the drill bit. During 2010, we drilled 56 (48.2 net) wells. Twenty-three (18.8 net) of those were horizontal natural gas wells in our Montney/Doig Natural Gas Resource Play and 16 (16.0 net) were oil wells in our Worsley Light Oil Resource Play.

Fourth quarter production averaged 16,375 boe per day, a 56% increase from the fourth quarter of 2009. We expect 2011 production to average 18,500 boe per day with an average of 17,500 boe per day during the first half of the year and 19,500 boe per day during the second half of the year.

Birchcliff has established sufficient scale on both its unconventional resource plays that will allow it to continue to grow by developing the existing asset base. We expect to create significant value for our shareholders in the future.

Operations review:

^ Jerilyn McLeod, our Health, Safety and Environment Technician with Tyler Montpellier, one of our North District Operators.

PEACE RIVER ARCH AREA

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

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

Our strategy in the Peace River Arch is focused on developing sound exploration and development opportunities that can support extensive drilling and production growth in a repeatable, low risk manner. Birchcliff works to de-risk plays by drilling both vertical and horizontal exploration wells to develop an in-depth understanding of oil and gas pools, rock properties and petrophysical characteristics. We design, test and evaluate our drilling, completion and production technologies and practices to get continual improvements in productivity and to drive down capital and operating costs. Our pool delineation strategy de-risks future development and reduces future costs as new well pads and infrastructure are designed and built to support multiple horizontal well locations and increased production. We have a focused strategy to acquire additional contiguous land blocks at Crown sales or through selective acquisitions. Our dominant land and infrastructure position in the Peace River Arch has helped us develop an in-depth knowledge of the land, the geology, the reservoirs, the infrastructure and the stakeholders.

At 2010 year end, on a proved plus probable basis, Birchcliff had 201.1 MMboe of reserves in the Peace River Arch, with a reserve life index of 29.8 years (assuming a production rate of 18,500 boe per day). Birchcliff's reserves are 82% natural gas and 18% light oil and natural gas liquids.

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< All of Birchcliff's operations are concentrated in one core area, the Peace River Arch area of Alberta.

Birchcliff's 2010 average production in the Peace River Arch was 13,079 boe per day. Our fourth quarter production averaged 16,375 boe per day and our December average was 19,102 boe per day. Wells in the Peace River Arch have the potential to initially produce 500 to 10,000 mcf per day (83 to 1,666 boe per day) of natural gas or 30 to 500 bbls per day of light oil.

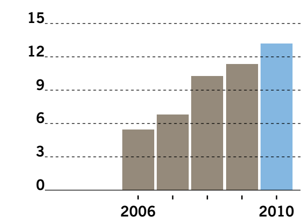
We have excellent control and access to infrastructure in the Peace River Arch to process our light oil and natural gas production. In 2010, we commenced processing natural gas through our new 100% owned PCS Gas Plant, which has a processing capacity of 60 MMcf per day. Birchcliff holds working interests in 15 gas plants, three of which are wholly owned and five of which we operate. We hold working interests in five oil batteries, two of which we operate. We have working interests in 37 compressor sites, the majority of which we wholly own and operate.

In 2010, we invested $19.1 million to expand and maintain our land position in the Peace River Arch and at December 31, 2010 held 500,069 (456,952 net) acres of undeveloped land, with an average working interest of 91%.

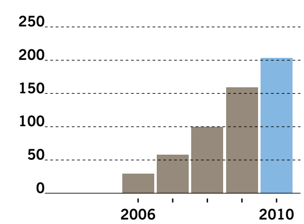
We spent $199.4 million on exploration and development projects (including acquisitions and dispositions) in the Peace River Arch in 2010, including the drilling of 56 (48.2 net) wells. All were successful except one (1.0 net) dry hole. Drilling depths on a true vertical depth basis can range from 300 metres for our shallower horizons to 2,700 metres for our deeper, higher impact targets. The capital cost for our horizontal wells has continued to decrease as we realize efficiencies through multi-well pads, increased proximity to existing infrastructure and more cost competitive pricing for services.

During 2011, we expect to spend approximately $159 million, which will include the drilling of 44 (36.3 net) wells. Of these wells, 17 (13.6 net) will be Montney/Doig horizontal gas wells and 11 (11 net) will be Worsley horizontal light oil wells. Of this capital, approximately 55% is expected to be spent in the West District, 33% in the North District and 8% in the East District.

Annual average production growth
(thousands of boe per day)



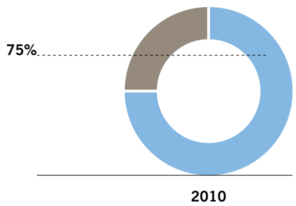
2P reserves growth
(millions of boe)



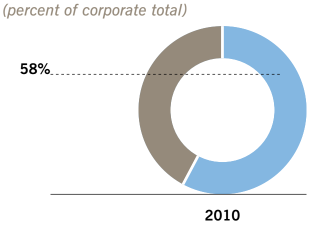
Operations review:

West District:

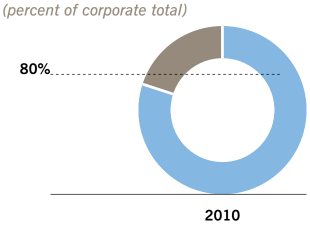
Exploration and development expenditures
(percent of corporate total)



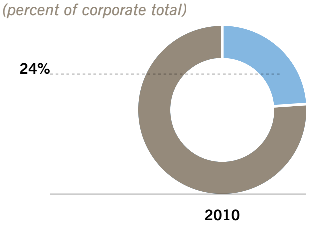
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



Net undeveloped land holdings
(percent of corporate total)



BIRCHCLIFF'S DISTRICTS WITHIN THE PEACE RIVER ARCH

Within the Peace River Arch, we have three districts, each with its own technical team: West District, North District and East District. Each of the districts is comprised of a number of regions.

West District

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

We have identified over 1,000 potential drilling locations on the Montney/Doig Natural Gas Resource Play. **Birchcliff's lands in the West District are surrounded by land held by other companies also actively drilling on this play, such as ARC Resources Ltd., Advantage Oil & Gas Ltd., Canadian Natural Resources Limited, Devon Canada Corporation, Encana Corporation, Murphy Energy Corp., Shell Canada, Talisman Energy Inc. and Tourmaline Oil Corp.**

Approximately 80% of Birchcliff's total proved and probable reserves are located in the West District and provide years of low-risk development drilling and exploration opportunities.

The West District represented approximately 76% of our natural gas production and 2% of our oil production in 2010. Natural gas production is primarily from the Montney/Doig Natural Gas Resource Play. In 2010, West District production averaged 7,599 boe per day and the operating netback for this production was $18.39 per boe. Average operating costs in the West District were $6.14 per boe, a 25% decrease from 2009.

Production from the West District flows through six gas plants and one oil battery. We own and operate two gas plants in the West District; most notably our new 100% owned PCS Gas Plant, which has a designed inlet capacity of 60 MMcf per day, and a smaller 100% owned sweet gas plant in Pouce Coupe North. We have ownership interests in three other sweet gas plants in the West District, at 32.9%, 15% and 5.2% working interests. We also process gas at the East District Canadian Natural Resources Limited operated Progress gas plant, in which we have a small working interest. Other gas is delivered to the Spectra gathering system, which is processed under firm service contracts at either the Fourth Creek plant or the Gordondale East gas plant.

In 2010, we invested $15.4 million to expand and maintain Birchcliff's land position in the West District. At December 31, 2010, we had interests in approximately 176,281 (148,987 net) acres of land of which 119,122 (109,058 net) acres were undeveloped. Our average working interest in undeveloped land in the West District is approximately 92%.

We spent $159.4 million on West District exploration, development and minor acquisition projects in 2010, including the drilling and completion of 25 (20.8 net) wells. The West District offers multiple, stacked targets down to total vertical depths of 2,700 metres.

During 2011, we expect to spend approximately $86.8 million in the West District, which includes the drilling and completion of 17 (13.6 net) Montney/Doig horizontal wells, all of which are expected to be on production by year end 2011. Our Montney/Doig natural gas horizontal wells qualify for the Natural Gas Deep Drilling Program as well as horizontal gas drilling incentives. These programs add significant value to our drilling opportunities.

North District

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

Approximately 14% of our total proved plus probable reserves are located in the North District. Our plans for this district are focused on the Worsley Light Oil Resource Play, including extension of the oil pool to the north and the south, recompletion and infill development opportunities, expansion of the water flood and expansion of the application of horizontal drilling and multi-stage fracture stimulation technology as it relates to our oil properties.

The North District represented approximately 12% of our natural gas production and 76.5% of our oil production in 2010, with production primarily from the oil rich Charlie Lake formation. In 2010, North District production averaged 3,564 boe per day and operating netback for this production was $42.22 per boe.

Most of the production from the North District flows through a Birchcliff-operated gas plant and oil battery, in which we have a 98.8% and 84.6% working interest, respectively. Both of these facilities are located in the core of the Worsley region. We also hold a 29.7% working interest in a sweet gas plant in the Hill region of the North District.

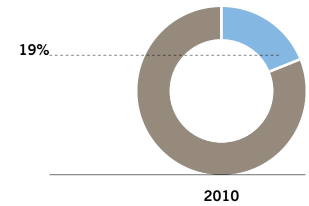
In 2010, we invested $1.7 million to expand and maintain our North District land position. As of December 31, 2010, we had interests in approximately 135,928 (124,493 net) acres of land of which 113,522 (108,139 net) acres are undeveloped. Our average working interest in undeveloped land in the North District is approximately 95%.

We spent $42.5 million on North District exploration and development projects in 2010, including the drilling and completion of 17 (17.0 net) wells. We enhanced the water flood area by converting two producing wells to injection wells and generated a surveillance model to evaluate pattern performance and prepare for 2011 activities. Currently about one third of the Birchcliff owned portion of the Worsley light oil pool is under water flood. The water flood response has exceeded our expectations and we look forward to further expansion of the water flood area in 2011.

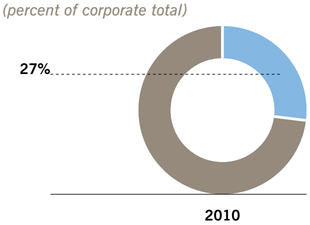
During 2011, we expect to spend approximately $52.4 million in the North District, which includes the drilling and completion of 15 (15.0 net) oil wells, comprised of 11 horizontal wells and four vertical wells. In the north end of the light oil pool, we plan to drill six horizontal wells, applying multi-stage fracture stimulation technology to increase production. In the south east-end of the light oil pool, we plan to drill two multi-lateral horizontal wells, and one single leg horizontal well, to help define optimal inter-well spacing. All of these horizontal wells are eligible for the current horizontal oil royalty reduction program, which is calculated from the total measured depth drilled. We expect to drill five wells in the water flood area and expand the water flood area to the south by converting two wells to injection wells. In addition, we plan to drill one exploration horizontal well outside of the pool boundaries.

North District:

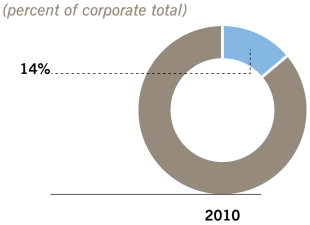
Exploration and development expenditures
(percent of corporate total)



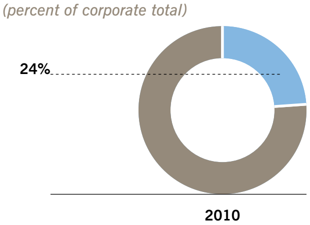
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



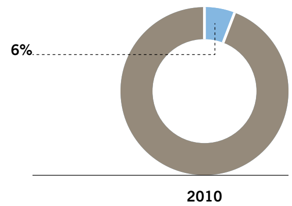
Net undeveloped land holdings
(percent of corporate total)



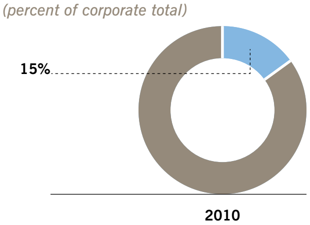
Operations review:

East District:

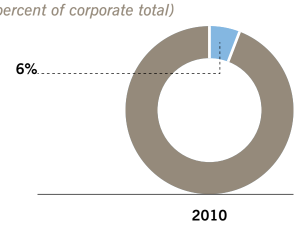
Exploration and development expenditures
(percent of corporate total)



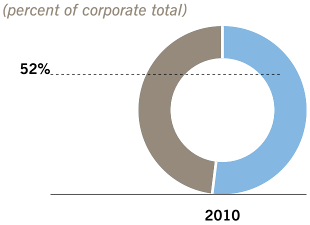
Production volumes
(percent of corporate total)



Proved plus probable reserves
(percent of corporate total)



Net undeveloped land holdings
(percent of corporate total)



East District

Our East District is centred approximately 50 kilometres northeast of Grande Prairie. Progress, Rycroft and Bezanson are the primary regions contained within the East District. The Progress Doe Creek oil pool and the Montney/Doig Natural Gas Resource Play are the East District's primary assets. During 2010, Birchcliff initiated research, evaluation and testing of new resource plays in the East District where we have significant land holdings prospective for a number of resource plays.

The East District represented approximately 13% of our natural gas production and 21% of our oil production in 2010. Production is from multiple zones, from the late Devonian to the Cretaceous. In 2010, production from the East District averaged 1,915 boe per day.

We process East District production through eight gas plants and three oil batteries. Birchcliff operates two gas plants and one oil battery in the East District; one gas plant with a 55.5% working interest, one gas plant with a 100% working interest and an oil battery with a 22.5% working interest. We have ownership interests in six other gas plants and two other oil batteries in the East District.

In 2010, we invested $1.9 million to expand and maintain the land position in the East District. At December 31, 2010, we had interests in approximately 358,358 (285,727 net) acres of land of which 267,419 (239,755 net) acres were undeveloped. Our average working interest in undeveloped land in the East District is approximately 90%.

We spent $12.9 million on East District exploration and development projects (excluding acquisitions and dispositions) in 2010, including the drilling and completion of 14 (10.4 net) wells. We participated in the drilling of several wells in the Progress Doe Creek oil pool including four unit vertical producers, four non-unit horizontal producers and two non-unit water injection wells. We also drilled a Halfway oil horizontal well in the Progress region that began producing in January 2011, proving up the concept of using horizontal multi-stage fracture stimulation technology to obtain commercial oil rates from the area's tighter Halfway shore face sands.

During 2011, we expect to spend approximately $12 million in the East District. In the Progress Doe Creek pool, we anticipate drilling and completion of three unit in-fill oil wells (two vertical and one horizontal), five non-unit horizontal Doe Creek oil wells and two non-unit water injection conversions. In the Bonanza region, we plan to drill one development Doig oil well which, if successful, will result in several follow up oil drills planned for 2012. In the Progress region, pending production results of our recent Halfway horizontal well, we plan to drill one follow up well during the fourth quarter of 2011. Depending on our technical review, we may also drill a horizontal oil well in one of the emerging resource plays.

> Vince Zylinski, our Superintendent, Production and Wayne Brown, our Production Manager with one of our drilling consultants.

Operations review:

BIRCHCLIFF'S RESOURCE PLAYS IN THE PEACE RIVER ARCH

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

Montney/Doig Natural Gas Resource Play

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

Most of our capital invested in the Montney/Doig Natural Gas Resource Play has been directed toward the Basal Doig/Upper Montney zones. However, in an effort to expand the stratigraphic potential of the play, 11 (8.2 net) of the 23 horizontal natural gas wells drilled in 2010 were drilled in the Middle/Lower Montney zones. Birchcliff believes the Middle/Lower Montney reservoir characteristics are similar to the Basal Doig/Upper Montney reservoirs. Drilling results to date have met or exceeded our expectations and have resulted in an expansion of our opportunity portfolio.

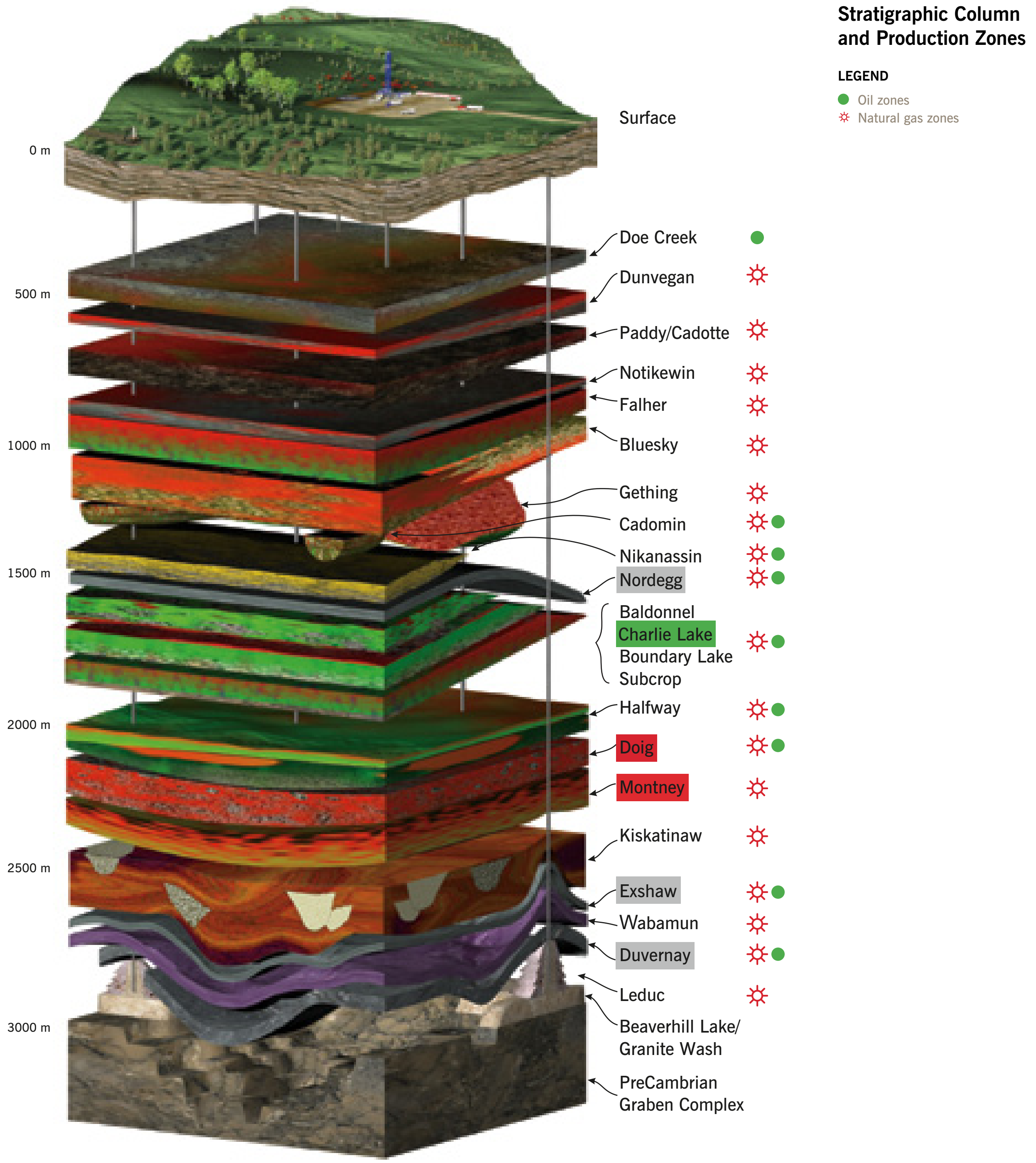
Wells on the Montney/Doig Natural Gas Resource Play are drilled to approximately 2,300 to 2,500 metres for a vertical well and 4,000 to 5,000 metres measured depth for a horizontal well. Initial well productivity for the vertical wells is 500 to 1,000 mcf per day (83 to 166 boe per day) and 3,000 to 10,000 mcf per day (500 to 1,666 boe per day) for the horizontal wells.

Well spacing is an important consideration for the Montney/Doig Natural Gas Resource Play. Industry competitors typically have drilled up to four wells per section per stratigraphic zone on 400 metre inter-well spacing (160 acre spacing). Recently, industry competitors in the Peace River Arch area have drilled up to eight wells per section per stratigraphic zone using 200 metre inter-well spacing (80 acre spacing units).

Reserve assignments by AJM to Birchcliff's lands in the Montney/Doig Natural Gas Resource Play are currently based on 300 metre inter-well spacing. Our technological analysis supports reducing inter-well spacing and in the future we expect AJM to assign additional future horizontal locations and reserves based on reduced inter-well spacing.

In 2010, AJM increased our proved plus probable Montney/Doig reserves attributed to Montney/Doig horizontal natural gas wells by 39% to 158.4 MMboe at December 31, 2010, compared with approximately 114.1 MMboe at December 31, 2009.

We believe that at December 31, 2010, we had at least 950 net potential future Montney/Doig horizontal natural gas well locations on our lands. These potential locations are comprised of 219 net future horizontal locations to which reserves have been assigned by AJM and 731 net potential future horizontal locations on lands that we believe have a high likelihood of extending the Montney/Doig Natural Gas Resource Play. This estimate of potential locations assumes the drilling of four horizontal wells per section per stratigraphic zone.


Stratigraphic Column and Production Zones
LEGEND
Oil zones
Natural gas zones
0 m
500 m
1000 m
1500 m
2000 m
2500 m
3000 m
Surface
Doe Creek
Dunvegan
Paddy/Cadotte
Notikewin
Falher
Bluesky
Gething
Cadomin
Nikanassin
Nordegg
Baldonnel
Charlie Lake
Boundary Lake
Subcrop
Halfway
Doig
Montney
Kiskatinaw
Exshaw
Wabamun
Duvernay
Leduc
Beaverhill Lake/
Granite Wash
PreCambrian
Graben Complex

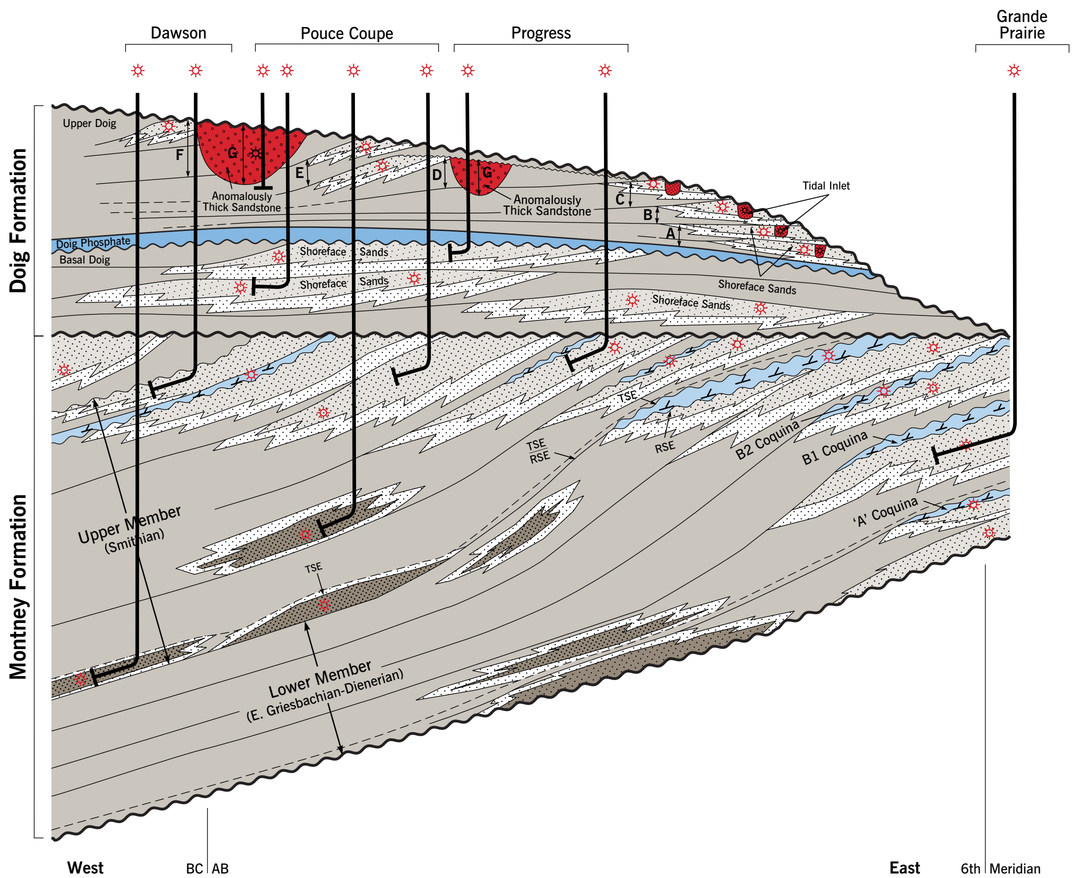
Operations review:

Montney/Doig Schematic Stratigraphic Cross Section

LEGEND

- Shoreface sandstone, coarse siltstones, > 6% Ø
- Lower shoreface siltstones, 3-6% Ø
- Silts and shales with high total organic content, < 3% Ø
- Phosphate with high total organic content, low Ø
- Dolomitized Coquinas, > 9% Ø
- Anomalously thick sandstone, > 9% Ø
- Turbiditic coarse siltstones, sandstones, > 9% Ø
- Established reserves or significant test
- TSE Transgressive surface of erosion
- RSE Regressive surface of erosion
- 3rd Ord. Max. Flood. Surface?

Reference: after Davies, Moslow and Sherwin, 1997



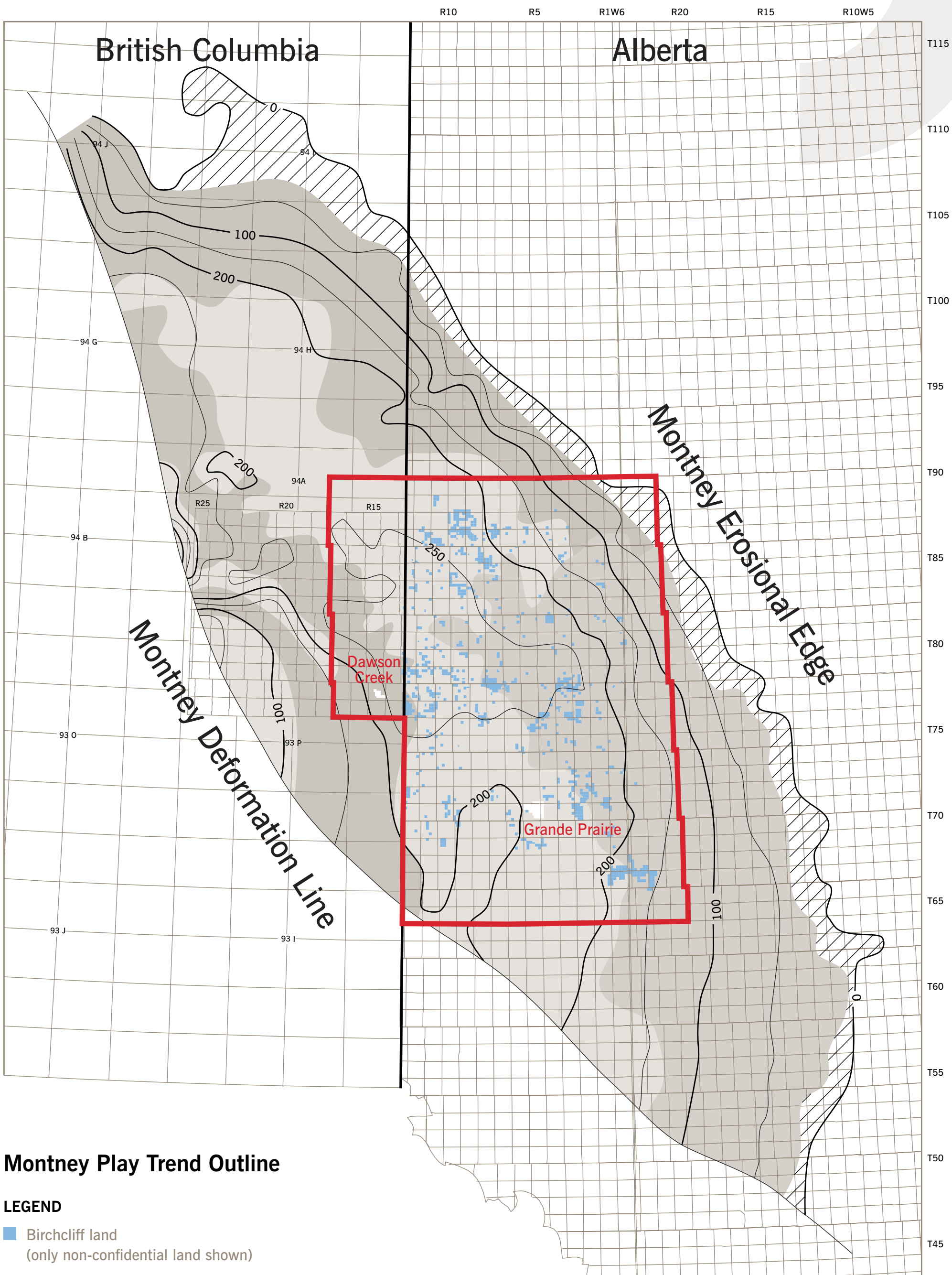
The following table summarizes reserves data attributable to our horizontal wells on the Montney/Doig Natural Gas Resource Play that has been extracted from the independent reserves evaluation conducted by AJM; the number of existing horizontal wells and locations to which reserves were attributed by AJM; and the future capital associated with such reserves, estimated by AJM.

Montney/Doig Natural Gas Resource Play reserves data at December 31, 2010:

	Natural gas		Natural gas liquids		Total		Existing horizontal wells and future horizontal well locations				Net future capital	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Bcf	*Bcf*	*mbbl*	*mbbl*	*mboe*	*mboe*	*gross*	*gross*	*net*	*net*	*$millions*	*$millions*
Proved												
Developed producing	99.3	41.2	658.2	263.7	17,213.6	7,138.7	48	21	40.0	18.4	0	17.8
Total proved	494.4	352.3	3,570.6	2,238.8	85,970.0	60,952.0	221	167	177.3	132.0	596.7(1)	547.0
Proved plus probable	910.5	660.0	6,653.2	4,145.4	158,403.2	114,150.6	321	253	259.0	199.7	938.3(1)	811.4

1) Includes future plant capital of approximately $57 million for the expansion of the PCS Gas Plant to 120 MMcf per day of total capacity.

Birchcliff believes the Middle/Lower Montney reservoir characteristics are similar to the Basal Doig/Upper Montney reservoirs. Drilling results to date have met or exceeded our expectations and have resulted in an expansion of our opportunity portfolio.



Montney Play Trend Outline

LEGEND

Birchcliff land
(only non-confidential land shown)

Reference: Edwards, D.E., Barclay, J.E., Gibson, D.W., Kvill, G.E., and Halton, E., 1994. Triassic Strata of the Western Canadian Sedimentary Basin. In Geological Atlas of the Western Canada Sedimentary Basin. G.D. Mossop and I. Shetsen (comps.). Calgary, Canadian Society of Petroleum Geologists and Alberta Research Council, p. 269.

Operations review:

Montney/Doig Natural Gas Resource Play land and horizontal wells at December 31, 2010:

	2010		2009	
	gross	net	gross	net
Number of sections	91.2	76.1	78.4	63.4
Number of existing wells and future horizontal well locations	321	259.0	253	199.7

1) Average of the reserves assignments for all existing horizontal wells and future horizontal well locations to which reserves were attributed by AJM Petroleum Consultants.

Montney/Doig Natural Gas Resource Play reserves and other data for horizontal wells at December 31, 2010:

	2010	2009
Average proved plus probable reserves		
Per existing horizontal well *(Bcfe)*	4.2	3.5(1)
Per future horizontal well location *(Bcfe)*	3.9	3.5(1)
Forecast average cost per horizontal well *(millions)*	$4.0	$4.0
Average number of net existing horizontal wells and future horizontal well locations per net section	3.4	3.1

1) Average of the reserves assignments for all existing horizontal wells and future horizontal well locations to which reserves were attributed by AJM Petroleum Consultants.

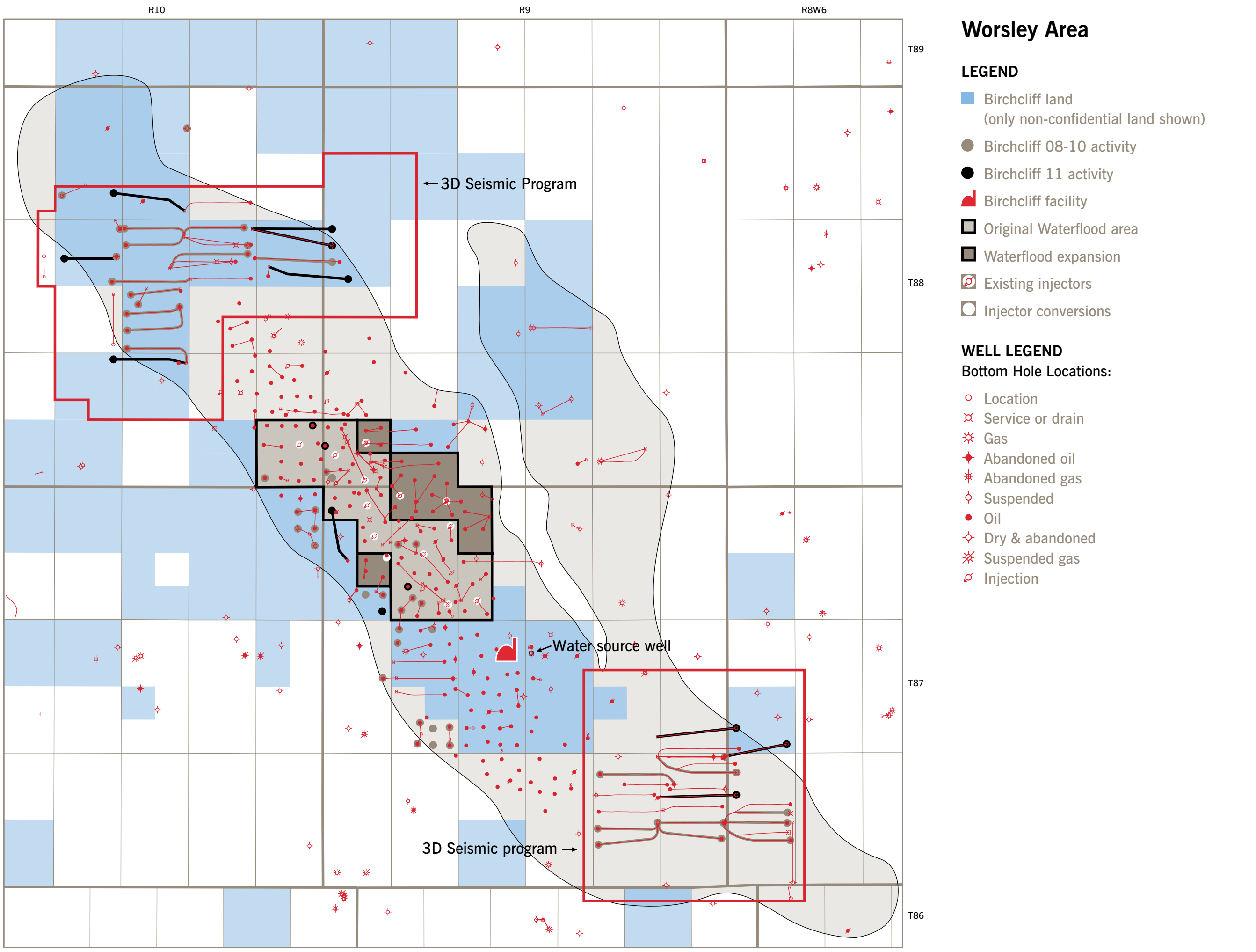
In a continued effort to increase our understanding of the Montney/Doig Natural Gas Resource Play and to better quantify our potential on this play, Birchcliff has commissioned AJM to estimate the unrisked petroleum initially-in-place and the contingent resources for the Doig Phosphate, Basal Doig and the Montney formations in the greater Pouce Coupe region of Alberta. We expect to receive and make public the results of this resource assessment in the second quarter of 2011.

Worsley Light Oil Resource Play

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. Birchcliff's assets in the Worsley region (acquired in September 2007) have provided $167 million in operating cash flow, $125 million of which has been invested back into the property.

Vertical wells on the Worsley Light Oil Resource Play are drilled to approximately 1,400 metres and horizontal wells are drilled to a measured depth of 2,500 to 3,000 metres. Vertical wells deliver initial productivity rates of 30 to 100 boe per day and horizontal wells deliver 60 to 400 boe per day.

Birchcliff drilled 16 successful 100% owned development oil wells (five vertical and 11 horizontal) in the Worsley Light Oil Resource Play in 2010. Our 2010 drilling program successfully delineated and extended the pool to the west and south, which increased our estimate of original oil in place. With this success, a sizeable number of follow up locations have been identified. Birchcliff has expanded the water flood by converting two producing wells to injection wells. As a result of these activities, approximately one third of the Birchcliff owned portion of the Worsley Light Oil Resource Play is under water flood. The water flood response has exceeded our expectations and we are committed to further expansion of the water flood area.



On the Worsley Light Oil Resource Play in 2010, both the original oil in place and the estimated recoverable reserves for the pool continue to grow from July 1, 2007, the date we originally acquired these lands.

History of reserves estimated for Worsley Light Oil Pool at December 31, 2010:

MMboe	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	July 1, 2007
Total proved reserves	18.8	18.3	17.5	15.0	11.3
Proved plus provable reserves	28.2	26.3	24.6	21.2	15.1

Operations review:

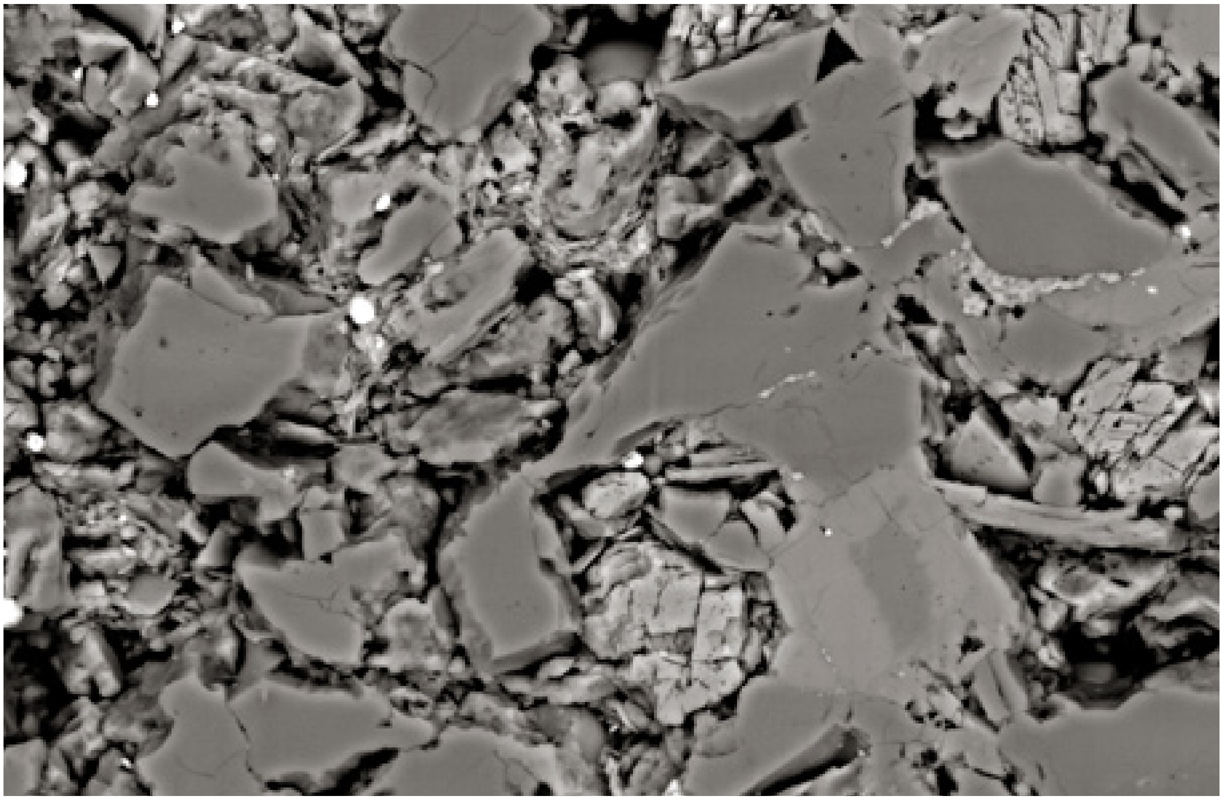
^ (left to right)
Larry Shaw, Alan Fritz, Vince Zylinski, Jeff Tonken, Wayne Brown, Dave Humphreys, Darin McLarty, Jody Denis

New resource plays

Birchcliff has invested considerable time and capital analyzing and evaluating various new resource plays in the Peace River Arch. Several industry competitors have recently announced important developments on new resource plays in this area of Alberta. In 2010, we acquired 165,819 gross (163,128 net) acres of land (approximately 255 net sections) in several large contiguous blocks at 100% working interest that are prospective for one or more of these new resource plays. While still in the early development phase, based on the high level of industry activity and our own internal technical evaluation, we are optimistic about the potential value of these new resource plays. Birchcliff is also conducting detailed core work on various plays to better understand rock properties and play potential. In 2011, we plan to drill a vertical exploration evaluation well in one of these new resource plays. With favourable results from the vertical well, we will re-enter the well and drill horizontally to evaluate it for commerciality.

SCIENCE AND TECHNOLOGY

Over the last several years, Birchcliff has invested substantial time and money to develop an integrated science and technology team based approach to the way we explore for and develop tight/shale oil and gas resource plays in the Peace River Arch. This investment is based on the understanding that resource plays are complex and require in-depth scientific knowledge to identify gas or oil saturated and geo-mechanically favourable sweet spots. Integrating geology, petrophysics, geophysics, reservoir hydrodynamics, reservoir engineering, microsiesmic and



geo-mechanics with our drilling, completion and production practices has helped Birchcliff significantly de-risk the Montney Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play while enabling more precise identification and ranking of our growing portfolio of opportunities.

Birchcliff's experienced and talented team of geoscientists and engineers are now applying an integrated science and technology methodology to new shale/tight oil and gas resource plays in the Peace River Arch.

As part of Birchcliff's commitment to the scientific study of resource plays, we participated in two industry consortiums initiated by Core Laboratories. The "North American Shale Gas Study" is a multi-company, geo-engineering study of gas shales conducted by the Integrated Reservoir Solutions division of Core Laboratories. To date, over 70 companies have participated in the project, which involves the characterization and evaluation of the numerous conventional cores taken from multiple gas shale formations in a variety of North American Basins. The gas shale reservoirs are analyzed for their geological, petrophysical, geo-mechanical, geo-chemical and production properties. This data is integrated with well logs, stimulation designs and production test information. This large and searchable database provides Birchcliff with valuable information not only on its own wells in a particular gas shale play, but also on other operators' wells in other gas shale formations. The second industry consortium is the "Montney Shale Gas Study" conducted by Core Laboratories, which is similar to the North American Shale Gas Study, but focused specifically on the Montney formation of the Western Canadian Sedimentary Basin.

^ Scanning electron microscope:
Backscatter electron image of a Montney reservoir core from a recent Birchcliff gas well – the darker black/grey portions show the effective intergranular porosity development and the solid portions are individual grains of quartz, dolomite and feldspar.

Operations review:

Potential Montney/Doig horizontal drilling locations

1,000+

net

Utilizing this science, significant time and expertise has been invested into the modeling and design of various hydraulic fracture stimulation treatments, fluids, geometry and stimulated rock volume simulations so that the optimal fracture density, well length and inter-well spacing can be better determined in various reservoirs on our lands. This will be key to effectively exploiting our lands at an optimal well spacing while maximizing our production profiles and ultimate reserve capture. Our proven operational experience and expertise is also applied in real time during our fracture stimulations treatments which has resulted in the repeated successful placement of our fracture stimulations. Overall, the application of this science and technology will allow us to maximize gas recovery while minimizing capital expenditures resulting in greater value for our shareholders.

Other technical studies include the collection of both seismic and microseismic data, which we utilize to assist in our exploration efforts. Our geophysical database at December 31, 2010 included 2,639 kilometres of two-dimensional data and 1,213 square kilometres of three-dimensional data.

Drilling

Birchcliff currently has identified over 1,000 net potential Montney/Doig horizontal natural gas drilling locations assuming four horizontal wells per stratigraphic zone per section.

Birchcliff's 2010 drilling program, which offered a mixture of moderate to high impact development and exploration prospects, focused on its two resource plays, the Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. During 2010, Birchcliff drilled 56 (48.24 net) wells, all of which were cased except for one (1.0 net) dry hole. These wells included 26 (21.8 net) gas wells, and 29 (25.44 net) oil wells.

In the West District, Birchcliff drilled 23 (18.8 net) Montney/Doig horizontal natural gas wells utilizing multi-stage fracture stimulation technology. Birchcliff also drilled one (1.0 net) Montney/Doig vertical exploration well. In the West District, we also drilled and completed our first 100% working interest Boundary Lake horizontal oil well, utilizing multistage fracture stimulation technology.

Drilling activities in the North District included five (5.0 net) vertical oil wells and 11 (11.0 net) horizontal oil wells on our Worsley Light Oil Resource Play. In the North District, Birchcliff also drilled a 100% working interest Leduc well that discovered a new natural gas pool.

In other areas, Birchcliff drilled a 100% working interest Gething natural gas exploration well in the Rycroft region. In the Progress region, we drilled and completed our first 67% working interest Halfway horizontal oil well, utilizing multistage fracture stimulation technology. We were also active in the Progress region, drilling six (3.54 net) vertical and four (3.23 net) horizontal wells on our Doe Creek oil pool.

During 2011, in the Montney/Doig Natural Gas Resource Play we expect to drill 17 (13.6 net) horizontal natural gas wells. Our planned 2011 drilling program will bring the total number of horizontal wells drilled by Birchcliff on the Montney/Doig Natural Gas Resource Play since 2007 to 65 (53.6 net). On our Worsley Light Oil Resource Play we expect to drill 15 (15.0 net) light oil wells, of which 11 (11.0 net) are horizontal wells and four (4.0 net) are vertical wells.

Advancements in horizontal drilling and multi-stage fracture stimulation technology have resulted in measurable improvement over time in our production and reserves capture from our resource plays. We continue to put extensive capital and technical time and effort into tight/shale oil and gas technologies to better understand the reservoir characteristics and the optimal completion techniques of these resource plays.

Our drilling program uses state-of-the-art technology and equipment, striving to achieve optimal results while reducing our greenhouse gas emissions. By drilling smaller wellbores and using A/C powered drilling rigs when possible, we minimize both noise disturbance and engine emissions. By drilling multiple wells from pad locations using long reach horizontal drilling and completion technology, and utilizing eight metre pipeline right-of-ways where possible, we significantly reduce our land usage and operating footprint.

FACILITIES

Birchcliff holds working interests in 15 gas plants, three of which are wholly owned and five of which we operate. We hold working interests in five oil batteries, two of which we operate. We have working interests in 37 compressor sites, the majority of which we wholly own and operate. These facilities provide low processing costs, third-party processing revenue, and more importantly, enable us to control production and maintain a high degree of operating flexibility in this highly competitive area. During 2011, we expect to spend approximately $28.4 million throughout our core area on our natural gas, oil and water facilities and production optimization projects. These investments will help Birchcliff to control infrastructure and continue to reduce its operating costs.

Pouce Coupe South Gas Plant

Birchcliff's 100% working interest PCS Gas Plant, capable of processing up to 60 MMcf per day of natural gas, is located in the West District, in the heart of its Montney/Doig Natural Gas Resource Play. The PCS Gas Plant is strategically situated to enable us to control and operate all essential infrastructure – from wellhead to sales point.

Construction of the PCS Gas Plant was divided into phases, with Phase I, capable of processing 30 MMcf per day, commencing operation in March 2010 and Phase II, which doubled the processing capability to 60 MMcf per day, commencing operation in November 2010.

Using leading edge technology, the PCS Gas Plant is a state-of-the-art facility and meets or exceeds all ERCB and Alberta Environment requirements. The facility employs energy efficient equipment to optimize performance and keep operating costs low.

Construction of Phases I and II of the PCS Gas Plant, including the associated infrastructure, 47 kilometres of pipelines and an acid gas disposal well, required a capital investment of approximately $77 million. Now that we have successfully converted this capital into enhanced processing facilities and infrastructure, we have achieved our goal of significantly lowering our gas processing costs. In view of current natural gas prices, being able to produce natural gas at the low end of the industry cost structure gives us a strong competitive advantage. The PCS Gas Plant is a key component in positioning Birchcliff to become the dominant low-cost finder and producer of natural gas in the Pouce Coupe region.

Phase III expansion

To further solidify the significant advantages of the PCS Gas Plant, Birchcliff has received ERCB approval for a Phase III expansion, which is designed to add an additional 60 MMcf per day of processing capacity, for a total processing capacity of 120 MMcf per day. The decision to proceed with construction of Phase III will be made in the second quarter of 2011 and is primarily subject to the outlook for natural gas prices.

Worsley Oil Battery and Gas Plant

The Worsley oil battery and gas plant are located in the North District, in the heart of our Worsley Light Oil Resource Play. Control of infrastructure in the Worsley region allows us to effectively manage the operating costs associated with the oil production from this region. We operate the Worsley oil battery and gas plant with a 84.6% working interest in the oil battery and a 98.8% working interest in the gas plant.

Birchcliff's 100% working interest PCS Gas Plant is located in the heart of its Montney/Doig Natural Gas Resource Play. The PCS Gas Plant is strategically situated to enable us to control and operate all essential infrastructure – from wellhead to sales point.

\\ Reserves evaluation

Birchcliff's experienced and talented team of geoscientists and engineers have expanded the application of horizontal drilling and multi-stage fracture stimulation technologies throughout our opportunity portfolio, driving continuous improvement in operating efficiencies and recoverable reserves.

In 2010, an independent evaluator estimated Birchcliff's proved plus probable reserves at 201 MMboe, a 28% gain over year end 2009. Natural gas reserves from our Montney/Doig Natural Gas Resource Play increased 39% to 158 MMboe and oil reserves from our Worsley Light Oil Resource Play also continued to grow.

We have identified over 1,000 net potential Montney/Doig horizontal natural gas drilling locations, assuming four horizontal wells per stratigraphic zone per section.

At year end 2010, Birchcliff had reserve life index of 29.8 years on a proved plus probable basis (assuming a production rate of 18,500 boe per day).

Reserves evaluation:

Reserve life index (years)

29.8

on 2P basis assuming 18,500 boe/day production rate

2010 RESERVES HIGHLIGHTS:

- Birchcliff's reserve life index on a 2P basis was 29.8 years (assuming a production rate of 18,500 boe/day).
- Proved developed producing ("PDP") reserves increased by 50% to 30.8 MMboe from 20.6 MMboe at year end 2009.
- Proved reserves increased by 27% to 114 MMboe from 90 MMboe at year end 2009.
- 2P reserves increased by 28% to 201.1 MMboe, from 157.3 MMboe at year end 2009.
- On a per share basis, 2P reserves increased to 1.6 boe/share, a 27% increase from year end 2009.
- 2P reserves are comprised of 82% natural gas and 18% light oil and natural gas liquids.
- For each boe produced in 2010:
  - 3.1 boe of PDP reserves were added, a 310% reserve replacement on a PDP basis.
  - 10.2 boe of 2P reserves were added, a 1,020% reserve replacement on a 2P basis.

AJM Petroleum Consultants ("AJM") prepared an independent evaluation of Birchcliff's oil and gas reserves effective December 31, 2010, in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and National Instrument 51-101 ("NI 51-101"). The results were provided to Birchcliff in an Evaluation Report dated February 9, 2011 (the "AJM Evaluation"). Additional data on reserves is contained in our "Statement of Reserves and Other Oil and Gas Information", which is filed on SEDAR at www.sedar.com. Columns may not add due to rounding of individual items.

Information provided in this annual report is based on AJM's December 31, 2010 forecast of commodity prices and costs (the "AJM Price Forecast"). The natural gas price forecast used by AJM for the years 2011 through 2015 is approximately $2.27/mcf lower than in the forecast used for the same years in its 2009 reserves evaluation.

OIL AND GAS RESERVES BY PRODUCT TYPE

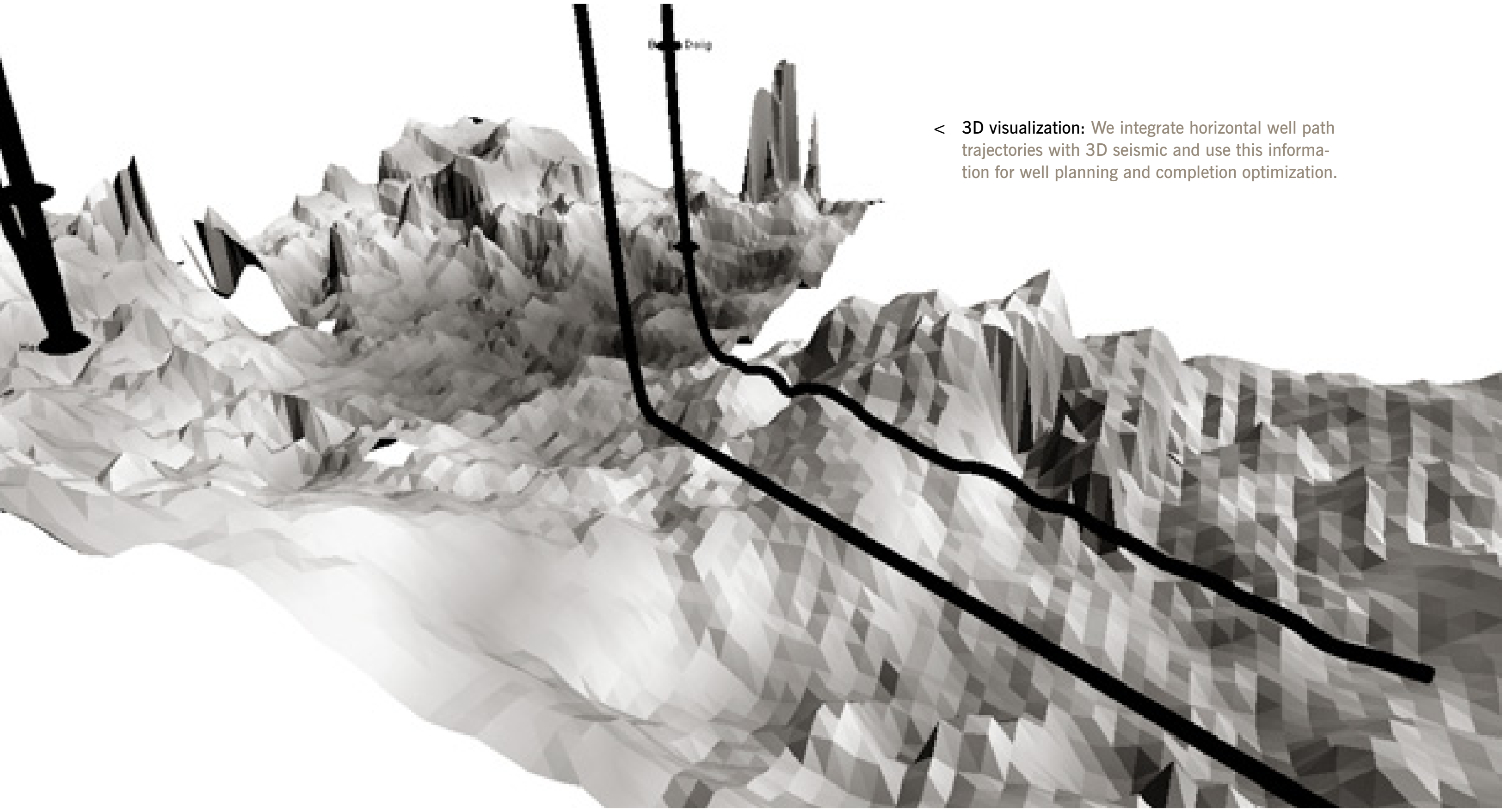
The following table summarizes AJM's estimates of Birchcliff's oil and gas reserves at December 31, 2010 using the AJM Price Forecast.

Summary of oil and gas reserves at December 31, 2010:

Forecast prices and costs

	Light and medium oil		Natural gas[1]		Natural gas liquids		BOEs	
Reserves category	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
	mbbl	*mbbl*	*MMcf*	*MMcf*	*mbbl*	*mbbl*	*mboe*	*mboe*
Proved								
Developed producing	6,877	5,934	137,347	120,149	1,012	653	30,780	26,612
Developed non-producing	2,642	2,217	5,137	4,482	41	30	3,539	2,994
Undeveloped	9,052	7,366	405,586	367,399	3,013	2,260	79,663	70,859
Total proved	18,571	15,517	548,070	492,031	4,066	2,943	113,982	100,465
Probable	9,829	7,398	443,886	391,932	3,344	2,267	87,155	74,987
Proved plus probable	28,400	22,915	991,955	883,963	7,411	5,211	201,137	175,453

1) Estimates of reserves of natural gas include both associated and non-associated gas.



< **3D visualization:** We integrate horizontal well path trajectories with 3D seismic and use this information for well planning and completion optimization.

NET PRESENT VALUES OF FUTURE NET REVENUES

The following table is a summary of the net present values of future net revenues associated with Birchcliff's reserves at December 31, 2010, using the AJM Price Forecast, before income taxes, without discount and using various discount rates. Notwithstanding that the AJM Price Forecast for the years 2011 to 2015 decreased by more than 31%, the net present value (at a 10% discount rate) increased by 12% as a result of the additional reserves added in 2010.

Net present value of future net revenue[1] at December 31, 2010:

Forecast prices and costs

Before income taxes discounted at (%/year)

	0%	5%	8%	10%	15%	20%
$millions						
Proved						
Developed producing	1,007.2	786.8	696.1	646.8	550.9	481.5
Developed non-producing	255.3	159.3	128.6	113.8	88.3	72.1
Undeveloped	2,098.5	1,289.0	992.0	839.3	560.0	374.1
Total proved	3,361.0	2,235.1	1,816.7	1,599.9	1,199.2	927.7
Probable	3,101.7	1,632.7	1,180.4	968.2	619.2	417.5
Proved plus probable	6,462.8	3,867.8	2,997.1	2,568.1	1,818.4	1,345.1

1) National Instrument 51-101 requires the inclusion of the following statement: Estimates of future net revenues whether discounted or not do not represent fair market value.

In 2010, AJM increased our proved plus probable Montney/Doig reserves attributed to Montney/Doig horizontal natural gas wells by 39% to 158.4 MMboe at December 31, 2010, compared with approximately 114.1 MMboe at December 31, 2009.

FORECAST PRICES USED IN THE AJM EVALUATION

The following table sets out the forecast price assumptions used by AJM for the AJM Evaluation. The pricing and cost assumptions used were determined by AJM using information available from numerous governmental agencies, industry publications, oil refineries, natural gas marketers and industry trends. These forecast price assumptions are subject to many uncertainties that exist in both the domestic and international petroleum industry.

AJM December 31, 2010 price forecast:

	Crude oil		Natural gas		Natural gas liquids			
Year	WTI crude oil	Edmonton City Gate	Natural gas at AECO	Edmonton propane	Edmonton butane	Edmonton C5+	Currency exchange rate	Inflation rate
	$US/bbl	*$CDN/bbl*	*$CDN/mcf*	*$CDN/bbl*	*$CDN/bbl*	*$CDN/bbl*	*$US/$CDN*	*percent*
2011	85.00	82.80	4.10	45.55	70.40	86.95	1.000	0.0
2012	89.25	88.80	4.60	48.85	75.50	93.25	0.980	2.0
2013	91.55	94.05	5.20	51.75	79.95	98.75	0.950	2.0
2014	95.50	98.15	5.50	54.00	83.45	103.05	0.950	2.0
2015	102.85	105.80	5.75	58.20	89.95	111.10	0.950	2.0
2016	110.40	113.70	6.20	62.55	96.65	119.40	0.950	2.0
2017	112.60	116.05	6.55	63.85	98.65	121.85	0.950	2.0
2018	114.85	118.35	7.00	65.10	100.60	124.25	0.950	2.0
2019	117.15	120.75	7.30	66.40	102.65	126.80	0.950	2.0
2020	119.50	123.15	7.45	67.75	104.70	129.30	0.950	2.0
2021	121.90	125.60	7.60	69.10	106.75	131.90	0.950	2.0
2022	124.35	128.15	7.75	70.50	108.95	134.55	0.950	2.0
2023	126.80	130.70	7.95	71.90	111.10	137.25	0.950	2.0
2024	129.35	133.30	8.10	73.30	113.30	139.95	0.950	2.0
2025	131.95	135.95	8.25	74.75	115.55	142.75	0.950	2.0
2026	134.60	138.70	8.40	76.30	117.90	145.65	0.950	2.0
2027	137.30	141.45	8.60	77.80	120.25	148.50	0.950	2.0
2028	140.00	144.30	8.75	79.35	122.65	151.50	0.950	2.0
2029	142.80	147.20	8.95	80.95	125.10	154.55	0.950	2.0
2030	145.70	150.10	9.10	82.55	127.60	157.60	0.950	2.0
Thereafter	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.950	2.0%

2P reserves

28%

increase

RESERVES RECONCILIATION

The following tables set forth a reconciliation of the Corporation's gross reserves by product for the year ended December 31, 2010 as derived from the AJM Evaluation using the AJM Price Forecast against AJM's evaluation of such reserves for the year ended December 31, 2009, using the forecast prices and costs in the AJM evaluation for the year ended December 31, 2009.

2010 reconciliation of gross proved reserves:

Forecast prices and costs	Light and medium crude oil	Natural gas	NGLs	Oil equivalent
	mbbl	*MMcf*	*mbbl*	*mboe*
Opening balance December 31, 2009	18,906.7	410,817.0	2,660.8	90,037.0
Discoveries	–	–	–	–
Extensions(1)	1,540.5	156,359.9	1,133.1	28,733.6
Improved recovery	–	–	–	–
Infill Drilling	225.2	26.4	0.1	229.7
Recompletions	–	–	–	–
Technical revisions(2)	(673.8)	(14,740.2)	309.4	(2,821.1)
Acquisitions	21.1	18,910.8	160.4	3,333.3
Dispositions	(307.2)	(212.1)	(2.0)	(344.6)
Economic factors(3)	4.1	(4,817.0)	(55.7)	(854.4)
Working interest adjustment(4)	(1.3)	2,519.1	24.0	442.6
Production(5)	(1,144.3)	(20,794.0)	(163.7)	(4,773.7)
Closing balance December 31, 2010	18,571.0	548,069.9	4,066.4	113,982.4

2010 reconciliation of gross probable reserves:

Forecast prices and costs	Light and medium crude oil	Natural gas	NGLs	Oil equivalent
	mbbl	*MMcf*	*mbbl*	*mboe*
Opening balance December 31, 2009	8,854.0	337,519.4	2,121.9	67,229.1
Discoveries	–	–	–	–
Extensions(1)	1,113.7	90,590.0	696.3	16,908.3
Improved recovery	–	–	–	–
Infill drilling	78.9	18.3	0.1	82.1
Recompletions	–	–	–	–
Technical revisions(2)	(78.6)	(605.3)	394.2	214.7
Acquisitions	7.9	18,474.0	150.8	3,237.7
Dispositions	(153.6)	(165.3)	(2.6)	(183.8)
Economic factors(3)	5.1	(6,419.4)	(50.6)	(1,115.4)
Working interest adjustment(4)	1.7	4,473.6	34.3	781.6
	–	–	–	–
Closing balance December 31, 2010	9,829.1	443,885.3	3,344.4	87,154.4

Reserves evaluation:

2010 reconciliation of gross proved plus probable reserves:

Forecast prices and costs

	Light and medium crude oil	Natural gas	NGLs	Oil equivalent
	mbbl	*MMcf*	*mbbl*	*mboe*
Opening balance December 31, 2009	27,760.7	748,336.4	4,782.7	157,266.1
Discoveries	–	–	–	–
Extensions(1)	2,654.2	246,949.9	1,829.4	45,641.9
Improved recovery	–	–	–	–
Infill drilling	304.1	44.7	0.2	311.8
Recompletions	–	–	–	–
Technical revisions(2)	(752.4)	(15,345.5)	703.6	(2,606.4)
Acquisitions	29.0	37,384.8	311.2	6,571.0
Dispositions	(460.8)	(377.4)	(4.6)	(528.3)
Economic factors(3)	9.2	(11,236.4)	(106.3)	(1,969.8)
Working interest adjustment(4)	0.4	6,992.7	58.3	1,224.2
Production(5)	(1,144.3)	(20,794.0)	(163.7)	(4,773.7)
Closing balance December 31, 2010	28,400.1	991,955.2	7,410.8	201,136.8

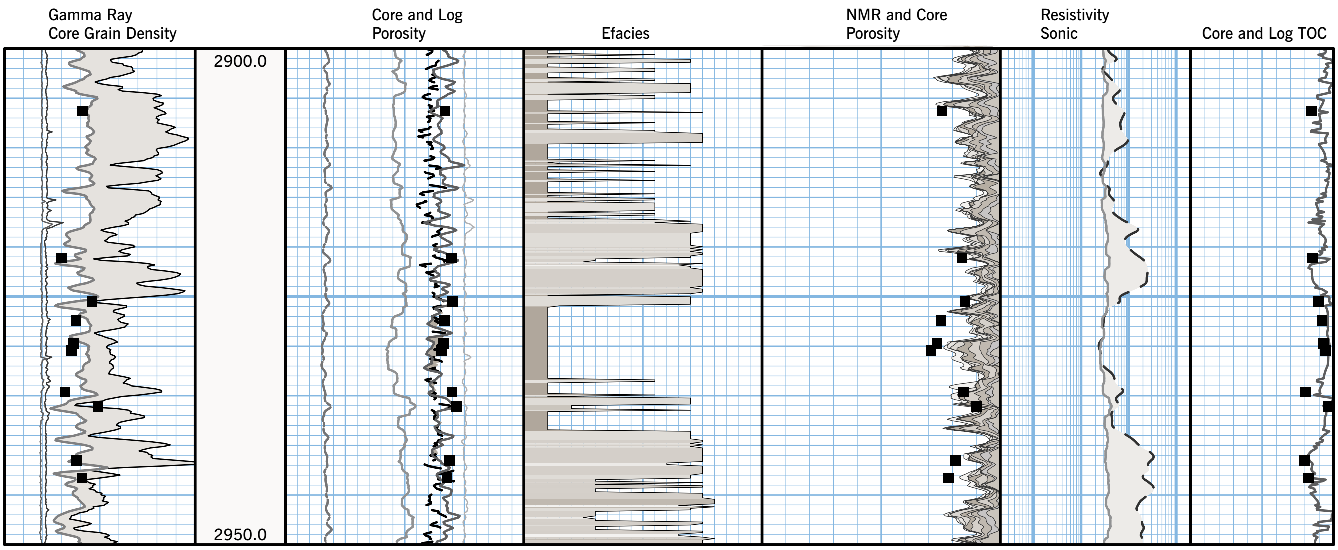
1) The majority of reserve changes comprising "Extensions" were the result of drilling activities in the Montney/Doig Natural Gas Resource Play. Much of the capital in 2010 was in support of Phase I and Phase II of the PCS Gas Plant, which commenced operation in March 2010 and November 2010 respectively. Wells were drilled extending the resource play beyond lands to which reserves had previously been attributed. As a result of these successful wells, reserves were attributed to future well locations proximal to these wells.

2) The majority of the technical revisions are a result of wells becoming uneconomic to develop at current natural gas prices.

3) "Economic Factors", although not significant, result from natural gas prices forecast by AJM that were significantly lower than the 2009 AJM evaluation for the entire forecast period, and resulted in negative impacts on reserve volumes.

4) "Working Interest Adjustment" results from working interest changes that were identified since the AJM evaluation for the year ended December 31, 2009.

5) Represents production for 2010.



^ **Log facies:** We integrate core data with standard and advantaged technology logging measurements to calculate reservoir properties such as porosity, total organic carbon and water saturation.

Advisories:

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

Reserves data: All estimates of reserves volumes and future net revenues disclosed in this annual report for 2010 are derived from the reserves evaluation dated February 9, 2011 which was prepared effective December 31, 2010 in accordance with National Instrument 51-101 by AJM Petroleum Consultants, an independent reserves evaluator. Estimates of reserves for each of 2008 and 2009 are derived from the evaluation of the Corporation's reserves prepared by AJM Petroleum Consultants effective December 31 of such year.

Reserves for portion of properties: With respect to the disclosure of reserves contained in this annual report relating to portions of the Corporation's properties, the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenues for all properties due to the effects of aggregation.

Finding and development costs: With respect to disclosure of finding and development costs contained in this annual report:

a) The amounts of finding and development and/or acquisition costs herein are calculated by dividing the total of the particular costs noted incurred during such year by the amounts of additions to proved reserves and proved and probable reserves during such year that resulted from the expenditure of such costs.

b) In calculating the amounts of finding and development and/or acquisition costs for a year, the changes during the year in estimated future development costs and in estimated reserves are based upon the evaluation of the Corporation's reserves prepared by AJM Petroleum Consultants effective December 31 of such year.

c) National Instrument 51-101 requires the inclusion of the following warning statement:

The aggregate of the exploration and development costs incurred in the most recent financial year and any change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

Forward looking statements: This annual report contains forward looking statements and forward looking information as defined by applicable securities law (collectively referred to as "forward looking statements") regarding the assets, business and operations of Birchcliff Energy Ltd. and the economic and regulatory environment in which it operates. The use of words such as "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact contained here are forward looking statements. In particular, this document contains forward looking statements as to recoverable reserves volumes, associated future net revenues and numbers of future wells that may be drilled. Undue reliance should not be placed on forward looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

The forward looking statements are based upon expectations and assumptions as to future commodity prices, currency exchange rates, inflation rates, royalty rates, future well production rates, well drainage areas, success of drilling future wells, the sufficiency of budgeted capital expenditures in carrying out planned activities and availability of labour and services. 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 in the forward looking statements.

A key assumption with respect to estimates of reserves volumes and associated future net revenues and numbers of future wells to be drilled is the validity of the commodity prices, currency exchange rates, future capital and operating costs and well production rates forecast by AJM in the AJM Evaluation. With respect to the number of future wells to be drilled, another key assumption is the validity of the geological and other technical interpretations that have been performed by the Corporation's technical staff which indicate that commercially economic reserves can be recovered from the Corporation's lands as a result of drilling such future wells.

Since forward looking statements address future events, by their nature they involve inherent risks and uncertainties. These risks include but are not limited to risks associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources.

The foregoing list of risk factors is not exhaustive. Additional information on these and other risks 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. The forward looking statements contained in this annual report are 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 statements after the date of this document 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.

Health, safety & environment:

In all of our operations, we are committed to the health and safety of our employees, the public at large and the environment. We strive to minimize the environmental impact of our operations and to meet or exceed industry best practices and government standards applicable to our business.

We have implemented rigorous safety policies, procedures, standards and training and work hard to continually improve. During the construction of Phase II of the PCS Gas Plant, there were approximately 250 people working on the project, in excess of 500,000 cumulative hours, without one serious incident.

Fostering a relationship with the community is as integral to the success of our projects as obtaining the required regulatory approvals. At Birchcliff, we believe cooperative, sincere and responsive consultation efforts with residents in the areas in which we operate creates a solid foundation for our business. Birchcliff has an experienced team to work with local residents to learn their values and priorities and to resolve any issues or concerns that arise in the course of our field operations.

Through investments in state-of-the-art equipment and technology, we have taken an innovative approach to reducing our environmental impact. The new PCS Gas Plant has near-zero emissions. Variable speed drives used throughout the PCS Gas Plant optimize performance and minimize energy consumption and solar power is used to drive pumps, valves and communication equipment at producing well sites. We are continuously evaluating new technology and techniques across our operations to help improve efficiency and reduce our environmental footprint.

Community support:

> Grande Prairie STARS helicopter and crew.

Birchcliff recognizes the role that communities play in our company's success and looks for opportunities to "give back." Every year, our people participate in a number of community support endeavours in the areas surrounding our field operations and in Calgary.

In 2010, we contributed to a number of local community initiatives – including minor hockey, amateur sports, municipal libraries, agricultural societies and fire departments – all of which elevate and enhance quality of life at the local level.

We are also a strong supporter of the Grande Prairie chapter of STARS, an important partner in trauma care for this region of Alberta. We support the United Way and make a direct annual contribution to Home Front Calgary, a community-justice response team dedicated to helping families experiencing domestic violence. Every year, our Calgary employees volunteer with Feed the Hungry for the Sunday Dinner Program, which provides full course, nutritious meals to an average of 700 dinner guests in an atmosphere of dignity and respect. During the holiday season, our employees "adopt a family" through the Kinette Club of Calgary and donate gifts, food and decorations to help make the holidays special for a Calgary family in need.

Through these various activities, Birchcliff creates and maintains long-term, positive partnerships and relationships, while promoting employee engagement in the communities we where live and work.

During the construction of Phase II of the PCS Gas Plant, there were approximately 250 people working on the project, in excess of 500,000 cumulative hours, without one serious incident.

Board of Directors:

Our Board of Directors provides leadership and supervises the management of the business and affairs of Birchcliff. In fulfilling their mandate, the Directors have a responsibility to act honestly and in good faith with a view to the best interests of the Corporation.

Larry A. Shaw

Mr. Shaw is the Chairman of the Board of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 24 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, Mr. Shaw served as Chairman of the Board of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was President of Shaw Automotive Group Ltd. and Shaw G.M.C. Pontiac Buick Hummer Ltd. Mr. Shaw received his Honors Degree in Business Administration from the University of Western Ontario.

Gordon W. (Scotty) Cameron

Mr. Cameron is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 42 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, Mr. Cameron served as a director of Case Resources Inc., Big Bear Exploration Ltd., Transwest Energy Inc., Stampeder Exploration Ltd. and as director and Chairman of the Board of Novagas Clearinghouse Ltd. and Maximum Energy Trust. He was President and Chief Executive Officer of Pan-Alberta Gas Ltd., and Chairman of the Energy Council of Canada. Mr. Cameron received his Bachelor of Commerce Degree and his Doctor of Laws Degree from the University of Saskatchewan. Mr. Cameron received the Order of Canada in 1995 in recognition of his contributions to the Canadian business community and his extensive philanthropic work.

Kenneth N. (Ken) Cullen

Mr. Cullen was appointed a Director of Birchcliff in February 2011 and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 30 years experience working with companies in the oil and gas industry as a partner at Deloitte & Touche LLP in the Assurance and Advisory (Audit) group prior to his retirement in 2006. Mr. Cullen currently serves as a director of Southern Pacific Resources Corp. and Parkbridge Lifestyle Communities Inc. Mr. Cullen received his Chartered Accountant Designation from the Institute of Chartered Accountants of British Columbia.

^ Mr. Larry Shaw, Chairmain of the Board

Werner A. (Vern) Siemens

Mr. Siemens is a Director of Birchcliff and is a member of the Audit Committee, Compensation Committee and Reserves Evaluation Committee. He has more than 24 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, Mr. Siemens served as a Director of Case Resources Ltd., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. He was Vice President of Agra Industries Ltd. and President and Chief Executive Officer of Blue Label Beverages Ltd.

A. Jeffery Tonken

See Mr. Tonken's biography under "Executive team."

Executive team:

A. Jeffery Tonken
President & Chief Executive Officer
jtonken@birchcliffenergy.com

Mr. Tonken is the President and Chief Executive Officer and a Director of Birchcliff. He has more than 30 years of experience in the oil and gas industry and is one of the company's founders. Prior to creating Birchcliff, Mr. Tonken founded and served as President and Chief Executive Officer of Case Resources Inc., Big Bear Exploration Ltd. and Stampeder Exploration Ltd. Mr. Tonken was previously a Partner of the law firm Howard Mackie (now Borden Ladner Gervais LLP). Mr. Tonken currently serves as a Director of Daylight Energy Ltd. and as a Governor of the Canadian Association of Petroleum Producers (CAPP). Mr. Tonken received his Bachelor of Commerce degree from the University of Alberta and his Bachelor of Laws degree from the University of Wales.

Bruno P. Geremia
Vice President & Chief Financial Officer
bgeremia@birchcliffenergy.com

Mr. Geremia is Vice President and Chief Financial Officer and is a Chartered Accountant. He has more than 19 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, Mr. Geremia served as Vice President and Chief Financial Officer of both Case Resources Inc. and Big Bear Exploration Ltd.; as Director, Commercial of Gulf Canada Resources; and as Manager, Special Projects of Stampeder Exploration Ltd. Mr. Geremia was previously a Chartered Accountant with Deloitte & Touche LLP. Mr. Geremia received his Bachelor of Commerce degree from the University of Calgary.

Myles R. Bosman
Vice President, Exploration & Chief Operating Officer
mbosman@birchcliffenergy.com

Mr. Bosman is Vice President, Exploration and Chief Operating Officer and is a Professional Geologist. He has more than 20 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, Mr. Bosman served as Vice President, Exploration and Chief Operating Officer of Case Resources Inc.; Exploration Manager of Summit Resources Ltd.; and as an Exploration Geologist with both Numac Energy Inc. and Canadian Hunter Exploration. Mr. Bosman received his Bachelor of Science degree in Geology from the University of Calgary.

Karen A. Pagano
Vice President, Engineering
kpagano@birchcliffenergy.com

Ms. Pagano is Vice President, Engineering and is a Professional Engineer with more than 22 years of experience in the oil and gas industry. She previously served as Vice President, Operations and as a Senior Exploitation Engineer with Birchcliff. Prior to joining Birchcliff in 2005, she was Manager of Operations of Koch Exploration; a Senior Production Engineer with Upton Resources Inc.; and a Senior Drilling and Completions Engineer with Alberta Energy Company. Ms. Pagano received her Bachelor of Electrical Engineering degree, with distinction, from the University of Saskatchewan.

David M. Humphreys
Vice President, Operations
dhumphreys@birchcliffenergy.com

Mr. Humphreys is Vice President, Operations and has more than 24 years of experience in the oil and gas industry. Prior to joining Birchcliff in 2009, he served as Vice President, Operations of Highpine Oil & Gas Ltd., White Fire Energy Ltd., and Virtus Energy Ltd.; Production Manager of both Husky Oil Operations Ltd. and Ionic Energy; and as a Senior Production Engineer with Northrock Resources Ltd. Mr. Humphreys received his Hydrocarbon Engineering Technology diploma from the Northern Alberta Institute of Technology.

James W. Surbey
Vice President, Corporate Development
jsurbey@birchcliffenergy.com

Mr. Surbey is Vice President, Corporate Development and is an engineer and a lawyer. He has more than 33 years of experience in the oil and gas industry and is one of the company's founders. Prior to joining Birchcliff, he served as Vice President, Corporate Development of Case Resources Inc.; Senior Vice President, Corporate Development of Big Bear Exploration Ltd.; and Vice President, Corporate Development of Stampeder Exploration Ltd. Mr. Surbey was previously a Senior Partner of the law firm Howard Mackie (now Borden Ladner Gervais LLP). Mr. Surbey received his Bachelor of Engineering degree and Bachelor of Laws degree from McGill University.

\\ Financial information

Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") is an intermediate oil and gas exploration, development and production company based in Calgary, Alberta. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com. Birchcliff's common shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "BIR" and are included in the Standard and Poor's S&P/TSX Composite Index.

The following Management's Discussion and Analysis ("MD&A") is dated March 17, 2011. The annual financial statements with respect to the three and twelve months ended December 31, 2010 (the "Reporting Periods") as compared to the three and twelve months ended December 31, 2009 (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 financial statements of the Corporation and related notes for the Reporting Periods and Comparable Prior Periods, and the audited financial statements and related notes as at and for the years ended December 31, 2010 and 2009. All financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all amounts are expressed in Canadian dollars unless otherwise stated.

SELECTED ANNUAL INFORMATION

Year ended December 31	2010	2009
$000's, except for production and share information		
Average daily production *(boe at 6 mcf:1 bbl)*	**13,079**	11,216
Petroleum and natural gas revenue	**189,978**	150,669
Total revenue, net royalties	**173,045**	135,327
Cash flow from operations	**100,351**	67,476
Per share – basic *($)*	**0.81**	0.57
Per share – diluted *($)*	**0.79**	0.56
Net income (loss)	**5,902**	(24,252)
Per share – basic *($)*	**0.05**	(0.21)
Per share – diluted *($)*	**0.05**	(0.21)
Capital expenditures, net(1)(2)	**220,034**	101,690
Total assets	**995,391**	837,108
Working capital deficit	**3,956**	20,291
Revolving credit facilities	**333,468**	201,230
Total debt	**337,424**	221,521
Shareholders' equity	**577,123**	554,561
Common shares outstanding		
End of period – basic	**125,129,234**	123,815,002
End of period – diluted	**137,316,486**	134,464,987
Weighted average shares for period – basic	**124,629,761**	117,993,314
Weighted average shares for period – diluted	**127,662,373**	117,993,314

1) Included as a reduction of net capital expenditures in the year ended December 31, 2010 are proceeds of $17.5 million relating to the sale of a minor asset.

2) Included as a reduction of net capital expenditures in the year ended December 31, 2010 is an expected recovery of $9.9 million (2009 – $6.3 million) relating to the Alberta Drilling Royalty Credit Program.

2010 OVERALL PERFORMANCE

Production:

Production in 2010 averaged 13,079 boe per day. This is a 17% increase from the 11,216 boe per day the Corporation averaged in 2009. Production in the fourth quarter of 2010 averaged 16,375 boe per day, a 56% increase from the 10,515 boe per day the Corporation averaged in the fourth quarter of 2009. These increases were achieved through the success of Birchcliff's capital drilling program and the processing of natural gas through Phases I and II of Birchcliff's 100% owned and operated Pouce Coupe South Natural Gas Plant ("PCS Gas Plant"), which commenced operation in March and November of 2010, respectively. Birchcliff's average daily production for December 2010 was 19,102 boe per day.

Production consisted of approximately 75% natural gas and 25% crude oil and natural gas liquids in the fourth quarter of 2010.

Commodity prices:

Oil sales prices at the wellhead averaged $78.76 per barrel in 2010, a 22% increase from $64.35 per barrel in 2009. Natural gas sales prices at the wellhead averaged $4.21 per mcf in 2010, a 2% decrease from $4.28 per mcf in 2009. 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 oil and natural gas. Birchcliff currently does not have any commodity hedges in place and therefore is subject to fluctuations in commodity prices.

Canadian Edmonton Par oil prices averaged $77.50 per barrel in 2010 as compared to $65.90 per barrel in 2009. The AECO daily natural gas spot prices averaged $4.01 per mcf in 2010 as compared to $3.96 per mcf in 2009.

Capital expenditures:

Total capital expenditures (excluding dispositions) in 2010 were $237.5 million as compared to $101.7 million in 2009. Birchcliff disposed of a minor non-producing asset in the first quarter of 2010 for $17.5 million. As a result of this asset sale, net capital expenditures in 2010 were $220.0 million. Of the $237.5 million in total capital spent during 2010, approximately $39.2 million (17%) was directed to the construction of Phases I and II of the PCS Gas Plant and related infrastructure, and $91.9 million (39%) on the drilling and completion of Montney/Doig horizontal natural gas wells used to fill the plant in order to utilize the total design capacity of 60 mmcf per day. The remaining $106.4 million in capital was spent acquiring land; expanding the Montney/Doig Natural Gas Resource Play and Worsley Light Oil Resource Play and related infrastructure; on minor acquisitions; and on other exploration and development projects. Further details of the Corporation's capital expenditures in 2010 are set forth in the table entitled "Capital Expenditures".

Construction of both Phases I and II of the PCS Gas Plant was completed ahead of schedule and on budget, with a combined design capacity of 60 mmcf per day.

Cash flow and earnings:

Cash flow was $100.4 million ($0.81 per share) in 2010 as compared to $67.5 million ($0.57 per share) in 2009. The 49% increase in cash flow from 2009 resulted from a combination of factors, including increased average daily production; higher average petroleum prices realized at the wellhead and decreased net general and administrative expenses, offset by higher interest expense.

Cash flow netback was $21.02 per boe in 2010, a 28% increase from 2009. Despite the low natural gas price environment, a significant factor in this increase was a 13% reduction in operating costs per boe to $7.70 per boe (excluding transportation and marketing expense) during 2010. This reduction was mainly achieved through a greater proportion of Birchcliff's natural gas being processed through the new PCS Gas Plant and increased cost recoveries.

Birchcliff recorded net income of $5.9 million ($0.05 per share) in 2010 as compared to a net loss of $24.3 million ($0.21 loss per share) in 2009. The increase in net income from 2009 was mainly attributable to higher cash flow and lower depletion expense, and was offset by increases in stock-based compensation expense and future income tax expense reported in 2010.

OUTLOOK

Production:

Birchcliff's 2011 average daily production is expected to be 18,500 boe per day, which represents average annual production growth of approximately 41% from 2010. Birchcliff expects to average 17,500 boe per day during the first half of 2011 and 19,500 boe per day during the second half of 2011. The 2011 production forecast assumes that no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that existing and future wells continue to meet production expectations.

Birchcliff is focused on utilizing the full capacity of the PCS Gas Plant and providing sustainable average daily production rates in 2011.

Capital expenditures:

The Board of Directors recently approved Birchcliff's 2011 capital spending program in the amount of $159 million. Of the $159 million, approximately $73 million is budgeted for drilling and development of the Montney/Doig Natural Gas Resource Play; approximately $34 million is allocated to the Worsley Light Oil Resource Play; and approximately $52 million is planned for infrastructure, land acquisitions, sustaining capital and seed capital for new growth opportunities and other projects.

The Corporation's operating cash flow and revolving credit facilities will be used to fund the capital spending program in 2011.

Cash flow and bank debt:

Birchcliff's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $375 million in November 2010. The $375 million of credit facilities will provide Birchcliff with greater liquidity and financial flexibility to further develop its Montney/Doig Natural Gas Resource Play and the Worsley Light Oil Resource Play. Birchcliff expects that its bank credit facilities will be increased during its normal credit review in May 2011. The review of the Corporation's borrowing base limit will depend largely on the bank syndicate's expectation of future commodity prices.

Despite the current low natural gas price environment, the Corporation does not foresee any liquidity issues with respect to the operation of its petroleum and natural gas business in 2011. Birchcliff expects to meet all its future obligations as they become due. Management expects that Birchcliff's average working capital deficiency will be similar in 2011 as compared to 2010 as a result of reduced capital spending.

The Corporation intends to finance its oil and natural gas business primarily through cash generated from operations, working capital, minor asset dispositions and available credit from its revolving facilities. Should commodity prices deteriorate materially, Birchcliff may adjust its capital spending accordingly to ensure that it does not exceed its anticipated cash flow. Birchcliff is now at a size that it anticipates it will not require additional equity except to fund a significant acquisition or to significantly increase its capital spending beyond its cash flow. Management expects to be able to obtain debt financing, and should the need arise, raise additional equity sufficient to meet both its short term and long term growth requirements.

Resource plays and infrastructure:

The 100% owned and operated PCS Gas Plant has enhanced the value of the Montney/Doig Natural Gas Resource Play in 2010 by allowing for production growth, reducing operating costs per boe and increasing Birchcliff's strategic control over the Pouce Coupe area. Birchcliff expects to achieve the full operating and processing benefits of Phases I and II of the PCS Gas Plant in 2011. This assumes that no unexpected outages occur at the PCS Gas Plant that Birchcliff relies on to produce a significant portion of its natural gas and that existing and future Montney/Doig horizontal natural gas wells continue to meet production expectations.

Birchcliff received Energy Resources Conservation Board approval for construction of Phase III of its PCS Gas Plant, subject to normal industry conditions, which will add up to another 60 mmcf per day of processing capacity, bringing total processing capacity to 120 mmcf per day. The decision to proceed with construction of Phase III will be made in the second quarter of 2011 and is primarily dependent on the outlook for natural gas prices.

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 low risk, long life future production and reserves additions that are readily available with the investment of additional capital. Birchcliff expects to be able to manage its lease expiries so that minimal lands will be lost.

These properties provide the Corporation with a long term and operationally reliable cash flow base, the level of which is primarily dependent on commodity prices. Commodity prices affect cash flow, thus dictating the pace at which Birchcliff invests in its resource plays and the rate at which its production will grow. Birchcliff has a long term view of the development of its resource plays and therefore short term commodity prices do not affect the quality or long term value of the Corporation's asset base.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

On November 30, 2010, the Corporation's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $375 million from $350 million. The amended revolving credit facilities included an increased credit limit for the extendible revolving term credit facility (the "Syndicated Credit Facility") of $345 million from $320 million.

On May 21, 2010, the Corporation's bank syndicate approved an increase of the revolving credit facilities to an aggregate limit of $350 million from $255 million and extended the conversion date of those facilities from May 21, 2010 to May 20, 2011. In conjunction with these changes, the $50 million term credit facility was repaid and cancelled. The amended revolving credit facilities included an increased credit limit for the Syndicated Credit Facility of $320 million from $235 million and an increased credit limit for the extendible revolving working capital facility (the "Working Capital Facility") of $30 million from $20 million.

LIQUIDITY

Working capital:

The Corporation's working capital deficit (current assets minus current liabilities) decreased to $4.0 million at December 31, 2010 from $20.3 million at December 31, 2009. The deficit at the end of 2010 was mainly comprised of costs incurred from the construction of the Phase II expansion of the PCS Gas Plant and related infrastructure, and the drilling and completion of new Montney/Doig horizontal wells during the fourth quarter of 2010.

At December 31, 2010, the major components of Birchcliff's current assets were: cash on hand (10%); joint venture billings (39%) to be received from its partners; and revenue (44%) to be received from its marketers in respect of December 2010 production, which was subsequently received in January 2011. In contrast, current liabilities largely consisted of trade payables (65%) and accrued capital and operating costs (28%). Cash on hand at the end of 2010 was used in full to reduce trade payables in January 2011.

Birchcliff manages its working capital deficit using its cash flow and advances under its revolving credit facilities. The Corporation's working capital deficit does not reduce the amount available under the Corporation's revolving facilities, which have a combined limit of $375 million at December 31, 2010. The Corporation did not have any liquidity issues with respect to the operation of its petroleum and natural gas business during 2010 and 2009.

Total debt and bank debt:

Total debt (including working capital deficit) increased to $337.4 million at December 31, 2010 from $221.5 million at December 31, 2009. The increase in total debt from 2009 was primarily a result of $137.2 million in total capital (before dispositions) expended during 2010 in excess of cash flow during that same period, offset by proceeds of $17.5 million from the sale of a minor asset in March 2010.

The amount outstanding on Birchcliff's revolving credit facilities at December 31, 2010 was $333.5 million (2009 – $201.2 million), which is net of $5.7 million (2009 – $5.2 million) in unamortized interest and fees.

The amount drawn under the Corporation's revolving credit facilities increased to $339.2 million at December 31, 2010, with an aggregate limit of $375 million compared with $206.4 million drawn at December 31, 2009, when the aggregate limit was $305 million. The drawn amount is not reduced for unamortized costs and excludes letters of credit that have not been drawn upon. A significant portion of the funds drawn under the Corporation's bank credit facilities in 2010 was directed towards the construction of Phases I and II of the PCS Gas Plant, related infrastructure and Montney/Doig horizontal natural gas wells.

The following table shows the Corporation's total available credit at the end of 2010 and 2009.

December 31	2010	2009
$000's		
Maximum borrowing base limit:(1)		
Revolving credit facilities	**375,000**	255,000
Non-revolving term credit facility(2)	**–**	50,000
	375,000	305,000
Principal amount utilized:		
Drawn revolving credit facilities	**(339,176)**	(206,387)
Outstanding letters of credit(3)	**(3,014)**	(2,739)
	(342,190)	(209,126)
Total unused credit	**32,810**	95,874

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 its oil and natural gas reserves.
2) Effective May 21, 2010, the Corporation repaid in full and cancelled the $50 million non-revolving term credit facility.
3) Letters of credit are issued to various service providers. No amounts were drawn on the letters of credit as at and during the years ended December 31, 2010 and 2009.

The financial covenants applicable to the Corporation's credit facilities include a quarterly interest coverage ratio test, which is calculated as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization ("EBITDA") over interest expense. The following table shows the interest coverage ratios at December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Required	Actual	Required	Actual
Annualized EBITDA to interest coverage(1)	**>3.5**	**8.4**	>3.5	7.6

1) Interest coverage ratio is calculated on a trailing four quarter basis.

The Corporation was compliant with all financial covenants applicable under its credit facilities as at and during the periods ended December 31, 2010 and 2009 and continues to be compliant with such covenants at the date hereof.

Contractual obligations:

The Corporation enters into contractual obligations in the course of conducting its day-to-day business. The following table lists Birchcliff's estimated material contractual obligations at December 31, 2010:

$000's	< 1 Year	1 – 2 Years	3 – 5 Years	Thereafter
Accounts payable and accrued liabilities	**50,721**	–	–	–
Drawn revolving credit facilities(1)	–	–	**339,176**	–
Office leases(2)	**3,108**	**3,118**	**9,675**	**6,182**
Transportation and processing	**10,143**	**9,201**	**17,531**	–
Total estimated contractual obligations(3)	**63,972**	**12,319**	**366,382**	**6,182**

1) The revolving facilities consist of approximately $5.2 million drawn on the Working Capital Facility and $334 million drawn on the Syndicated Credit Facility at December 31, 2010.
2) 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. The Corporation is also committed to March 29, 2011 under an operating lease for another office premises that it does not use and has sublet to an arm's length party on a basis that recovers all of its rental costs.
3) Contractual commitments that are routine in nature and form part of the normal course of operations for Birchcliff are not included in the above table.

OUTSTANDING SHARE DATA

The common shares of Birchcliff are the only class of shares outstanding. 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 Standard and Poor's S&P/TSX Composite Index. The following table summarizes the common shares issued in 2010 and 2009:

	Common shares
Balance at December 31, 2008	112,395,970
Issue of common shares	10,000,000
Issue of common shares upon exercise of options	1,419,032
Balance at December 31, 2009	123,815,002
Issue of common shares upon exercise of options	1,314,232
Balance at December 31, 2010	**125,129,234**

At March 11, 2011, there were outstanding 125,578,411 common shares, 11,457,009 stock options to purchase an equivalent number of common shares and 2,939,732 performance warrants to purchase an equivalent number of common shares.

RESULTS OF OPERATIONS

Petroleum and natural gas revenues:

Petroleum and Natural Gas ("P&NG") revenues totaled $57.1 million ($37.88 per boe) for the three month Reporting Period and $190.0 million ($39.80 per boe) for the twelve month Reporting Period as compared to $41.9 million ($43.32 per boe) and $150.7 million ($36.80 per boe) for the Comparable Prior Periods. The increase in aggregate P&NG revenues was largely a result of increased average daily production during the Reporting Periods. The following table details Birchcliff's P&NG revenues, production and sales prices by category for the Reporting Periods and Comparable Prior Periods:

	Three months ended December 31, 2010				Three months ended December 31, 2009			
	Total revenue	Average daily production	Percent	Average	Total revenue	Average daily production	Percent	Average
	$000's		*%*	*$/unit*	*$000's*		*%*	*$/unit*
Light oil *(bbls)*	**26,263**	**3,486**	**21**	**81.89**	21,015	3,045	29	75.01
Natural gas *(mcf)*	**26,806**	**73,978**	**75**	**3.94**	19,092	43,170	68	4.81
Natural gas liquids *(bbls)*	**3,916**	**559**	**4**	**76.14**	1,716	274	3	67.94
Total P&NG sales	**56,985**	**16,375**	**100**	**37.83**	41,823	10,515	100	43.23
Royalty revenue	**87**			**0.5**	85			0.09
Total P&NG revenue	**57,072**			**37.88**	41,908			43.32

	Twelve months ended December 31, 2010				Twelve months ended December 31, 2009			
	Total revenue	Average daily production	Percent	Average	Total revenue	Average daily production	Percent	Average
	$000's		*%*	*$/unit*	*$000's*		*%*	*$/unit*
Light oil *(bbls)*	**90,125**	**3,135**	**24**	**78.76**	68,916	2,934	26	64.35
Natural gas *(mcf)*	**87,576**	**56,970**	**73**	**4.21**	74,754	47,805	71	4.28
Natural gas liquids *(bbls)*	**11,919**	**448**	**3**	**72.82**	6,369	314	3	55.52
Total P&NG sales	**189,620**	**13,079**	**100**	**39.72**	150,039	11,216	100	36.65
Royalty revenue	**358**			**0.08**	630			0.15
Total P&NG revenue	**189,978**			**39.80**	150,669			36.80

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 daily spot price. Birchcliff receives premium pricing for its natural gas due to its high heat content. The following table details the average sales price and differential received by Birchcliff for natural gas during the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2010	Three months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2009
Average natural gas sales price *($/mcf)*	**3.94**	4.81	**4.21**	4.28
Average AECO daily spot price[1] *($/mmbtu)*	**3.64**	4.49	**4.01**	3.96
Positive differential	**0.30**	0.32	**0.20**	0.32

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

The price the Corporation receives for its production depends on a number of factors, including AECO Canadian dollar 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 had no financial derivatives such as commodity price risk management contracts, forward exchange rate contracts and 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 $4.4 million ($2.91 per boe) for the three month Reporting Period and $16.9 million ($3.55 per boe) for the twelve month Reporting Period as compared to a royalty expense of $5.2 million ($5.35 per boe) and $15.3 million ($3.75 per boe) for the Comparable Prior Periods. Royalties are paid to the Alberta Government and other land and mineral rights owners. The following table illustrates the Corporation's royalty expense for the Reporting Periods and Comparable Prior Periods:

	Three months ended Dec. 31, 2010	Three months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2010	Twelve months ended Dec. 31, 2009
Oil & natural gas royalties *($000's)*	**4,388**	5,172	**16,933**	15,342
Oil & natural gas royalties *($/boe)*	**2.91**	5.35	**3.55**	3.75
Effective royalty rate(1) *(%)*	**8%**	12%	**9%**	10%

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 rates from the Comparable Prior Periods is largely due to production royalty incentives for a number of new Montney/Doig horizontal natural gas wells and Worsley horizontal oil wells brought on production during the Reporting Periods that are receiving a 5% royalty rate.

New royalty and drilling incentives

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

On September 15, 2009, the Government of Alberta approved a Drilling Royalty Credit ("DRC") incentive for new conventional oil and natural gas wells spud on or after April 1, 2009 and rig released before April 1, 2011. Birchcliff is entitled to a DRC of $200 per meter drilled, up to a maximum of 50% of the aggregate Crown royalties paid by the Corporation during the incentive period. Included as a reduction of net capital in the twelve month Reporting Period is an expected recovery of $9.9 million in DRC related to this incentive program. The recovery of DRC is dependent on future commodity prices and the effect these prices have on the aggregate royalties paid by Birchcliff during the incentive period. Due to the low natural gas price environment, the Corporation may not be able to recover in full all the DRC earned from its capital drilling program during the incentive period.

On March 11, 2010, the Alberta Government announced certain changes to the existing royalty framework based on the recommendations from the Investment Competiveness Review. As a result of the competiveness review, the existing Alberta Royalty Framework ("ARF") will be adjusted to better reflect current industry conditions. The adjusted ARF will be effective for the January 2011 production month. Some of the highlights include:

- **The current 5% front-end royalty rate on natural gas and conventional oil will become a permanent feature of the royalty system with the current time and volume limits as described above.**
- **The $200 per meter drilling royalty credit program will continue to remain in place as legislated until March 31, 2011. Credits not used prior to January 1, 2011 and credits established by drilling on or after that date until March 31, 2011 will be offset from net royalties calculated using adjusted ARF rates.**
- **The maximum royalty rate for conventional and unconventional natural gas will be reduced from 50% to 36%. For conventional oil, the maximum royalty will be reduced from 50% to 40%.**
- **The transitional royalty framework for oil and gas introduced in November 2008 will continue until December 31, 2013. Effective January 1, 2011, the government will not allow any new wells to elect the transitional royalty rates, but it will allow an operator of wells for which transitional royalty rates have already been elected an option to switch to the new rates effective January 1, 2011.**

On May 27, 2010, the Alberta Government finalized the new royalty curves for oil and natural gas wells. A number of new incentive programs were also introduced for unconventional resource exploration and the use of high-cost technologies. Some of the highlights include:

- **Wells defined as a "horizontal gas well" will receive a lower upfront maximum royalty rate of 5% to account for the high cost of horizontal drilling. This horizontal gas new well royalty rate will apply for 18 producing months up to a maximum of 500 million cubic feet of gas equivalent production per well, and is retroactive for wells that were spud on or after May 1, 2010.**
- **Wells defined as a "horizontal oil well" will receive a lower upfront maximum royalty rate of 5% at the start of production to facilitate the recovery of investment costs prior to imposing a higher royalty rate. This horizontal oil new well royalty rate will apply to all products, with varying volume and production month limits set according to depth of the well, and is retroactive to wells that were spud on or after May 1, 2010.**
- **The Natural Gas Deep Drilling Program ("NGDDP") will become an ongoing feature of Alberta's royalty regime. Vertical depth requirements under this program were adjusted from 2,500 meters to 2,000 meters and will be applied retroactively for wells that were spud on or after May 1, 2010. Wells that have producing intervals that exceed 2,000 meters of true vertical depth are eligible for a royalty credit adjustment. The royalty credit ranges from $625 per meter to $3,750 per meter drilled and depends on the type of well drilled and the depth ranges specified under the program.**

These royalty incentive programs will create a lower cost structure for Birchcliff. Projects will have better economics under the new royalty framework as compared to the prior framework and therefore are more likely to be approved for capital spending during this current low natural gas commodity cycle. Birchcliff intends to focus its capital spending program in large part on its Montney/Doig Natural Gas Resource Play and Worsley Light Oil Resource Play to maximize the return available from these new Alberta incentive programs.

Operating costs:

Operating costs were $10.4 million ($6.92 per boe) for the three month Reporting Period and $36.7 million ($7.70 per boe) for the twelve month Reporting Period as compared to $7.4 million ($7.64 per boe) and $36.4 million ($8.89 per boe) for the Comparable Prior Periods. The following table compares operating costs for the Reporting Periods and Comparable Prior Periods:

	Three months ended December 31, 2010		Three months ended December 31, 2009	
	$000's	*$/boe*	*$000's*	*$/boe*
Field operating costs	12,084	8.02	7,866	8.13
Recoveries	(2,123)	(1.41)	(789)	(0.81)
Field operating costs, net of recoveries	9,961	6.61	7,077	7.32
Expensed workovers and other	467	0.31	316	0.32
Total operating costs	10,428	6.92	7,393	7.64

	Twelve months ended December 31, 2010		Twelve months ended December 31, 2009	
	$000's	*$/boe*	*$000's*	*$/boe*
Field operating costs	41,212	8.63	39,432	9.63
Recoveries	(6,105)	(1.28)	(3,830)	(0.93)
Field operating costs, net of recoveries	35,107	7.35	35,602	8.70
Expensed workovers and other	1,638	0.35	786	0.19
Total operating costs	36,745	7.70	36,388	8.89

Operating costs per boe decreased by 9% and 13% from the three and twelve months ended December 31, 2009 largely due to the operating benefits achieved from Phases I and II of the PCS Gas Plant, which commenced processing natural gas in March and November 2010 respectively, and increased recoveries.

Birchcliff continues to focus on controlling and reducing operating costs on a per boe basis.

Transportation and marketing expenses:

Transportation and marketing expenses were $3.9 million ($2.56 per boe) for the three month Reporting Period and $12.4 million ($2.59 per boe) for the twelve month Reporting Period as compared to $2.4 million ($2.47 per boe) and $9.8 million ($2.39 per boe) for the Comparable Prior Periods. These costs consist primarily of transportation costs.

General and administrative expenses:

Net General and Administrative ("G&A") expenses were $4.9 million ($3.25 per boe) for the three month Reporting Period and $10.1 million ($2.12 per boe) for the twelve month Reporting Period as compared to $3.4 million ($3.54 per boe) and $11.4 million ($2.77 per boe) for the Comparable Prior Periods. The components of G&A for the Reporting Periods and Comparable Prior Periods are as follows:

	Three months ended December 31, 2010		Three months ended December 31, 2009	
	$000's	*%*	*$000's*	*%*
Salaries, benefits and consultants	**6,403**	**76**	4,513	77
Other	**1,999**	**24**	1,362	23
G & A expense, gross	**8,402**	**100**	5,875	100
Overhead recoveries	**(2,461)**	**(29)**	(1,701)	(29)
Capitalized overhead	**(1,044)**	**(13)**	(752)	(13)
G & A expense, net	**4,897**	**58**	3,422	58
G & A expense, net per boe	**$3.25**		$3.54	

	Twelve months ended December 31, 2010		Twelve months ended December 31, 2009	
	$000's	*%*	*$000's*	*%*
Salaries, benefits and consultants	**14,143**	**64**	11,849	67
Other	**7,792**	**36**	5,945	33
G & A expense, gross	**21,935**	**100**	17,794	100
Overhead recoveries	**(9,510)**	**(43)**	(4,540)	(26)
Capitalized overhead	**(2,288)**	**(11)**	(1,901)	(11)
G & A expense, net	**10,137**	**46**	11,353	63
G & A expense, net per boe	**$2.12**		$2.77	

Gross G&A expenses increased on an aggregate basis in the Reporting Periods largely as a result of the increased company growth year over year. Net G&A expenses decreased on a per boe basis from 2009 mainly due to additional volumes added from Phases I and II of the PCS Gas Plant and due to the significant increases in overhead recoveries, which are directly attributable to the increased capital spent in 2010. Capital expenditures during the twelve months ended December 31, 2010 increased by 116% from the same period in 2009.

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

Interest expenses:

Interest expense was $3.9 million ($2.60 per boe) for the three month Reporting Period and $13.5 million ($2.82 per boe) for the twelve month Reporting Period as compared to $2.6 million ($2.72 per boe) and $10.3 million ($2.52 per boe) for the Comparable Prior Periods. The aggregate interest expense from the Comparable Prior Periods increased mainly due to higher average balance on the outstanding credit facilities during the Reporting Periods. The Corporation's average outstanding credit facilities balance was approximately $306.9 million in the three month Reporting Period and $249.0 million in the twelve month Reporting Period as compared to $191.9 million and $208.3 million in the Comparable Prior Periods, calculated as the simple average of the month end amounts. Funds drawn from Birchcliff's credit facilities during the Reporting Periods were largely directed towards the PCS Gas Plant, related infrastructure and Montney/Doig horizontal wells.

The aggregate interest expense is impacted by the pricing margins that are used to determine Birchcliff's average effective interest rate under its bank credit facilities. During the twelve month Reporting Period, the Corporation withdrew the full $50 million term credit facility which had higher pricing margins than the revolving credit facilities and was outstanding for most of the first quarter of 2010. No amounts were drawn or outstanding on the term credit facility during 2009. In May 2010, Birchcliff repaid and cancelled the term credit facility. New lower pricing margins became applicable when the Corporation increased its revolving credit facilities limit to $350 million in May 2010.

The effective rate applicable to the Working Capital Facility was 5.8% at the end of the Reporting Period as compared to 4.8% at the end of the Comparable Prior Period. The overall effective interest rates applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 5.4% and 5.9% in the three and twelve month Reporting Periods as compared to 5.7% and 5.7% in the Comparable Prior Periods. The effective interest rate applicable to the bankers' acceptances issued under the term credit facility was 5.9% in the twelve month Reporting Period.

Depletion, depreciation and accretion expenses:

Depletion, Depreciation and Accretion ("DD&A") expenses were $22.4 million ($14.84 per boe) for the three month Reporting Period and $76.5 million ($16.02 per boe) for the twelve month Reporting Period as compared to $15.9 million ($16.40 per boe) and $85.3 million ($20.83 per boe) for the Comparable Prior Periods. DD&A expenses increased on an aggregate basis quarter over quarter mainly due to increased average daily production in the fourth quarter of 2010, notwithstanding increased proved reserve additions in the current quarter. DD&A expenses decreased on a per boe basis from the Comparable Prior Periods mainly due to the reduced cost of adding significant proved reserves recorded during the fourth quarter of 2010. The components of DD&A for the Reporting Periods and Comparable Prior Periods are as follows:

	Three months ended December 31, 2010		Three months ended December 31, 2009	
	$000's	*$/boe*	*$000's*	*$/boe*
Depletion & depreciation	**21,865**	**14.51**	15,289	15.80
Accretion on asset retirement obligations	**495**	**0.33**	584	0.60
Total DD&A	**22,360**	**14.84**	15,873	16.40

	Twelve months ended December 31, 2010		Twelve months ended December 31, 2009	
	$000's	*$/boe*	*$000's*	*$/boe*
Depletion & depreciation	**74,636**	**15.64**	83,495	20.40
Accretion on asset retirement obligations	**1,833**	**0.38**	1,758	0.43
Total DD&A	**76,469**	**16.02**	85,253	20.83

DD&A is a function of the estimated proved reserve additions, the associated future development capital required to recover those proved reserves, the cost of petroleum and natural gas properties in the full cost pool attributable to those proved reserves and production in the period. At December 31, 2010, the Corporation excluded $60.5 million (2009 – $44.9 million) from its full cost pool for undeveloped land acquired by Birchcliff.

Petroleum and natural gas properties impairment test

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

Birchcliff performed an impairment test on its petroleum and natural gas assets at December 31, 2010 and determined its petroleum and natural gas assets were not impaired at that time.

Stock-based compensation expenses:

Birchcliff accounts for its stock-based compensation awards, namely stock options and performance warrants, using the fair value method. The related expense is recorded in the income statement over the vesting period.

The Corporation recorded a total stock-based compensation expense of $2.5 million ($1.67 per boe) for the three month Reporting Period and $10.6 million ($2.22 per boe) for the twelve month Reporting Period as compared to $1.8 million ($1.84 per boe) and $9.8 million ($2.40 per boe) for the Comparable Prior Periods. Included in total stock-based compensation expense in the twelve month Comparable Prior Period was $3.1 million relating to the extension of the performance warrants on May 28, 2009 as discussed below. Excluding the impact of the extension of the performance warrants, the stock-based compensation expense related to stock options was $1.8 million and $6.7 million in the three and twelve month Comparable Prior Periods.

The increase in stock option expense from the Comparable Prior Periods was largely due to the issuance of 2,311,300 options to directors, officers, and employees of Birchcliff at an exercise price of $9.72 per common share in January 2010 as a result of Birchcliff's annual compensation review.

A summary of the Corporation's outstanding stock options at December 31, 2010 is presented below:

	Number	Weighted average exercise price
		$
Outstanding, December 31, 2008	6,324,221	5.58
Granted	3,959,900	5.53
Exercised	(1,419,032)	(3.74)
Forfeited	(1,154,836)	(6.18)
Outstanding, December 31, 2009	7,710,253	5.81
Granted	3,350,300	9.61
Exercised	(1,314,232)	(4.63)
Forfeited	(498,801)	(7.41)
Outstanding, December 31, 2010	**9,247,520**	**7.26**

On January 14, 2005, the Corporation issued 4,049,665 performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. On May 28, 2009, the outstanding performance warrants were amended following receipt of shareholder approval to extend the expiration date from January 31, 2010 to January 31, 2015. There remained 2,939,732 outstanding and exercisable performance warrants at December 31, 2010. Each stock option and performance warrant entitles the holder to purchase one common share at the exercise price.

Deferred financing fees:

In May 2009, the Corporation paid $625,000 in financing fees to establish the one year non-revolving $50 million term credit facility, and $1.35 million to increase the aggregate limit of the revolving credit facilities to $255 million and extend the conversion date of the revolving facilities from May 22, 2009 to May 21, 2010. In January 2010, the Corporation paid an additional $250,000 in financing fees to extend the maturity date of the term credit facility from May 21, 2010 to May 21, 2011. In May 2010, the Corporation paid approximately $1.0 million in financing fees to increase the aggregate limit of the revolving credit facilities to $350 million and extend the conversion date of those facilities from May 21, 2010 to May 20, 2011. In November 2010, the Corporation paid an additional $75,000 in fees to increase the aggregate limit of the revolving facilities to $375 million.

The Corporation amortized to income approximately $0.3 million ($0.17 per boe) in deferred financing fees during the three month Reporting Period and $1.6 million ($0.34 per boe) for the twelve month Reporting Period as compared to $0.5 million ($0.51 per boe) and $1.2 million ($0.29 per boe) for the Comparable Prior Periods.

Income taxes:

Birchcliff recorded a future income tax expense of approximately $1.9 million ($1.23 per boe) for the three month Reporting Period and $5.8 million ($1.20 per boe) for the twelve month Reporting Period as compared to a future income tax expense of $1.1 million ($1.18 per boe) and a recovery of $4.6 million ($1.12 per boe) for the Comparable Prior Periods. A future income tax expense was recorded in the Reporting Periods largely due to higher reported net income in those periods.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Capital expenditures:

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

Three months ended December 31	2010	2009
$000's		
Land	**1,312**	2,768
Seismic	**1,384**	796
Workovers and other	**2,273**	2,732
Drilling and completions	**25,087**	16,043
Well equipment and facilities	**15,547**	20,902
Capitalized general and administrative expenses	**1,045**	752
Total finding and development costs (F&D)	**46,648**	43,993
Acquisitions and dispositions	**–**	285
Total finding, development and acquisition costs (FD&A)	**46,648**	44,278
Administrative assets	**808**	90
Total capital expenditures	**47,456**	44,368

Twelve months ended December 31	2010	2009
$000's		
Land	**19,050**	4,452
Seismic	**2,755**	1,551
Workovers and other	**9,749**	6,333
Drilling and completions(1)	**127,814**	37,985
Well equipment and facilities	**72,300**	45,498
Capitalized general and administrative expenses	**2,289**	1,902
Total finding and development costs (F&D)	**233,957**	97,721
Acquisitions and dispositions(2)	**(15,460)**	3,334
Total finding, development and acquisition costs (FD&A)	**218,497**	101,055
Administrative assets	**1,537**	635
Total capital expenditures	**220,034**	101,690

1) Included in drilling and completions for the twelve months ended December 31, 2010 is an expected recovery of $9.9 million (2009 – $6.3 million) related to the Alberta Drilling Royalty Credit Program.

2) On March 3, 2010, the Corporation sold a minor non-producing asset in the Kakut area of Alberta for $17.5 million.

Capital resources:

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

Three months ended December 31	2010	2009
$000's		
Cash generated by operations	**29,592**	20,900
Changes in non-cash working capital from operations	**5,345**	(7,780)
Asset retirement expenditures	**(571)**	(297)
Equity issues	**1,186**	1,929
Increase in revolving credit facilities	**52,042**	18,303
Changes in non-cash working capital from investing	**(35,415)**	11,313
Total capital resources	**52,179**	44,368

Twelve months ended December 31	2010	2009
$000's		
Cash generated by operations	**100,351**	67,476
Changes in non-cash working capital from operations	**1,429**	(10,051)
Asset retirement expenditures	**(902)**	(606)
Equity issues, net of issue costs	**6,083**	64,605
Increase (decrease) in revolving credit facilities	**132,105**	(9,826)
Deferred financing fees paid	**(1,268)**	(1,975)
Changes in non-cash working capital from investing	**(13,041)**	(7,858)
Total capital resources	**224,757**	101,765

SUMMARY OF QUARTERLY RESULTS

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

Quarters ended	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
$000's, except for production, share and per share amounts				
Petroleum and natural gas production *(boe per day)*	**16,375**	13,109	12,357	10,407
Petroleum and natural gas commodity price at wellhead *($ per boe)*	**37.83**	36.60	39.45	47.12
Natural gas commodity price at wellhead *($ per mcf)*	**3.94**	3.79	4.16	5.34
Petroleum commodity price at wellhead *($ per bbl)*	**81.89**	76.44	76.24	80.03
Total petroleum and natural gas revenue	**57,072**	44,125	44,546	44,235
Total royalties	**(4,388)**	(3,561)	(3,621)	(5,363)
Total revenues, net	**52,684**	40,564	40,925	38,872
Total capital expenditures, net	**47,456**	93,792	43,083	35,703
Net income (loss)	**2,612**	422	215	2,653
Per share basic	**$0.02**	–	–	$0.02
Per share diluted	**$0.02**	–	–	$0.02
Cash generated by operations	**29,592**	24,022	23,825	22,912
Per share basic	**$0.24**	$0.19	$0.19	$0.18
Per share diluted	**$0.23**	$0.19	$0.19	$0.18
Book value of total assets	**995,391**	961,592	883,279	860,180
Non-revolving term credit facility	–	–	–	49,661
Revolving credit facilities	**333,468**	281,172	235,993	158,614
Total debt	**337,424**	319,921	250,370	232,287
Shareholders' equity	**577,123**	570,813	566,943	562,019
Common shares outstanding – end of period				
basic	**125,129,234**	124,912,134	124,792,136	124,358,735
diluted	**137,316,486**	137,364,386	137,255,386	137,190,886
Weighted average common shares outstanding				
basic	**124,994,761**	124,872,806	124,548,932	124,095,074
diluted	**129,264,791**	127,253,296	126,816,143	127,094,837

Quarters ended	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
$000's, except for production, share and per share amounts				
Petroleum and natural gas production (boe per day)	10,515	10,552	11,313	12,513
Petroleum and natural gas commodity price at wellhead *($ per boe)*	43.23	33.32	33.79	36.48
Natural gas commodity price at wellhead *($ per mcf)*	4.81	3.20	3.75	5.27
Petroleum commodity price at wellhead *($ per bbl)*	75.01	70.00	63.84	49.33
Total petroleum and natural gas revenue	41,908	32,446	34,917	41,398
Total royalties	(5,172)	(3,644)	2,118	(8,644)
Total revenues, net	36,736	28,802	37,035	32,754
Total capital expenditures, net	44,368	33,442	5,485	18,395
Net income (loss)	1,616	(9,039)	(7,128)	(9,701)
Per share basic	$0.01	($0.07)	($0.06)	($0.09)
Per share diluted	$0.01	($0.07)	($0.06)	($0.09)
Cash generated by operations	20,900	12,196	20,026	14,354
Per share basic	$0.17	$0.10	$0.18	$0.13
Per share diluted	$0.17	$0.10	$0.18	$0.13
Book value of total assets	837,108	796,338	819,142	800,959
Revolving credit facilities	201,230	182,589	219,361	228,867
Total debt	221,521	199,346	179,649	253,544
Shareholders' equity	554,561	549,239	535,917	496,276
Common shares outstanding – end of period				
basic	123,815,002	123,267,436	122,807,637	112,542,635
diluted	134,464,987	134,049,987	134,732,322	124,618,156
Weighted average common shares outstanding				
basic	123,538,213	122,914,069	112,887,812	112,457,321
diluted	126,358,921	122,914,069	112,887,812	112,457,321

Discussion of quarterly results:

Birchcliff's average production in the fourth quarter of 2010 was 16,375 boe per day, a 25% increase from 13,109 boe per day in the third quarter of 2010 and a 56% increase from 10,515 boe per day in the fourth quarter of 2009. These production gains were achieved through the success of Birchcliff's capital drilling program in 2010 and processing of natural gas through Phases I and II of the PCS Gas Plant, which commenced operations in March and November 2010, respectively.

Total capital expenditures in the fourth quarter of 2010 were $47.5 million as compared to $93.8 million in the third quarter of 2010 and $44.4 million in the fourth quarter of 2009. Of the $47.5 million in capital expended in the current quarter, approximately $5.6 million (12%) was spent on the expansion of Phase II of the PCS Gas Plant and related infrastructure, and approximately $12.2 million (26%) on the drilling and completion of new Montney/Doig horizontal natural gas wells to be tied into the PCS Gas Plant. The remaining $29.7 million in capital was spent on acquiring land; expanding the existing Montney/Doig Natural Gas Resource Play and Worsley Light Oil Resource Play and related infrastructure; and other projects. Further details of the Corporation's capital expenditures for the fourth quarter of 2010 are set forth in the table entitled "Capital Expenditures".

Cash flow generated by the Corporation in the fourth quarter of 2010 was $29.6 million as compared to $24.0 million in the third quarter of 2010 and $20.9 million in the fourth quarter of 2009. Cash flow was higher than the previous quarter mainly due to increased average daily production; slightly higher average petroleum and natural gas prices realized at the wellhead offset by increased net G&A expenses and higher interest expense. The increase in cash flow as compared to the fourth quarter of 2009 was mainly attributed to higher average daily production notwithstanding higher interest expenses and net G&A expenses and lower petroleum and natural gas prices realized at the wellhead in the current quarter as compared to the fourth quarter of 2009.

Canadian Edmonton Par oil prices averaged $80.33 per barrel in the fourth quarter of 2010 as compared to $74.43 per barrel in the third quarter of 2010 and $76.56 per barrel in the fourth quarter of 2009. The AECO daily natural gas spot prices averaged $3.64 per mcf in the fourth quarter of 2010 as compared to $3.54 per mcf in the third quarter of 2010 and $4.49 per mcf in the fourth quarter of 2009.

Despite weak natural gas prices, Birchcliff has reported net income in each of its five recently completed quarters. Birchcliff recorded net income of $2.6 million in the fourth quarter of 2010 as compared to net income of $0.4 million in the third quarter of 2010 and $1.6 million in the fourth quarter of 2009. The increase in net income from the comparative quarters was mainly a result of higher cash flow, notwithstanding higher DD&A expenses reported during the fourth quarter of 2010.

Total debt (including working capital deficit) increased to $337.4 million at December 31, 2010 from $319.9 million at September 30, 2010 and $221.5 million at December 31, 2009. The increase in total debt was largely due to $17.9 million and $119.7 million in net capital expended during the three and twelve months ended December 31, 2010 in excess of cash flow during those same periods. Birchcliff's 2010 cash flow and bank credit facilities were used to fund the PCS Gas Plant project.

MERGERS & 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 relevant parties.

CONTROLS AND PROCEDURES

Disclosure controls:

The Corporation has established and maintains disclosure controls and procedures 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 by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's management, including its Certifying Officers, as appropriate to allow timely decisions regarding required disclosure. Such disclosure controls and procedures are referred to as the "Disclosure Controls and Procedures".

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's Disclosure Controls and Procedures as at December 31, 2010 and have concluded that such Disclosure Controls and Procedures were effective as at that date 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 by it under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation and 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 the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

While the Certifying Officers believe that the Corporation's Disclosure Controls and Procedures are effective to provide a reasonable level of assurance, they do not expect that the Disclosure Controls and Procedures will provide an absolute level of assurance or prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are achieved.

Internal controls over financial reporting:

The Corporation has established and maintains internal controls over financial reporting that have been 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 GAAP applicable to the Corporation and reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and recorded to facilitate the preparation of relevant, reliable and timely information. Such internal controls over financial reporting are herein referred to as "ICFR". The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings.* Based on that evaluation, the Certifying Officers concluded that the Corporation's ICFR was effective at December 31, 2010 for the purposes described above. It should be noted that a control system, including the Corporation's, 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 and it should not be expected that the ICFR will prevent all errors and fraud.

NEW ACCOUNTING PRONOUNCEMENTS

Transition to International Financial Reporting Standards:

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards ("IFRS"). The Corporation has developed a plan to complete the transition to IFRS by January 1, 2011, including the preparation of 2010 required comparative information. Birchcliff's transition plan includes training and development throughout the organization, and three key phases:

- **Phase 1 – Scoping and diagnostics**
  Phase 1 involves performing a high level diagnostic analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required to assess the impact of changes in transitioning to IFRS.
- **Phase 2 – Impact analysis and evaluation**
  During Phase 2, items identified in Phase 1 are addressed according to the priority levels assigned to them. This phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements. In addition, certain potential differences are further investigated to assess whether there may be a broader impact to Birchcliff's debt agreements, business processes or management reporting systems. The conclusion of the impact analysis and evaluation phase requires the Audit Committee of the Board of Directors to review and approve all accounting policy choices as proposed by management.
- **Phase 3 – Implementation**
  Phase 3 involves implementation of all changes approved in Phase 2 and will include changes to information systems, business processes, modification of agreements and training of all staff who are impacted by the conversion.

  In 2009, Birchcliff made significant progress on its transition plan, completing Phase 1 and moving into Phase 2, and conducting preliminary impact analysis of accounting policy alternatives. In 2010, Birchcliff focused its efforts primarily on Phases 2 and 3 of the transition plan. Management has essentially finalized its IFRS accounting policies for significant impact areas (excluding income tax) and has quantified the expected financial impact of these policies on the IFRS opening balance sheet at January 1, 2010 ("Transition Date"). Birchcliff has also implemented necessary changes to its business processes and information systems for significant areas of impact, with internal control requirements taken into account.

IFRS accounting policies:

Birchcliff has evaluated all significant accounting policy differences between IFRS and Canadian GAAP. Each of these differences and the expected financial impact on the IFRS opening balance sheet is discussed in more detail below. All chosen IFRS accounting policies have been reviewed and approved by the Audit Committee of the Board of Directors in the fourth quarter of 2010. Birchcliff's analysis of the chosen IFRS accounting policies specifically considers the current IFRSs that are in effect. As a result, any new or amended accounting standards that are issued by the International Accounting Standards Board ("IASB") in future periods may impact our current assessment of the chosen IFRS accounting policies and the expected financial impact on transition to IFRS.

Property, plant & equipment

Property, Plant and Equipment ("PP&E") is the most significant area impacted by the adoption of IFRS. Birchcliff currently follows the Canadian GAAP guidelines on full cost accounting for oil and gas companies. IFRS has no equivalent guideline. In order to facilitate the transition to IFRS by full cost oil and gas companies, the IASB issued amendments to IFRS 1 *First-time Adoption of IFRS* allowing additional exemptions for first-time adopters of IFRS. Under these amendments, full cost oil and gas companies can elect to use the recorded amount under Canadian GAAP as the "deemed cost" for oil and gas assets on the transition date to IFRS. Companies that elect to use this IFRS 1 exemption on transition will need to decide whether to allocate based on reserve volumes or values using either proved or proved plus probable reserves. Without this exemption, the Corporation would have been required to retrospectively determine the carrying amount of oil and gas assets at the date of transition, or use the fair value or revaluation amount as the new deemed cost under IFRS. Birchcliff will use this exemption on transition to IFRS and allocate the existing net book value of its oil and gas full cost pool at the area level using proved plus probable reserve volumes. By using the exemption, the net book value of Birchcliff's PP&E at the date of transition to IFRS will be the same as it was under Canadian GAAP.

In moving to IFRS, Birchcliff will be required to adopt different accounting policies for pre-exploration activities, Exploration and Evaluation ("E&E"), DD&A, and accounting for gains and losses on property dispositions, significant components of PP&E and other material non-monetary transactions.

Pre-exploration costs are costs incurred before the Corporation obtains the legal right to explore an area. Under Canadian GAAP, these costs are capitalized, while under IFRS, these costs must be expensed. At this time, Birchcliff does not anticipate that this accounting policy difference will have a significant impact on the Corporation's IFRS financial statements.

During the E&E phase, Birchcliff capitalizes costs incurred for these projects under Canadian GAAP. Under IFRS, the Corporation has the choice to either continue capitalizing E&E costs until technical feasibility and commercial viability of the project is determined or to expense these costs as incurred. Once technical feasibility and commercial viability of an E&E project is determined, the related costs (net of any impairment) are transferred to the Developing and Producing ("D&P") category. If Birchcliff's policy choice is to continue capitalizing E&E project costs under IFRS, the Corporation has the alternative to either begin depleting the related costs when in the E&E phase or to deplete the costs once the project has demonstrated technical feasibility and commercial viability and is in the D&P phase. Birchcliff has estimated its E&E assets at the date of transition to be immaterial. Birchcliff will capitalize E&E project costs as incurred and begin depleting the related costs once technical feasibility and commercial viability of an E&E project is established and related costs are transferred to the D&P category. Technical feasibility and commercial viability of an E&E project is established when proved reserves are identified.

Under Canadian GAAP, Birchcliff calculates its DD&A rate at the country cost centre level. Under IFRS, this rate will be calculated at a lower unit of account. Under IFRS, the Corporation has the alternative to either continue depleting its assets over proved reserves (same as Canadian GAAP) or use another basis which more accurately reflects the useful life of Birchcliff's oil and gas assets. Birchcliff will calculate its DD&A rate at the area level and deplete its oil and gas assets over proved plus probable reserves on transition to IFRS.

Full cost oil and gas accounting under Canadian GAAP requires that gains or losses on divestitures of properties are only recognized when the disposal would affect the DD&A rate by 20% or more. Under IFRS, there is no such exemption, and therefore Birchcliff will be required to recognize all gains and losses on property divestitures and from disposal of significant components of PP&E. There is no impact of adopting this IFRS accounting policy at January 1, 2010.

As a result of the additional IFRS 1 exemptions released by the IASB in July 2009, the Corporation anticipates that all changes to its PP&E accounting policies will be adopted prospectively at date of transition.

Impairment testing

Under Canadian GAAP, the recoverable amount of Birchcliff's oil and gas assets under the first step of the impairment test is determined using undiscounted future cash flow from proved reserves. Under IFRS, the recoverable amount is calculated using discounted future cash flow from proved or proved plus probable reserves. In addition, impairment testing under Canadian GAAP is performed at the country cost centre level, while under IFRS it will be performed at a lower level referred to as a cash-generating unit. Canadian GAAP prohibits reversal of impairment losses. Under IFRS, if the conditions giving rise to impairment have reversed, impairment losses previously recorded would be partially or fully reversed to eliminate write-downs recorded. Birchcliff expects to adopt these changes in accounting policy prospectively.

Birchcliff has identified a single cash-generating unit at the date of transition. Birchcliff did not have an impairment of its petroleum and natural gas assets under IFRS at January 1, 2010. The impairment calculation was performed using an after-tax discount rate of 12% on cash flow from proved plus probable reserves. Birchcliff also expects that its petroleum and natural gas assets will not be impaired at December 31, 2010 under IFRS.

Asset retirement obligation

Under Canadian GAAP, the Corporation recognizes a liability for the estimated fair value of future asset retirement obligations associated with PP&E. The fair value is capitalized and amortized over the same period as the underlying asset. Birchcliff estimates the liability based on the estimated costs to abandon and reclaim its net ownership interest in wells and facilities, including an estimate for the timing of the costs to be incurred in future periods. These cash outflows are discounted using a credit-adjusted risk free rate of 8% under Canadian GAAP. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A (same as IFRS).

Under IFRS, asset retirement obligations are calculated at each reporting period by estimating the risk-adjusted future cash outflows which are discounted using a risk-free rate. Due to the change in the discount rate from a credit-adjusted rate to a risk-free rate, Birchcliff will record a $12.0 million increase in discounted future asset retirement obligation with the offset to retained earnings on transition at January 1, 2010. Birchcliff's risk-adjusted future cash outflows were discounted using a risk-free rate of 4% on transition to IFRS.

Stock-based compensation

IFRS 2 *Share-Based Payments* requires the expense related to share-based payments to be recognized as the options vest. For options with different vesting periods, each vesting tranche must be treated as a separate option grant which accelerates the expense recognition ("Graded Vesting Amortization") in comparison to Canadian GAAP, which allows the expense to be recognized on a straight-line basis over the period the options vest. Birchcliff must also apply an estimated forfeiture rate at the initial grant date for each option tranche. The forfeiture rate is taken into account by adjusting the number of stock options expected to vest under each tranche and subsequently revising this estimate throughout the vesting period, as necessary. When determining the fair value of each vesting tranche, Birchcliff will apply an estimated option tranche life which reflects historical experiences in comparison to GAAP, which allows the life of the option to equal the five year expiry period. Birchcliff expects total aggregate stock-based compensation expense to be lower under IFRS as compared to Canadian GAAP as a result of using a lower estimated option life when calculating the fair value of an option tranche under IFRS. However, because of the graded vesting requirements, stock based compensation expense will be higher in earlier vesting periods for an option tranche under IFRS as compared to GAAP.

As a result of adopting IFRS 2, Birchcliff will record a $2.5 million increase to contributed surplus with the offset to retained earnings at January 1, 2010. The increase is largely due to the accelerated expense recognition for vesting tranches under IFRS.

Income tax

In transitioning to IFRS, the carrying amount of Birchcliff's deferred tax balances will be directly impacted by the tax effects resulting from changes required by the above IFRS accounting policy differences. Birchcliff is still determining the impact of the revised standard on its IFRS transition. Therefore, at this time the income tax impacts of the differences are not reasonably determinable.

Changes to IFRS accounting standards:

Birchcliff's analysis of accounting policy differences specifically considers the current IFRS standards that are in effect. The Corporation will continue to monitor any new or amended accounting standards that are issued by the IASB in future periods.

Internal controls over financial reporting:

The transition to IFRS is not expected to have a significant impact on its internal controls over financial reporting. Birchcliff has reviewed its internal controls over financial reporting and has implemented all significant changes in accounting policies, including the appropriate additional business controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures:

The transition to IFRS is not expected to have a significant impact on its disclosure controls and procedures. Birchcliff will continue to assess stakeholders' information requirements and will ensure that adequate and timely information is provided so that all stakeholders remain apprised throughout the transition.

Education and training:

All of the key individuals that are involved in financial reporting under Canadian GAAP have received IFRS training and are actively involved in the IFRS transition project. Birchcliff will continue to involve senior financial reporting personnel in the IFRS transition throughout 2011. External advisors have been retained and will continue to assist management with the IFRS project on an as needed basis. The Corporation's auditors are involved throughout the process to ensure that Birchcliff's accounting policies are in accordance with the new standards.

Information systems:

Birchcliff has evaluated and implemented necessary changes to its information systems for significant areas of impact. While Birchcliff's system updates were minimal, they were critical to allow for reporting of both Canadian GAAP and IFRS statements in 2010 as well as the updates required to track capital expenditures at a granular level for IFRS reporting in 2011 and thereafter.

Impact to our business:

Birchcliff does not expect that the adoption of IFRS in 2011 will have a significant impact or influence on its business activities, operations or strategies going forward. Management will continue to closely monitor the impact of IFRS on its business activities during 2011.

RISK FACTORS & RISK MANAGEMENT

Commodity price risk:

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

Foreign currency exchange risk:

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

Production risk:

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

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

Management's discussion and analysis:

Reserve replacement risk:

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

Health, safety & environmental risk:

Health, safety and environment risks influence the workforce, operating costs and the establishment of regulatory standards. Birchcliff provides staff with the training and resources they need to complete work safely and effectively; incorporates hazard assessment and risk management as an integral part of everyday operations; monitors performance to ensure its operations comply with legal obligations and internal standards; and identifies and manages environmental liabilities associated with its existing asset base. The Corporation has a site inspection program and a corrosion risk management program designed to ensure compliance with environmental laws and regulations. Birchcliff carries insurance to cover a portion of property losses, liability to others and business interruption resulting from unusual events.

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

Regulatory risk:

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

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

Counterparty risk:

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

Access to credit markets:

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

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

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

Climate change risks:

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

The Specified Gas Emitters Regulation, which came into effect in Alberta in 2007, requires large industrial facility emitters of GHG to reduce GHG emissions intensities by 12% below a baseline based on 2003-2005 emissions. Each of Birchcliff's facilities is below the 100,000 tonnes per year threshold that this regulation applies to.

The Government of Alberta released its climate change strategy which sets a target to reduce GHG emissions in Alberta by 200 megatonnes or 50% by 2050. Implementing carbon capture and storage technology across industrial sectors is a large component of the strategy, along with energy-efficiency measures, clean energy technologies, and expanding the use of renewable sources of energy.

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

ADVISORIES

BOE conversions:

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

Non-GAAP measures:

This MD&A and the Corporation's Quarterly and Annual Reports uses the terms "cash flow", "netback", "cash flow netback", "operating netback", "cash flow per share", and "EBITDA", which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to measures by other companies where similar terminology is used. Cash flow appears as a separate line on the Corporation's Statements of Cash Flows above "changes in non-cash working capital" and is reconciled to net income (loss) and comprehensive income (loss). Netback denotes petroleum and natural gas revenue less royalties, less operating expenses and less transportation and marketing expenses. Cash flow netback denotes net earnings plus non-cash items including future income tax expense (less any recovery), depletion, depreciation and accretion expense, unrealized losses from risk management contracts and foreign exchange (less unrealized gains), non-cash stock-based compensation expense and amortization of deferred financing fees. EBITDA denotes earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization.

Forward looking information:

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

In particular, this MD&A contains forward-looking information, including among other places, under the headings "Outlook" and "International Financial Reporting Standards". This forward-looking information includes but is not limited to statements regarding: expected processing capacity of the PCS Gas Plant and its future expansion; overall production; planned drilling, exploration and development; planned 2010 capital spending and sources of funding; expected results from the Corporation's portfolio of oil and gas assets; the quantity and development of oil and gas reserves; future net cash flows and discounted cash flows; expected operating, general administrative, services, environmental compliance costs and expenses; royalty rates and incentives; treatment under tax laws; expected ability to transition to new accounting standards and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. The Corporation cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information.

With respect to such forward-looking information the key assumptions on which the Corporation relies are: that future prices for crude oil and natural gas, future currency exchange rates and interest rates, and future availability of debt and equity financing will be at levels and costs that allow the Corporation to manage, operate and finance its business and develop its properties and meet its future obligations; that the regulatory framework in respect of royalties, taxes and environmental matters applicable to the Corporation will not become so onerous as to preclude the Corporation from viably managing, operating and financing its business and the development of its properties; that the Corporation will continue to be able to identify, attract and employ qualified staff and obtain the outside expertise and specialized and other equipment it requires to manage, operate and finance its business and develop its properties; and various assumptions as to future prices for crude oil and natural gas, currency exchange rates, inflation rates, future well production rates, well drainage areas, success rates of future well drilling and future costs and availability of labour and services. With respect to estimates of reserves volumes and associated future net revenues and numbers of future wells to be drilled, a key assumption is the validity of the commodity prices, currency exchange rates, future capital and operating costs and well production rates forecast by the Corporation's independent reserves evaluator. With respect to the number of future wells to be drilled, a key assumption is the validity of the geological and other technical interpretations that have been performed by Birchcliff's technical staff and that indicate that commercially economic reserves can be recovered from Birchcliff's lands as a result of drilling such future wells.

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

The foregoing list of risk factors is not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. 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. In addition, information is available in the Corporation's other reports filed with Canadian securities regulatory authorities. Forward-looking information is based on estimates and opinions of management at the time the information is presented. The Corporation is not under any duty to update the forward-looking information after the date of this MD&A 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.

Management's report:

To the Shareholders of Birchcliff Energy Ltd.

The financial statements of Birchcliff Energy Ltd. were prepared by management within the acceptable limits of materiality and are in accordance with accounting principles generally accepted in Canada. Management is responsible for ensuring that the financial and operating information presented in this annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records properly maintained to facilitate the preparation of financial statements for reporting purposes.

Deloitte & Touche LLP, an independent firm of Chartered Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Audit Committee, consisting of non-management directors, has met with representatives of Deloitte & Touche LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Respectfully,

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
President and Chief Executive Officer

(signed) "Bruno P. Geremia"

Bruno P. Geremia
Vice President and Chief Financial Officer

March 17, 2011

Independent auditor's report:

To the Shareholders of Birchcliff Energy Ltd.

We have audited the accompanying financial statements of Birchcliff Energy Ltd., which are comprised of the balance sheet as at December 31, 2010 and 2009, and the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Birchcliff Energy Ltd. as at December 31, 2010 and 2009, the results of its operations and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

March 17, 2011

Balance sheets:

As at December 31	2010	2009
000's		
ASSETS		
Current		
Cash	**4,863**	140
Accounts receivable *(Note 8)*	**39,241**	29,665
Prepaid and other	**2,661**	4,635
	46,765	34,440
Deferred financing fees *(Note 5)*	**–**	245
Petroleum and natural gas properties and equipment *(Note 4)*	**948,626**	802,423
	995,391	837,108
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**50,721**	54,731
	50,721	54,731
Revolving credit facilities *(Note 6)*	**333,468**	201,230
Asset retirement obligations *(Note 9)*	**26,448**	24,713
Future income taxes *(Note 10)*	**7,631**	1,873
Commitments *(Note 14)*		
SHAREHOLDERS' EQUITY		
Share capital *(Note 11)*	**550,472**	541,593
Contributed surplus *(Note 12)*	**28,096**	20,315
Deficit	**(1,445)**	(7,347)
	577,123	554,561
	995,391	837,108

See accompanying notes to the financial statements.

Approved by the Board

(signed) "Larry A. Shaw"

Larry A. Shaw
Director

(signed) "A. Jeffery Tonken"

A. Jeffery Tonken
Director

Statements of net income (loss), comprehensive income (loss) and retained earnings (deficit):

For the years ended December 31	2010	2009
000's		
REVENUE		
Petroleum and natural gas	**189,978**	150,669
Royalties	**(16,933)**	(15,342)
	173,045	135,327
EXPENSES		
Production *(Note 16)*	**36,745**	36,388
Transportation and marketing	**12,359**	9,799
General and administrative, net *(Note 4)*	**10,137**	11,353
Stock-based compensation *(Note 12)*	**10,577**	9,844
Depletion, depreciation and accretion *(Notes 4 and 9)*	**76,469**	85,253
Amortization of deferred financing fees *(Notes 5 and 6)*	**1,646**	1,200
Interest on non – revolving term credit facility *(Note 5)*	**700**	–
Interest on revolving credit facilities *(Note 6)*	**12,753**	10,311
	161,386	164,148
Income (loss) before taxes	**11,659**	(28,821)
TAXES		
Future income tax expense (recovery) *(Note 10)*	**5,757**	(4,569)
	5,757	(4,569)
Net income (loss) and comprehensive income (loss)	**5,902**	(24,252)
Retained earnings (deficit), beginning of year	**(7,347)**	16,905
Deficit, end of year	**(1,445)**	(7,347)
Net income (loss) per common share *(Note 13)*		
basic	**$0.05**	$(0.21)
diluted	**$0.05**	$(0.21)
Weighted average common shares *(Note 13)*		
basic	**124,629,761**	117,993,314
diluted	**127,662,373**	117,993,314

See accompanying notes to the financial statements.

Statements of cash flows:

For the years ended December 31	2010	2009
000's		
OPERATING		
Net income (loss)	**5,902**	(24,252)
Adjustments for items not affecting cash:		
Depletion, depreciation and accretion	**76,469**	85,253
Stock-based compensation	**10,577**	9,844
Amortization of deferred financing fees	**1,646**	1,200
Future income tax expense (recovery)	**5,757**	(4,569)
	100,351	67,476
Changes in non-cash working capital *(Note 15)*	**1,429**	(10,051)
Asset retirement expenditures	**(902)**	(606)
	100,878	56,819
FINANCING		
Increase (decrease) in revolving credit facilities	**132,105**	(9,826)
Deferred financing fees paid	**(1,268)**	(1,975)
Issuance of share capital *(Note 11)*	**6,083**	67,300
Share issue costs *(Note 11)*	**–**	(2,695)
	136,920	52,804
INVESTING		
Purchase of petroleum and natural gas properties and equipment	**(2,051)**	(3,334)
Sale of petroleum and natural gas properties and equipment *(Note 4)*	**17,511**	–
Development of petroleum and natural gas properties and equipment	**(235,494)**	(98,356)
Changes in non-cash investing working capital *(Note 15)*	**(13,041)**	(7,858)
	(233,075)	(109,548)
Net increase in cash	**4,723**	75
Cash, beginning of year	**140**	65
Cash, end of year	**4,863**	140
Cash interest paid	**13,453**	10,311
Cash taxes paid	**–**	–

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

Birchcliff Energy Ltd. ("Birchcliff" or the "Corporation") was a private company, incorporated under the Business Corporations Act (Alberta) on July 6, 2004 as 1116463 Alberta Ltd. The name was changed from 1116463 Alberta Ltd. to Birchcliff Energy Ltd. on September 10, 2004. The address of the Corporation's registered office is 500, 630 - 4th Avenue, S.W., Calgary, Alberta, Canada T2P 0J9.

The Corporation is engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves in Western Canada. Birchcliff trades on the Toronto Stock Exchange under the symbol "BIR". Birchcliff's financial year end is December 31.

2. SIGNIFICANT ACCOUNTING POLICIES

The annual Financial Statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), within an acceptable level of materiality, utilizing the framework of the accounting policies below. The Financial Statements are expressed in Canadian ("CDN") dollars.

a) Basis of accounting:

The Corporation's Financial Statements include the accounts of Birchcliff. There are no subsidiary companies.

b) Revenue recognition:

Revenue associated with sales of petroleum and natural gas are recorded when the commodities are delivered and title passes to the purchaser. Revenue associated with petroleum and natural gas sales are recorded gross of royalties and transportation and marketing charges.

c) Joint venture activities:

Substantially all of the Corporation's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

d) Measurement uncertainty:

The preparation of timely Financial Statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.

Amounts recorded for depletion, depreciation and accretion and amounts used for impairment test calculations are based on estimates of petroleum and natural gas reserves which include estimates of future commodity prices, future capital costs and other relevant assumptions. The Corporation's reserves are estimated and evaluated, at a minimum, annually by an independent engineering firm. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. By their nature, these estimates are subject to measurement uncertainty and the impact of changes in such estimates on the Financial Statements of future periods could be material.

e) Cash:

Cash consists of cash on deposit, less outstanding cheques, and deposits with a maturity at the time of investment of less than three months.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

f) **Property, plant and equipment:**

Capitalized costs

The Corporation follows the full cost method of accounting whereby all costs relating to the exploration, acquisition and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, production equipment, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and corporate charges directly related to acquisition, exploration and development activities. Proceeds from the sale of properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

Depletion and depreciation

Depletion and depreciation of petroleum and natural gas properties and equipment, together with the estimated future costs to be incurred in developing proved reserves, are depleted or depreciated using the unit-of-production method based on the proved reserves before royalties as estimated by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of six thousand cubic feet of natural gas to one barrel of oil. The costs of undeveloped properties are excluded from the costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties.

Impairment

Petroleum and natural gas properties are evaluated each reporting period through an impairment test to determine the recoverability of capitalized costs. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount. When the carrying amount is assessed as non-recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. Reserves are determined pursuant to National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities.* Unproved properties are assessed at least annually to determine whether impairment has occurred.

Administrative assets

The Corporation records depreciation on its office furniture and equipment, which includes computer equipment, on a straight-line basis using an expected useful life of four years.

g) **Asset retirement obligations:**

The Corporation recognizes the estimated liability associated with future site reclamation costs in the Financial Statements when a well or related asset is drilled, constructed or acquired including facilities. Costs are estimated by management in consultation with the Corporation’s engineers based on current costs and technology in accordance with current legislation and industry practices. The obligation is initially measured at fair value, and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is capitalized to petroleum and natural gas properties and equipment and amortized into earnings in depletion expense on a basis consistent with depletion and depreciation. Actual site restoration and abandonment expenditures are applied directly against the asset retirement obligation. The Corporation reviews the obligation regularly such that revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the asset retirement obligation.

h) **Future income taxes:**

The Corporation accounts for its income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the differences between the accounting and tax bases of assets and liabilities using substantively enacted tax rates anticipated to apply in relevant future periods. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period of substantive enactment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Stock-based compensation:

The Corporation accounts for its stock-based compensation plans using the fair value method to value stock options and performance warrants granted to officers, directors, employees and consultants. Under this method, compensation cost attributed to stock options and performance warrants ("stock awards") granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of stock awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Corporation does not incorporate an estimated forfeiture rate for stock awards that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock awards expire without being exercised, previously recognized compensation costs associated with such awards are not reversed.

j) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The Corporation records the carrying value of the expenditures in property, plant and equipment as incurred and records the future income taxes associated with the renunciation of expenditures with a corresponding reduction to share capital.

k) Financial instruments:

All financial instruments are initially recognized at fair value on the balance sheet. The Corporation has classified each financial instrument into the following categories: "held for trading" financial assets and financial liabilities; "loans or receivables"; and "other financial liabilities". Subsequent measurement of the financial instruments is based on their classification. The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses from revaluation are recognized in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value.
- Revolving credit facilities, accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value.

l) Derivative financial instruments:

Derivative financial instruments are used by the Corporation to manage economic exposure to market risks relating to commodity prices. Birchcliff's policy is not to utilize derivative financial instruments for speculative purposes.

Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are classified as held-for-trading and are recorded using the mark-to-market method of accounting whereby instruments are recorded in the Balance Sheet as either an asset or liability with changes in fair value recognized in net income.

m) Per share information:

Per share information is computed using the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of "in-the-money" stock options or performance 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 income per share is made if the result of these calculations is anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Foreign currency translations:

Monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into its reporting currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in net income.

3. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Accounting Standards Board ("AcSB") ratified a strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") by 2011 for public reporting entities. On February 13, 2008 the AcSB confirmed that IFRS will replace Canadian GAAP for public companies beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Birchcliff for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

December 31, 2010	Cost	Accumulated depletion and depreciation	Net book value
$000's			
Petroleum and natural gas assets	**1,318,722**	**(372,530)**	**946,192**
Office furniture, equipment & other	**4,952**	**(2,518)**	**2,434**
	1,323,674	**(375,048)**	**948,626**

December 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
$000's			
Petroleum and natural gas assets	1,099,420	(298,560)	800,860
Office furniture, equipment & other	3,415	(1,852)	1,563
	1,102,835	(300,412)	802,423

At December 31, 2010, the cost of petroleum and natural gas assets includes $60.5 million (2009 – $44.9 million) relating to unproved properties which have been excluded from costs subject to depletion and depreciation. Birchcliff capitalized general and administrative costs directly related to exploration and development activities of approximately $2.3 million in the year ended December 31, 2010 (2009 – $1.9 million).

On March 3, 2010, the Corporation completed and closed the sale of a non-producing asset in the Kakut area of Alberta for $17.5 million. The proceeds from the sale were used to reduce the cost of petroleum and natural gas assets at December 31, 2010. No gain or loss was recorded on the sale.

On September 15, 2009, the Government of Alberta approved a drilling royalty incentive for new conventional oil and natural gas wells drilled on or after April 1, 2009, but before April 1, 2011. Included as a reduction of petroleum and natural gas assets at December 31, 2010 is an expected recovery of $9.9 million (2009 – $6.3 million) related to the Alberta Drilling Royalty Credit Program.

The Corporation performed an impairment test at December 31, 2010 to ensure the carrying value of its petroleum and natural gas properties and equipment is recoverable and does not exceed fair value. The petroleum and natural gas future prices are based on December 31, 2010 commodity price forecasts of the Corporation's independent reserve evaluators. The following table summarizes the estimated crude oil and natural gas prices used in the impairment test:

4. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT (continued)

Year	WTI oil(1)	Foreign exchange rate	Edmonton light crude oil(1)	AECO gas(1)
	$US/bbl		*$CDN/bbl*	*$CDN/mcf*
2011	85.00	1.00	82.80	4.10
2012	89.25	0.950	88.80	4.60
2013	91.55	0.950	94.05	5.20
2014	95.50	0.950	98.15	5.50
2015	102.85	0.950	105.80	5.75
2016	110.40	0.950	113.70	6.20
2017	112.60	0.950	116.05	6.55
2018	114.85	0.950	118.35	7.00
2019	117.15	0.950	120.75	7.30
2020	119.50	0.950	123.15	7.45
2021	121.90	0.950	125.60	7.60
2022	124.35	0.950	128.15	7.75
2023	126.80	0.950	130.70	7.95
2024	129.35	0.950	133.30	8.10
2025	131.95	0.950	135.95	8.25
2026	134.60	0.950	138.70	8.40
2027	137.30	0.950	141.45	8.60
2028	140.00	0.950	144.30	8.75
2029	142.80	0.950	147.20	8.95
2030	145.70	0.950	150.10	9.10
Thereafter	2%	2%	2%	2%

1) Estimated prices used in the impairment test were adjusted for crude oil and natural gas differentials and transportation and marketing costs specific to the Corporation's operations.

Birchcliff's petroleum and natural gas properties and equipment were not impaired at December 31, 2010 and 2009.

5. NON-REVOLVING TERM CREDIT FACILITY

On May 21, 2009, the Corporation entered into a $50 million non-revolving one year term credit facility (the "Term Facility"). The Term Facility was provided by a syndicate of banks (the "Syndicate"). The Corporation paid approximately $625,000 in financing fees to the Syndicate to establish the one year Term Facility. In January 2010, the Corporation paid an additional $250,000 in financing fees to extend the maturity date of this facility from May 21, 2010 to May 21, 2011. As no amounts were drawn or outstanding on the Term Facility at December 31, 2009, approximately $245,000 in unamortized fees was shown as a non-current asset on the balance sheet. Effective May 21, 2010, the Corporation repaid and cancelled the Term Facility. The increased funds available from the revolving credit facilities as described in Note 6 were used to repay the full $50 million outstanding under the Term Facility. No amounts are outstanding on the Term Facility at December 31, 2010.

During the year ended December 31, 2010, the Corporation fully amortized to income approximately $0.5 million (2009 – $0.4 million) in deferred financing fees applicable to the Term Facility. The overall effective interest rate applicable to the bankers' acceptances issued under this facility was 5.9% during the year ended December 31, 2010.

6. REVOLVING CREDIT FACILITIES

December 31	2010	2009
$000's		
Syndicated credit facility	**334,000**	192,000
Working capital facility	**5,176**	14,387
Drawn revolving credit facilities	**339,176**	206,387
Unamortized prepaid interest on bankers' acceptances	**(5,311)**	(4,627)
Unamortized deferred financing fees	**(397)**	(530)
Revolving credit facilities, net	**333,468**	201,230

Effective May 21, 2010, Birchcliff amended its agreement with its bank syndicate, which increased the Corporation's revolving credit facilities limit from $255 million to an aggregate limit of $350 million. On November 30, 2010, Birchcliff's bank syndicate approved an increase of the revolving credit facilities limit from $350 million to an aggregate limit of $375 million. At December 31, 2010, the revolving credit facilities consist of an extendible revolving term credit facility with an authorized limit of $345 million (the "Syndicated Credit Facility") and an extendible revolving working capital facility with an authorized limit of $30 million (the "Working Capital Facility"). The Corporation paid approximately $1.0 million in financing fees to the Syndicate to extend the conversion date of the revolving credit facilities from May 21, 2010 to May 20, 2011. These fees have been deferred and netted against the amounts drawn under this facility and are being amortized to income over the one year extension period. During the year ended December 31, 2010, the Corporation amortized to income approximately $1.2 million (2009 – $0.8 million) in deferred fees applicable to this facility.

At December 31, 2010, the effective interest rate applicable to the Working Capital Facility was 5.8% (2009 – 4.8%). The overall effective interest rates applicable to the bankers' acceptances issued under the Syndicated Credit Facility was 5.9% during the year ended December 31, 2010 (2009 – 5.7%).

The revolving credit facilities allow for prime rate loans, US base rate loans, bankers' acceptances, letters of credit and LIBOR loans. The interest rates applicable to the drawn loans are based on a pricing grid and will increase as a result of the increased ratio of outstanding indebtedness to earnings before interest, taxes, depreciation and amortization. The revolving credit facilities are subject to the Syndicate's redetermination of the borrowing base twice each year as of November 15 and the conversion date. Upon any change in or redetermination of the borrowing base limit which results in a borrowing base shortfall, Birchcliff must eliminate the borrowing base shortfall amount. The revolving credit facilities are secured by a fixed and floating charge debenture, an instrument of pledge and a general security agreement encompassing all of the Corporation's assets.

Syndicated credit facility:

The Syndicated Credit Facility has a conversion date of May 20, 2011 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Syndicated Credit Facility. If the conversion date of the Syndicated Credit Facility is not extended, then on the conversion date, the revolving Syndicated Credit Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

Working capital facility:

The Working Capital Facility has a conversion date of May 20, 2011 and a maturity date which is two years after the conversion date. Birchcliff may request an extension of the conversion date with such an extension not exceeding 364 days, in order to maintain the revolving Working Capital Facility. If the Syndicate does not grant an extension of the conversion date, then upon four months after the expiry of the conversion date, the revolving Working Capital Facility will convert to a term loan whereby all principal and interest will be required to be repaid at the maturity date.

7. CAPITAL MANAGEMENT

The Corporation's general policy is to maintain a sufficient capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Corporation's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions; to maintain a capital structure that allows Birchcliff to favour the financing of its growth strategy using 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 throughout 2010 and 2009. The following table shows the Corporation's total available credit at the end of 2010 and 2009.

December 31	2010	2009
$000's		
Maximum borrowing base limit:(1)		
Revolving credit facilities	**375,000**	255,000
Non-revolving term credit facility(2)	**–**	50,000
	375,000	305,000
Principal amount utilized:		
Drawn revolving credit facilities	**(339,176)**	(206,387)
Outstanding letters of credit(3)	**(3,014)**	(2,739)
	(342,190)	(209,126)
Total unused credit	**32,810**	95,874

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 oil and natural gas reserves.

2) Effective May 21, 2010, the Corporation repaid in full and cancelled the $50 million non-revolving term credit facility.

3) Letters of credit are issued to various service providers. No amounts were drawn on the letters of credit as at or during the years ended December 31, 2010 and 2009.

The financial covenants applicable to the Corporation's bank credit facilities include a quarterly interest coverage ratio test, which is calculated as earnings before interest, taxes, stock-based compensation, depletion, depreciation and amortization ("EBITDA") over interest expense. The following table shows the interest coverage ratios at December 31, 2010 and 2009:

	2010		2009	
December 31	Required	Actual	Required	Actual
Annualized EBITDA to interest coverage(1)	**>3.5**	**8.4**	>3.5	7.6

1) Interest coverage ratio is calculated on a trailing four quarter basis.

The Corporation was compliant with all financial covenants under its credit facilities as at and during the years ended December 31, 2010 and 2009.

7. CAPITAL MANAGEMENT (continued)

The capital structure of the Corporation is as follows:

December 31	2010	2009	Change
$000's			
Total shareholders' equity[1]	**577,123**	554,561	4%
Total shareholders' equity as a % of total capital	**63%**	71%	
Working capital deficit [2]	**3,956**	20,291	
Drawn revolving credit facilities	**339,176**	206,387	
Total drawn debt	**343,132**	226,678	51%
Total drawn debt as a % of total capital	**37%**	29%	
Total capital	**920,255**	781,239	18%

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

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

During the year ended December 31, 2010, total shareholders' equity increased due to the exercise of options (Note 12) and an increase in reported net income for the period. Total debt increased during the year ended December 31, 2010 largely due to $119.7 million of net capital spent in excess of cash flow during that year.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

Birchcliff is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management has implemented and monitors compliance with risk management guidelines as outlined by the Board of Directors. The Corporation's risk management guidelines are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

Credit risk:

Cash is comprised of bank balances. Historically, the Corporation has not carried short term investments. Should this change in the future, counterparties will be selected based on credit ratings and management will monitor all investments to ensure a stable return, and complex investment vehicles with higher risk will be avoided. The Corporation's exposure to cash credit risk at the balance sheet date is very low.

A substantial portion of the Corporation's accounts receivable are with marketers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers.

The following table illustrates the Corporation's maximum exposure for receivables:

December 31	2010	2009
$000's		
Marketers	**20,800**	16,607
Joint venture partners	**18,118**	12,984
Other	**323**	74
Total receivables	**39,241**	29,665

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS (continued)

At December 31, 2010, approximately 22% of the Corporation's significant individual accounts receivable was due from one marketer (2009 – 18%, one marketer). For the year ended December 31, 2010, the Corporation received 14%, 43%, 14%, and 14% of its revenue, respectively, from four core marketers. The Corporation received the majority of its revenue for the year ended December 31, 2009 from four marketers, who individually accounted for 39%, 10%, 11% and 23%, respectively. Typically, Birchcliff's maximum credit exposure from its marketers is revenue from two months of commodity sales. Receivables from marketers are normally collected on the 25th day of the month following production. Birchcliff mitigates the credit risk associated with these by establishing marketing relationships with credit worthy purchasers, obtaining guarantees from their ultimate parent companies and obtaining letters of credit as appropriate. The Corporation historically has not experienced any material collection issues with its marketers.

At December 31, 2010, approximately $0.4 million or 1% of Birchcliff's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. Birchcliff attempts to mitigate the credit risk from joint venture receivables by obtaining pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venturers' as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint venturers', however, the Corporation does have the ability to withhold production from joint venturers' in the event of non-payment.

Should Birchcliff determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to income. If the Corporation subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance for doubtful accounts. Birchcliff did not have an allowance for doubtful accounts balance at December 31, 2010 and 2009.

Liquidity risk:

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

All of the Corporation's contractual financial liabilities are to be settled in cash. Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are approved by the Board of Directors and are regularly reviewed and updated as considered necessary. Petroleum and natural gas production is monitored weekly and is used to provide monthly cash flow estimates. Further, the Corporation utilizes authorizations for expenditures on both operated and non operated projects to manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

To facilitate the capital expenditure program, the Corporation has reserve-based bank credit facilities which are reviewed semi-annually by the lender. The principal amount utilized under the Corporation's credit facilities at December 31, 2010 was $342.2 million (2009 – $209.1 million) and $32.8 million (2009 – $95.9 million) in unused credit was available at the end of the period to fund future obligations.

The following table lists the contractual obligations of the Corporation's financial liabilities at December 31, 2010:

	< 1 Year	1 – 2 Years	3 – 5 Years	Thereafter
$000's				
Accounts payable and accrued liabilities	50,721	–	–	–
Drawn revolving credit facilities	–	–	339,176	–
Total financial liabilities	50,721	–	339,176	–

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS (continued)

Market risk:

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

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact the Corporation's borrowing base limit. Lower commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil and natural gas are not only influenced by Canadian ("CDN") and United States ("US") demand, but also by world events that dictate the levels of supply and demand.

The Corporation may attempt to mitigate commodity price risk through the use of financial derivatives such as commodity price risk management contracts. Birchcliff had no risk management contracts in place as at or during the years ended December 31, 2010 and 2009. The Corporation actively monitors the market to determine whether any additional commodity price risk management contracts are warranted.

Foreign Currency Risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified but generally an increase in the value of the CDN dollar as compared to the US dollar will reduce the prices received by Birchcliff for its petroleum and natural gas sales. The Corporation had no forward exchange rate contracts in place as at or during the year ended December 31, 2010 and 2009.

Interest Rate Risk

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

A 1% change in the CDN prime interest rate during the year ended December 31, 2010 would have increased (decreased) net income (loss) and comprehensive income (loss) by approximately $2.5 million (2009 – $2.1 million), assuming that all other variables remain constant. A sensitivity of 1% is considered reasonable given the current level of the bank prime rate and market expectations for future movements. The Corporation considers this risk to be limited and thus does not hedge its interest rate risk.

The Corporation had no interest rate swap contracts in place as at or during the years ended December 31, 2010 and 2009.

Fair value of financial instruments:

Birchcliff's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and credit facilities. All of Birchcliff's financial instruments are transacted in active markets. Financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS (continued)

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The carrying value and fair value of financial instruments at December 31, 2010 is disclosed below by financial instrument category, as well as any related loss or interest expense for the period:

	Carrying value	Fair value	Loss	Interest expense
$000's				
ASSETS HELD FOR TRADING				
Cash(1)	**4,863**	**4,863**	–	–
LOANS AND RECEIVABLES				
Accounts receivable(2)	**39,241**	**39,241**	–	–
OTHER LIABILITIES				
Accounts payable and accrued liabilities(2)	**50,721**	**50,721**	–	–
Drawn revolving credit facilities(3)	**339,176**	**339,176**	–	**12,753**

1) Cash is reported at fair value, based on a Level 1 designation.

2) Accounts receivable and accounts payable and accrued liabilities are reported at amortized cost. Due to the short term nature of accounts receivable and accounts payable and accrued liabilities, their carrying values approximate their fair values.

3) The Corporation's revolving facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs as described in Note 6.

9. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties and equipment including well sites, gathering systems and processing facilities. Birchcliff estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2010 to be approximately $91.5 million (2009 – $70.1 million) which will be incurred between 2011 and 2062. A credit-adjusted risk-free interest rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligations is provided below:

December 31	2010	2009
$000's		
Balance, January 1	**24,713**	21,223
Obligations incurred	**1,350**	475
Obligations acquired, net	**92**	17
Changes in estimate	**(638)**	1,846
Accretion expense	**1,833**	1,758
Actual expenditures	**(902)**	(606)
Ending balance	**26,448**	24,713

10. FUTURE INCOME TAX

The provision for income taxes differs from the result that would be obtained by applying the combined current year Canadian federal and provincial income tax rates in 2010 of 28% (2009 – 29%). The difference results from the following items:

December 31	2010	2009
$000's		
Net income (loss) before taxes	**11,659**	(28,821)
Computed expected income tax expense (recovery)	**3,265**	(8,358)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	**2,962**	2,855
Non-deductible expenses	**69**	50
Changes in tax rate and other	**(539)**	884
Future income tax expense (recovery)	**5,757**	(4,569)

The components of the future income tax assets and liabilities at December 31 are as follows:

December 31	2010	2009
$000's		
Future tax liabilities:		
Property, plant and equipment	**(59,595)**	(42,198)
Deferred financing fees	**(105)**	(217)
Future tax assets:		
Asset retirement obligations	**6,636**	6,237
Share issue costs	**1,465**	2,357
NCL's, SR&ED's & ITC's(1)	**43,968**	31,948
Net future tax liability	**(7,631)**	(1,873)

1) "NCL" = Non Capital Losses; "SR&ED" = Scientific Research & Experimental Development; "ITC" = Investment Tax Credits

At December 31, 2010, the Corporation's estimated non-capital losses for income tax purposes is approximately $157.2 million (2009 – $109.1 million) available to shelter future taxable income. Management expects that future taxable income will be available to utilize non-capital losses.

The following table shows a breakdown of the Corporation's non-capital losses at the end of 2010 by year of expiry:

Year of expiry	Amount
$000's	
2015	**71**
2026	**388**
2028	**18,098**
2029	**28,463**
2030	**58,376**
2031	**51,758**
Total non-capital losses	**157,154**

11. SHARE CAPITAL

a) Authorized:

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

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

b) Issued:

	Number of common shares	Amount
		$000's
Balance, December 31, 2008	112,395,970	477,482
Issued upon exercise of stock options	1,419,032	7,813
Tax effect of flow through shares (Note (c))	-	(3,750)
Issued, net of costs (Note (d))	10,000,000	59,305
Tax effect of share issue costs (Note (d))	-	743
Balance, December 31, 2009	123,815,002	541,593
Issued upon exercise of stock options	1,314,232	8,879
Balance, December 31, 2010	**125,129,234**	**550,472**

c) Birchcliff recognized a future income tax liability of $3,750,000 with respect to the renunciation of $15 million of qualified 100% deductible flow-through shares.

d) On June 30, 2009, Birchcliff issued 10,000,000 common shares at a price of $6.20 per share for total net proceeds of $59,304,600. Birchcliff recognized a future income tax benefit of $743,000 in respect of share issue costs of $2,695,400 incurred with respect to the issuance of 10,000,000 common shares.

12. STOCK-BASED COMPENSATION

Stock options:

The Corporation has established a stock-based compensation plan whereby officers, directors, employees, and consultants may be granted options to purchase common shares at a fixed price not less than the fair market value of the stock at the time of grant, subject to certain conditions. Stock options granted under this plan vest over a three year period at the rate of one-third on each anniversary date of the stock option grant. All stock options granted are for a five year term. The Corporation is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the Amended and Restated Stock Option Plan. In order to calculate the compensation expense, the fair value of the stock options is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price, expected life, current stock price, expected volatility, expected dividends and risk-free interest rates.

During the year ended December 31, 2010, the Corporation recorded $10.6 million (2009 – $9.8 million) of stock-based compensation expense and a corresponding increase to contributed surplus related to stock options issued and outstanding during the period.

At December 31, 2010, the Corporation's Amended and Restated Stock Option Plan permitted the grant of options in respect of a maximum 12,512,923 (2009 – 12,381,500) common shares. At December 31, 2010, there remained available for issuance options in respect of 3,265,403 (2009 – 4,671,247) common shares. A summary of the Corporation's outstanding stock options for the years ended December 31, 2010 and 2009 is presented below:

12. STOCK-BASED COMPENSATION (continued)

	Number	Weighted average exercise price
		$
Outstanding, December 31, 2008	6,324,221	5.58
Granted	3,959,900	5.53
Exercised	(1,419,032)	(3.74)
Forfeited	(1,154,836)	(6.18)
Outstanding, December 31, 2009	7,710,253	5.81
Granted	3,350,300	9.61
Exercised	(1,314,232)	(4.63)
Forfeited	(498,801)	(7.41)
Outstanding, December 31, 2010	**9,247,520**	**7.26**

The weighted average assumptions used in calculating the fair values are set forth below:

December 31	2010	2009
Risk-free interest rate	**2.5%**	2.0%
Expected maturity (years)	**5.0**	5.0
Expected volatility	**60.5%**	63.5%
Dividend yield	**–**	–
Fair value per option	**$5.11**	$3.02

A summary of the stock options outstanding and exercisable under the plan at December 31, 2010 is presented below:

Exercise price		Awards outstanding			Awards exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.87	$6.00	3,793,120	2.45	$4.76	2,073,295	1.95	$4.52
$6.01	$9.00	2,111,200	2.73	$7.61	1,072,765	2.37	$7.49
$9.01	$12.00	3,155,400	4.07	$9.70	99,399	2.59	$10.74
$12.01	$14.25	187,800	2.53	$13.07	125,200	2.53	$13.07
		9,247,520	**3.07**	**$7.26**	**3,370,659**	**2.12**	**$5.97**

Performance warrants:

On January 14, 2005, as part of the Corporation's initial restructuring to become a public entity, the Corporation issued 4,049,665 performance warrants with an exercise price of $3.00 and an expiration date of January 31, 2010 to members of its executive team. Each performance warrant entitles the holder to purchase one common share at the exercise price. Because the performance conditions were fulfilled in 2005, resulting in the performance warrants vesting, the full amount of the related compensation expense was recorded in net income in that year. The fair value of each performance warrant was determined on the date of the grant using the Black-Scholes option-pricing model. On May 28, 2009, the Corporation's outstanding performance warrants were amended to extend the expiration date from January 31, 2010 to January 31, 2015. The Corporation recorded stock-based compensation expense of $3.1 million relating to the extension of the performance warrants for the year ended December 31, 2009.

No performance warrants were issued or exercised during the years ended December 31, 2010 and 2009. At December 31, 2010, there remained outstanding and exercisable 2,939,732 performance warrants.

12. STOCK-BASED COMPENSATION (continued)

Contributed surplus continuity:

$000's	Amount
Balance, December 31, 2008	12,984
Stock-based compensation expense – stock options(1)	6,784
Stock-based compensation expense – performance warrants	3,060
Exercise of stock options	(2,513)
Balance, December 31, 2009	20,315
Stock-based compensation expense – stock options(1)	10,577
Exercise of stock options	(2,796)
Balance, December 31, 2010	**28,096**

1) Included in the stock-based compensation expense is the non-cash impact of forfeitures during the period.

13. PER SHARE INFORMATION

December 31	2010	2009
Basic		
Net income (loss) per share	**$0.05**	$(0.21)
Weighted average shares outstanding	**124,629,761**	117,993,314
Diluted		
Net income (loss) per share	**$0.05**	$(0.21)
Weighted average shares outstanding	**127,662,373**	117,993,314

The weighted average diluted common shares outstanding for the year ended December 31, 2010 excludes 2,886,200 of stock options that are anti-dilutive. The average market value of the Corporation's shares for the purpose of calculating the dilutive effect of stock options and performance warrants was based on average quoted market prices for the period that the options and warrants were outstanding.

The basic and diluted weighted average common shares outstanding are the same for the year ended December 31, 2009 as the Corporation reported a net loss during that period.

14. COMMITMENTS

The Corporation is committed under an operating lease relating to its office premises beginning December 1, 2007 which expires on November 30, 2017. Birchcliff does not use all of the leased space 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. The Corporation is committed to the following aggregate minimum lease payments (not reduced by rents receivable by the Corporation):

14. COMMITMENTS (continued)

Year	Amount
$000's	
2011	3,108
2012	3,118
2013	3,225
2014	3,225
2015	3,225
Thereafter	6,182

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

15. SUPPLEMENTARY CASH FLOW INFORMATION

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

December 31	2010	2009
$000's		
Provided by (used in)		
Accounts receivable	**(9,577)**	172
Prepaid and other	**1,974**	(1,604)
Accounts payable and accrued liabilities	**(4,009)**	(16,477)
	(11,612)	(17,909)
Provided by (used in)		
Operating	**1,429**	(10,051)
Investing	**(13,041)**	(7,858)
	(11,612)	(17,909)

16. PRODUCTION EXPENSES

The Corporation's production expenses include all costs with respect to day-to-day well and facility operations. Processing recoveries related to joint venture and third party natural gas reduces production expenses.

For the years ended December 31	2010	2009
$000's		
Field production costs	**41,212**	39,432
Processing recoveries	**(6,105)**	(3,830)
Field production costs, net of recoveries	**35,107**	35,602
Expensed workovers and other	**1,638**	786
Total production expenses	**36,745**	36,388

Glossary of terms:

DEFINITIONS

2P – proved plus probable reserves.

AJM – AJM Petroleum Consultants, Birchcliff's independent reserves auditors.

AJM Price Forecast – AJM's December 31, 2010 forecast of commodity prices and costs.

Birchcliff – Birchcliff Energy Ltd.

East District – the area designated by Birchcliff as the East District on the map found on page 14.

ERCB – the Energy Resources Conservation Board.

F&D – finding and development costs.

FD&A – finding, development and acquisition costs.

Montney/Doig Natural Gas Resource Play – Birchcliff's Montney and Doig formation natural gas resource play located in Birchcliff's West and East Districts.

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

NI 51-101 – National Instrument 51-101 – *Standards of Disclosure for Oil & Gas Activities.*

North District – the area designated by Birchcliff as the North District on the map found on page 14.

PCS Gas Plant – Birchcliff's 100% owned and operated natural gas processing plant located in the West District, Pouce Coupe South region at 03-22-078-12W6.

PDP – proved developed producing reserves.

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

TSX – Toronto Stock Exchange.

West District – the area designated by Birchcliff as the West District on the map found on page 14.

Western Canadian Sedimentary Basin – the vast sedimentary basin underlying Western Canada that is the source of most of Western Canada's current oil and gas production.

Worsley Light Oil Resource Play – Birchcliff's Charlie Lake light oil resource play located near the Town of Worsley in the North District.

ABBREVIATIONS

Oil and natural gas liquids

bbl	barrel
bbls	barrels
bbls/d	barrels per day
mbbls	thousand barrels
MMbbls	million barrels
boe	barrel of oil equivalent
boe/d	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
NGL	natural gas liquid

Natural gas

mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m^3	cubic metres
GJ	Gigajoule

Other

AECO	benchmark natural gas price determined at the AECO "C" hub in southest Alberta
WTI	West Texas Intermediate crude oil, a benchmark oil price determined at Cushing, Oklahoma
°API	the measure of the density or gravity of liquid petroleum products
psi	pounds per square inch
$000s	thousands of dollars

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

From	To	Multiply by
mcf	cubic metres	28.174
mcf	GJ	1.055
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
sections	acres	640
sections	hectares	256

Corporate information:

OFFICERS

A. Jeffery Tonken
President & Chief Executive Officer

Bruno P. Geremia
Vice President & Chief Financial Officer

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

Karen A. Pagano
Vice President, Engineering

David M. Humphreys
Vice President, Operations

James W. Surbey
Vice President, Corporate Development

DIRECTORS

Gordon W. Cameron(1)(2)(3)
Calgary, Alberta

Kenneth N. Cullen(1)(2)(3)
Calgary, Alberta

Larry A. Shaw(1)(2)(3)
Chairman of the Board
Calgary, Alberta

Werner A. Siemens(1)(2)(3)
Calgary, Alberta

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

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

SHAREHOLDERS' MEETING

The Annual and Special Meeting of Shareholders will be held at 3:00 pm on Thursday, May 19th, 2011 in the Devonian Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Solicitors:
Borden Ladner Gervais LLP
Calgary, Alberta

Auditors:
Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

Reserves evaluators:
AJM Petroleum Consultants
Calgary, Alberta

Bankers:
Scotia Bank
HSBC Bank Canada
Alberta Treasury Branch
Union Bank
The Toronto Dominion Bank

Transfer agent:
Olympia Trust Company
Calgary, Alberta

Stock exchange listing:
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Symbol: BIR

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Thank you:
Birchcliff would like to thank Laura Paige Austin and Jerilyn McLeod for the gorgeous photography in this annual report.
Executive portraits: Trudie Lee Photography

OUR BIR TEAM

BRETTON ABERNETHY, DANIELLE ARMSTRONG, DEREK ARNOLD, CAMILLE ASHTON, RAINER AUGSTEN, GATES AURIGEMMA, LAURA AUSTIN, AL BASNETT, BILL BAXTER, CHARMAINE BELLEY, TIM BERG, AMBER BOISVERT, MYLES BOSMAN, BRADLEY BOUCK, DAVID BOYLE, JUDY BRAZER, PETER BRIMACOMBE, WAYNE BROWN, SCOTTY CAMERON, CHRIS CARLSEN, ROBERT CHARCHUK, DAVID CHRISTENSEN, BOB CLARK, RORY COLLINS, MIKE CORDINGLEY, KEN CULLEN, BRAD CULVER, KRYSTAL DAFOE, JODY DENIS, CINDY DESMARAIS, JESSE DOENZ, KELLEN DOENZ, RANDY DORSCHEID, TERRY ELLIOT, KATHY FAIRBURN, CHRIS FEHR, TRISHA FLANAGAN, TONYA FLEMING, GORDON FORBES, HEATHER FRAESE, GRANT FRIESEN, ALAN FRITZ, SHERRY FROST, GEORGE FUKUSHIMA, RANDY FUNDYTUS, BRUNO GEREMIA, CHAD GODDARD, ANDY GREGG, BOB GRISACK, LINDSAY GROPP, NEIL GUENTER, RATHA HALFORD, PAUL HAYWARD, SHAUNA HEYNEN, LORNA HILDEBRAND, JACK HINGLEY, JASEN HOLMSTROM, DARYL HUDAK, DAVE HUMPHREYS, MICHELLE JACKSON, DEREK JAMIESON, DAVE JOHNSON, STACY JOHNSON, DUSTIN KELM, CLAIRE KNIGHT, DIANE KNOBLAUCH, HEATHER KWIATKOWSKI, DANI LAIRD, BENO LANINGA, MELONY LAUZON, JOE LYSTE, DALLAS MACLEAN, TYSON MAGNOWSKI, DAN MASUCH, GRAHAM MAYR, JEFF MCANDREWS, HOLLY MCFARLANE, DEB MCFEE, ANGIE MCGONIGAL, DARIN MCLARTY, JERILYN MCLEOD, DANIELLE MCPHEE, MELISSA MEYERS-FRASZ, AL MICHETTI, CRISTIAN MOANGHER, ROY MODRALL, TYLER MONTPELLIER, SHAUN MOSKALYK, MCKENZIE MURDOCH, ED MURPHY, SARAH NANCE, MICHAEL NG, MARCEL NJONGWE, TODD OICKLE, ANGELA OLIVIER, KAREN PAGANO, BRUCE PALMER, BILL PARTRIDGE, PAUL PASCO, DEAN PATERSON, OWEN PATTON, BRENDA PEARSON, COLIN PENNER, ALLAN PICKEL, LINDSAY POSTMA, DEREK RAE, TYLER REID, LYNN REID-BICKNELL, AIDAN RICHARDSON, DALE RICHARDSON, JIMMY ROCHE, MEGAN ROCHE, MICHELLE RODGERSON, RICHARD ROUBLE, TODD SAJTOVICH, LEE SALLENBACH, VICTOR SANDHAWALIA, DON SCHAREIN, ANDREAS SCHEEL, MIRANDA SHARPE, LARRY SHAW, VERN SIEMENS, NICKOLAS SIZER, MEREDITH ST. JOHN, BEN STEVENSON, DARBY STOLK, TRACEY SUCHLANDT, JIM SURBEY, JEFF TONKEN, GILLIAN TOPPING, MELODIE TOPPING, HUE TRAN, TREVOR TRUDEAU, KARA TURNER, CHAD VAN IDERSTINE, DAVID WALKER, CODY WANGLER, BILL WARREN, MATTHEW WEISS, ROBERT WILSON, DARYL WINNICKY, CHRIS WURZ, JOHN YEO, STEVE ZYLINSKI, VINCE ZYLINSKI

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