



Independent Stock Idea

August 14, 2014

Birchcliff Energy Ltd. (BIREF – Buy) Healthy Volume, Seasonal Price

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/15 (US\$mm)</i>	299
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	63
<i>Price (US\$/sh)</i>	10.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/13/14	<i>Adjusted Reserves/Production NTM</i>	13.8
<i>Shares (mm)</i>	158	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$mm)</i>	1,610	<i>PV/Ebitda</i>	9.3
<i>Debt (US\$mm)</i>	570	<i>Undeveloped Reserves (%)</i>	72
<i>Enterprise Value (EV) (US\$mm)</i>	2,180	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	26.90
<i>Present Value (PV) (US\$mm)</i>	2,770	<i>Present Value Proven Reserves(\$/boe)</i>	15.70
<i>Net Present Value (US\$/share)</i>	14	<i>Oil and Gas Ebitda Margin (%)</i>	71
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.53
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	19
<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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Birchcliff since 2008 see www.mcdep.com/5bir.htm			

Summary and Recommendation

Buy-recommended **Birchcliff Energy (BIREF)** grew volume 29% over the previous year in the second quarter reported last night (see table [Operating and Financial Estimates](#) on page 2). Yet, stock price has fallen back from the spring high along with natural gas price as an abnormally cold winter has transitioned to an abnormally cool summer. From a higher base than a year ago, justified by volume growth, Birchcliff stock may be positioned for another seasonal run to a higher level next spring. Hedges protect cash flow during the next several months when natural gas price can be seasonally weak while the company would see full benefit from normally higher prices in the winter months. More important, longer term appeal remains strong on estimated Net Present Value (NPV) of \$14 a share that seems well supported in comparison to other stocks in our coverage on the basis of cash flow and reserve life (see table [Present Value](#) on page 3). An accelerated drilling program is planned to include testing of new zones among those stacked on Birchcliff's lands in the Montney/Doig Natural Gas Resource Play in Alberta. Continually improving drilling and fracking technology may change previously non-commercial formations into commercial producing zones. On the demand side, increased global consciousness of the value of secure, clean energy adds urgency to the building of liquefied natural gas export facilities to ship Alberta natural gas to international markets. While suppliers, buyers and governments all want the projects to go ahead the wheels of political machinery turn slowly. Meanwhile, Birchcliff is a profitable, low cost producer connected to the expanding North American grid.

Kurt H. Wulff, CFA



Independent Stock Idea

August 14, 2014

Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q2 6/30/13	Year 2013	Q1 3/31/14	Q2 6/30/14	Q3E 9/30/14	Q4E 12/31/14	Year 2014E	Q1E 3/31/15	Q2E 6/30/15	6/30/15
Volume (before royalty)										
Natural Gas (mmcf)	117	126	159	155	177	196	172	208	204	196
Days	91	365	90	91	92	92	365	90	91	365
Oil (mmb)	0.42	1.78	0.48	0.48	0.49	0.49	1.94	0.48	0.49	1.95
Oil (mbd)	4.6	4.9	5.3	5.3	5.3	5.4	5.3	5.4	5.4	5.3
Total (mmb/e)	2.20	9.4	2.86	2.84	3.20	3.50	12.4	3.60	3.58	13.9
Total (mbo/e)	24.1	25.8	31.8	31.2	34.8	38.0	34.0	40.0	39.4	38.0
Price										
Henry Hub (US\$/mmbtu)	4.10	3.65	4.95	4.67	4.06	4.07	4.44	4.18	3.86	4.04
Currency (US\$/C\$)	0.98	0.97	0.91	0.92	0.92	0.92	0.91	0.92	0.92	0.92
Henry Hub (C\$/mmbtu)	4.19	3.76	5.46	5.10	4.44	4.44	4.86	4.56	4.22	4.41
Differential (C\$/mmbtu)	0.41	0.35	(0.64)	0.29	0.25	(0.03)	0.01	(0.03)	0.01	0.04
Company (C\$/mcf)	3.78	3.41	6.10	4.81	4.19	4.48	4.85	4.60	4.21	4.37
WTI Cushing (US\$/bbl)	94.22	97.98	98.74	102.98	99.47	96.68	99.47	95.43	94.30	96.47
WTI Cushing (C\$/bbl)	96.41	100.91	108.88	112.28	108.65	105.60	108.88	104.24	103.00	105.38
Differential (C\$/bbl)	5.92	11.26	12.08	9.75	9.43	9.17	10.15	9.72	9.60	9.47
Company (C\$/bbl)	90.49	89.64	96.80	102.53	99.22	96.44	98.74	94.53	93.40	95.90
Total (\$/bbl)	35.73	33.52	46.72	41.34	36.38	36.65	39.98	36.53	34.51	36.01
Revenue (\$mm)										
Natural Gas	40	156	87	68	68	81	304	86	78	313
Oil	38	160	47	49	48	47	191	46	45	187
Royalties	(7)	(28)	(13)	(10)	(9)	(10)	(42)	(11)	(10)	(41)
Total	71	289	121	108	107	118	453	120	113	458
Expense	24	97	27	27	31	34	119	35	33	132
Ebitda (\$mm)	47	191	93	80	76	84	334	86	81	327
Deprec., Deplet., & Amort.	25	109	32	33	38	42	144	43	43	165
Other non-cash	1	(2)	4	4	2	2	11	2	2	8
Interest	7	24	6	6	6	6	23	6	6	23
Ebt	14	61	52	38	31	35	156	35	30	130
Income tax	4	25	14	11	9	10	44	11	9	39
Net Income (\$mm)	10	36	38	27	21	24	111	25	21	91
Per share (\$)	0.07	0.25	0.26	0.18	0.14	0.15	0.73	0.16	0.13	0.58
Shares (millions)	145	145	147	153	158	158	153	158	158	158
Ebitda margin (after royalty)	67%	66%	77%	75%	71%	71%	74%	71%	71%	71%
Tax rate	29%	40%	27%	28%	30%	30%	28%	30%	30%	30%



Independent Stock Idea

August 14, 2014

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	187	10.2	10.8	2,020	73%
Oil	112	10.0	6.8	760	27%
	299	10.2	9.3	2,780	100%
Debt					570
Net Present Value (US\$mm)					2,210
Shares					158
Net Present Value - Standard Estimate (US\$/sh)					14
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					16

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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation.