



Independent Stock Idea

November 15, 2012

rating: contrarian buy, s&p 500: 1355

Birchcliff Energy Ltd. (BIREF) **Record Production, Raise Guidance**

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$m)</i>	164
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	45
<i>Price (US\$/sh)</i>	7.36	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/14/12	<i>Adjusted Reserves/Production NTM</i>	20.2
<i>Shares (mm)</i>	149	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$m)</i>	1,100	<i>PV/Ebitda</i>	14.0
<i>Debt (US\$m)</i>	510	<i>Undeveloped Reserves (%)</i>	73
<i>Enterprise Value (EV) (US\$m)</i>	1,610	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	21.60
<i>Present Value (PV) (US\$m)</i>	2,300	<i>Present Value Proven Reserves(\$/boe)</i>	15.70
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	58
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.15
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	49
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Birchcliff see www.mcdep.com/5bir.htm			

Summary and Recommendation

Contrarian Buy **Birchcliff Energy (BIREF)** is on the upswing again bringing on new natural gas production just as price rebounds from an especially depressed level. The Pouce Coupee plant expansion has been completed ahead of schedule and the wells connected to it are performing better than expected. As a result, we boost our estimate of fourth quarter volume to 26 thousand barrels equivalent daily from the 23 that we had estimated earlier (see table Next Twelve Months Operating and Financial Estimates on page 2 and *ISCW Birchcliff*, September 28, 2012). After bottoming at C\$2.05 a mcf in the second quarter, natural gas price climbed to C\$2.47 in the third quarter according to results released at the market close on November 14. Favorable drilling results in 2012 are also likely to justify a comparable expansion of reserves and resources to be reported after year end. As the company demonstrates operating progress and financial sustainability, it enhances its appeal as an acquisition target. Only a few weeks ago, ExxonMobil announced its bid for Celtic Exploration, a Birchcliff-size independent producer also active in Northwest Alberta. Meanwhile, we expect eventual Canadian government approval of at least one of two proposed acquisitions by Asian buyers of Canadian producers Progress and Nexen. Paying the world's highest prices for imported natural gas, Asian buyers have a strong incentive to buy producers as the surest way to reduce or hedge future costs of clean energy. Birchcliff's strategy aims to build a company that can grow rapidly on its own and at the same time could be even more valuable to a strategically motivated, large company acquirer.

Kurt H. Wulff, CFA



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Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>Months</i>
									<i>9/30/13</i>
Volume (before royalty)									
Natural Gas (mmcf)	79	101	100	122	105	120	120	120	121
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	0.41	0.48	0.44	0.53	1.92	0.54	0.55	0.55	2.17
Oil (mbd)	4.5	5.2	4.7	5.8	5.2	6.0	6.0	6.0	5.9
Total (mboed)	17.6	22.0	21.4	26.1	22.7	26.0	26.0	26.0	26.0
Price									
Henry Hub (US\$/mmbtu)	4.19	2.21	2.80	3.36	2.78	3.69	3.71	3.80	3.64
Currency (US\$/C\$)	1.02	0.99	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Henry Hub (C\$/mmbtu)	4.11	2.24	2.79	3.36	2.78	3.70	3.71	3.81	3.64
Differential (C\$/mmbtu)	0.19	0.19	0.32	0.39	0.30	0.42	0.43	0.44	0.42
Company (C\$/mcf)	3.92	2.05	2.47	2.97	2.48	3.27	3.29	3.37	3.22
WTI Cushing (US\$/bbl)	89.76	93.32	92.22	87.03	93.87	86.66	88.42	89.43	87.88
WTI Cushing (C\$/bbl)	87.94	94.25	91.79	87.15	94.02	86.78	88.54	89.56	88.01
Differential (C\$/bbl)	1.75	12.49	9.73	9.24	11.12	9.20	9.38	9.49	9.31
Company (C\$/bbl)	86.19	81.76	82.07	77.91	82.90	77.59	79.16	80.07	78.69
Total (\$/bbl)	39.44	28.80	29.72	31.15	30.62	33.00	33.43	34.03	32.90
Revenue (\$mm)									
Natural Gas	28	19	23	33	95	35	36	37	142
Oil	36	39	36	42	159	42	43	44	171
Royalties	(7)	(6)	(5)	(6)	(24)	(7)	(8)	(8)	(29)
Total	57	52	54	69	230	70	72	74	284
Expense	20	22	20	29	95	29	30	31	120
Ebitda (\$mm)	38	30	33	40	135	40	41	43	164
Deprec., Deplet., & Amort.	18	23	22	26	93	26	26	26	104
Other non-cash	(1)	2	1	1	1	2	1	1	5
Interest	5	5	6	6	22	6	6	6	24
Ebt	16	1	5	7	18	7	9	10	32
Income tax	5	1	2	2	7	2	3	3	10
Net Income (\$mm)	12	-	3	5	12	5	6	7	22
Per share (\$)	0.09	-	0.02	0.03	0.08	0.03	0.04	0.05	0.15
Shares (millions)	131	139	144	149	141	149	149	149	149
Ebitda margin (after royalty)	66%	58%	62%	58%	58%	58%	58%	58%	58%
Tax rate	28%	100%	41%	30%	36%	30%	30%	30%	30%



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Birchcliff Energy Ltd.					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	74	13.4	19.6	1,450	63%
Oil	90	8.3	9.4	850	37%
	164	12.2	14.0	2,300	100%
Debt					510
Net Present Value (US\$mm)					1,790
Shares					149
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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