



Independent Stock Idea

Intraday May 30, 2018

Birchcliff Energy Ltd. (BIREF) A Play on Narrowing the Gap

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/19 (US\$mm)</i>	314
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	52
<i>Price (US\$/sh)</i>	3.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/30/18	<i>Developed Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	268	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	880	<i>PV/Ebitda</i>	9.7
<i>Debt (US\$mm)</i>	630	<i>Undeveloped Reserves (%)</i>	70
<i>Enterprise Value (EV) (US\$mm)</i>	1,510	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.90
<i>Present Value (PV) (US\$mm)</i>	3,040	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	9	<i>Oil and Gas Ebitda Margin (%)</i>	62
<i>Ebitda/Market Cap</i>	1.72	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.50	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	2.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.08
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\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of Birchcliff since 2008 see www.mcdep.com/5bir.htm			

Summary and Recommendation

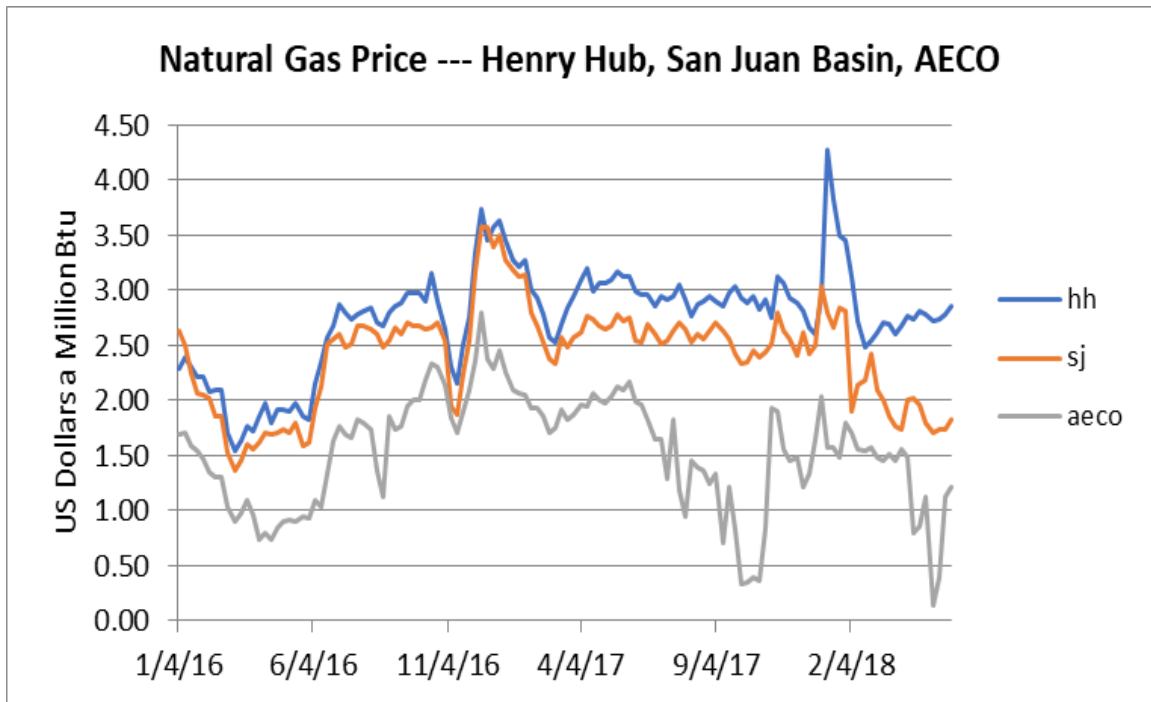
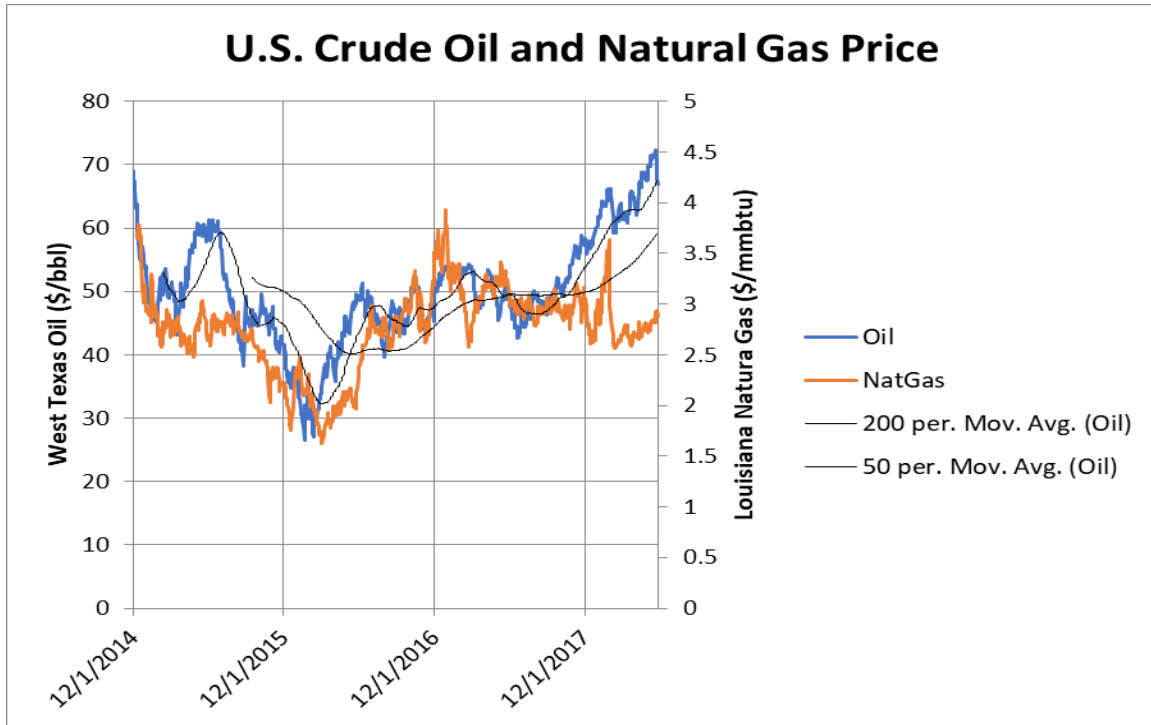
At an exceptionally low McDep Ratio of 0.50, the shares of small cap Canadian natural gas producer **Birchcliff Energy (BIREF)** offer potentially rich reward with tempered downside risk. Much of the 30% decline in Birchcliff stock price in the past year appears related to a 40% underperformance in natural gas price relative to crude oil price (see chart Crude Oil and Natural Gas Price on page 2). BIREF is particularly exposed to natural gas price sluggishness because some 40% of gas sales are influenced by the Alberta AECO hub volatility (see chart Henry Hub, San Juan, AECO on page 2). Ultimately on the upside, we see relinking of natural gas to oil at the heating equivalent of international oil price less a discount for natural gas liquefaction and transportation. Toward that end, there may be a final investment decision this year to build a Liquefied Natural Gas (LNG) export facility on the coast of British Columbia (BC). The political pieces may be falling into place with the potential resolution of a dispute over expanding a vital oil pipeline crossing BC. Meanwhile, mitigating the downside, the company met its guidance and our estimates in first quarter results reported on May 9 (see table Operating and Financial Performance on page 3). The explanation lies partly in favorable oil and condensate pricing as well as low cost operations. Having achieved rapid growth over the past decade, Birchcliff may be able to stabilize production and generate free cash flow in the coming quarters. A dividend that looked unnoticeable during high growth now looks appealing at an annual yield of 2.3%. Impressed with the perseverance and dedication to performance demonstrated by the Birchcliff team during a trying time in the market for natural gas stocks, we are optimistic for the future of BIREF and other stocks in our coverage (see Tables 1-4 on pages 4-7).

Kurt H. Wulff, CFA



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Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	2018	3/31/19	6/30/19	6/30/19
Volume (before royalty)										
Natural Gas (bcf)	27.0	117.1	33.9	33.5	33.9	33.9	135.1	33.5	33.9	135.0
Natural Gas (mmcf)	297	321	377	368	368	368	370	372	372	370
Days	91	365	90	91	92	92	365	90	91	365
Oil (mmb)	1.38	5.28	1.21	1.40	1.42	1.42	5.44	1.39	1.40	5.62
Oil (mbd)	15.1	14.5	13.4	15.4	15.4	15.4	14.9	15.4	15.4	15.4
Total (mmboe)	5.88	24.8	6.86	6.98	7.06	7.06	28.0	6.97	7.04	28.1
Total (mboed)	64.6	68.0	76.2	76.7	76.7	76.7	76.6	77.4	77.4	77.1
Price										
Henry Hub (US\$/mmbtu)	3.18	3.11	3.01	2.82	2.97	3.03	2.96	3.13	2.65	2.94
Currency (US\$/CS)	0.75	0.77	0.79	0.77	0.77	0.77	0.78	0.77	0.77	0.77
Henry Hub (C\$/mmbtu)	4.27	4.02	3.79	3.66	3.85	3.93	3.81	4.05	3.43	3.82
Differential (C\$/mmbtu)	1.14	1.30	1.07	1.11	1.17	1.19	1.13	1.23	1.04	1.16
Company (C\$/mcf)	3.13	2.72	2.72	2.56	2.69	2.74	2.68	2.83	2.39	2.66
WTI Cushing (US\$/bbl)	48.26	50.94	62.88	68.07	67.70	66.71	66.34	65.57	64.24	66.06
WTI Cushing (C\$/bbl)	64.66	66.00	79.23	88.29	87.81	86.53	85.43	85.04	83.32	85.68
Differential (C\$/bbl)	19.79	20.98	23.79	26.51	26.37	25.98	25.46	25.54	25.02	25.72
Company (C\$/bbl)	44.88	45.02	55.44	61.78	61.44	60.55	59.97	59.51	58.30	59.96
Total (\$/bbl)	24.89	22.43	23.20	24.65	25.22	25.29	24.60	25.43	23.10	24.76
Revenue (\$mm)										
Natural Gas	85	318	92	86	91	93	362	95	81	359
Oil	62	238	67	87	87	86	326	82	82	337
Royalties	(5)	(29)	(10)	(9)	(9)	(9)	(37)	(9)	(9)	(37)
Total	142	528	149	163	169	169	650	168	154	660
Expense										
	49	208	56	63	64	64	246	63	63	253
Ebitda (\$mm)										
	93	320	93	100	105	106	404	105	90	407
Deprec., Deplet., & Amort.	44	186	51	51	51	51	205	51	51	205
Other non-cash	17	140	15	15	15	15	60	15	15	60
Interest	8	33	8	8	8	8	32	8	8	32
Ebt										
	24	(40)	19	26	31	31	108	31	16	109
Income tax	8	14	6	5	7	7	25	7	3	23
Net Income (\$mm)										
	16	(54)	13	20	24	25	83	25	13	86
Per share (\$)	0.06	(0.20)	0.05	0.08	0.09	0.09	0.31	0.09	0.05	0.32
Shares (millions)										
	268		266	266	266	266		266	266	268
Ebitda margin (after royalty)	66%	61%	62%	61%	62%	62%	62%	63%	59%	62%
Tax rate	33%	-35%	31%	21%	21%	21%	23%	21%	21%	21%
Dividend	0.03		0.03	0.03	0.03	0.03		0.03	0.03	0.10



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Table 1
McDep Energy Stocks
Ranked by McDep Ratio

		Price (US\$/sh)	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	30-May 2018									
Integrated											
	Exxon Mobil Corporation	XOM	80.26	343,000	434,000	1.27	8.3	9.1	48	4.1	0.91
	Chevron Corporation	CVX	123.34	236,000	299,000	1.27	7.4	8.7	61	3.6	0.85
	Suncor Energy	SU	39.85	66,000	85,000	1.29	7.1	8.5	77	2.8	0.84
	Royal Dutch Shell	RDS-B	71.56	300,000	416,000	1.39	7.0	9.0	50	5.3	0.78
	<i>Total or Median</i>			<i>945,000</i>	<i>1,234,000</i>	<i>1.28</i>	<i>7.2</i>	<i>8.9</i>	<i>55</i>	<i>3.9</i>	<i>0.84</i>
Large Independent											
	Occidental Petroleum Corp.	OXY	83.44	64,000	77,700	1.21	8.7	8.0	78	3.7	1.09
	Pioneer Natural Resources	PXD	195.47	33,400	36,000	1.08	8.4	8.6	93	0.2	0.98
	EOG Resources, Inc.	EOG	118.50	70,900	77,900	1.10	8.2	8.9	90	0.5	0.92
	ConocoPhillips	COP	67.62	80,000	103,000	1.29	7.5	8.5	76	1.7	0.88
	<i>Total or Median</i>			<i>248,300</i>	<i>294,600</i>	<i>1.16</i>	<i>8.3</i>	<i>8.6</i>	<i>84</i>	<i>1.1</i>	<i>0.95</i>
Mid-Size Independent											
	Hess Corporation	HES	60.43	18,700	27,100	1.45	11.1	10.4	89	1.7	1.07
	Continental Resources	CLR	67.19	25,100	31,500	1.25	8.4	8.6	82	-	0.97
	Devon Energy Corporation	DVN	41.61	22,000	29,900	1.36	7.6	10.0	75	0.8	0.76
	Cimarex Energy Company	XEC	93.70	9,000	10,400	1.17	5.8	8.2	81	0.7	0.70
	Marathon Oil Corporation	MRO	21.19	18,050	24,800	1.37	5.3	8.8	90	0.9	0.61
	<i>Total or Median</i>			<i>92,900</i>	<i>123,700</i>	<i>1.36</i>	<i>7.6</i>	<i>8.8</i>	<i>82</i>	<i>0.8</i>	<i>0.76</i>
Small Independent											
	California Resources	CRC	35.04	1,600	7,900	4.9	6.1	8.4	92	-	0.73
	Whiting Petroleum Corporation	WLL	52.54	4,800	8,100	1.70	5.1	7.8	97	-	0.65
	Range Resources	RRC	15.36	3,800	8,400	2.23	6.0	10.3	44	0.5	0.58
	Birchcliff Energy Ltd.	BIREF	3.28	900	1,500	1.72	4.8	9.7	48	2.4	0.50
	<i>Total or Median</i>			<i>11,100</i>	<i>25,900</i>	<i>1.97</i>	<i>5.6</i>	<i>9.0</i>	<i>70</i>	<i>0.3</i>	<i>0.62</i>
Income											
	Permian Basin RT	PBT	9.70	450	450	1.00	11.0	11.3	80	8.8	0.97
	Sabine Royalty Trust	SBR	48.95	710	710	1.00	15.6	15.9	67	6.4	0.98
	Dorchester Minerals, L.P.	DMLP	20.80	670	670	1.00	9.9	11.5	83	8.6	0.87
	San Juan Basin Royalty Trust	SJT	6.59	310	310	1.00	11.3	13.7	-	8.7	0.82
	Cross Timbers Royalty Trust	CRT	13.83	80	80	1.00	7.4	13.3	37	11.2	0.55
	<i>Total or Median</i>			<i>2,200</i>	<i>2,200</i>	<i>1.00</i>	<i>11.0</i>	<i>13.3</i>	<i>67</i>	<i>8.7</i>	<i>0.87</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 6/30/19.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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Table 2										
McDep Energy Stocks										
Unlevered Cash Flow (Ebitda)										
Ranked by Total Ebitda										
Symbol/Rating	Price (US\$/sh)	Upstream NTM				Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)	
		30-May 2018	Volume (mmboe)	Equiv. Price (\$/boe)	Ebitda Margin (%)					Ebitda (\$/boe)
Integrated										
Royal Dutch Shell	RDS-B	71.56	1371	46.02	68	31.50	11.67	43,185	27	3.76
Exxon Mobil Corporation	XOM	80.26	1452	49.24	49	24.20	11.67	35,147	27	3.28
Chevron Corporation	CVX	123.34	1059	50.57	61	30.80	7.27	32,630	21	4.48
Suncor Energy	SU	39.85	300	56.96	54	30.76	9.27	9,213	15	1.11
<i>Total or Median</i>			<i>4182</i>	<i>49.91</i>	<i>57</i>	<i>30.78</i>	<i>10.47</i>	<i>120,176</i>	<i>24</i>	
Large Independent										
ConocoPhillips	COP	67.62	457	48.28	63	30.30	0.00	13,860	10	1.14
EOG Resources, Inc.	EOG	118.50	280	46.58	73	34.08	0.00	9,546	3	0.56
Occidental Petroleum Corp.	OXY	83.44	263	47.85	58	27.80	6.09	7,299	27	3.08
Pioneer Natural Resources	PXD	195.47	124	47.17	73	34.40	0.00	4,280	1	0.32
<i>Total or Median</i>			<i>1125</i>	<i>47.51</i>	<i>68</i>	<i>32.19</i>	<i>0.00</i>	<i>34,984</i>	<i>7</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	21.19	167	40.90	68	27.90	0.00	4,655	4	0.20
Continental Resources	CLR	67.19	108	42.94	81	34.70	0.00	3,760	-	-
Devon Energy Corporation	DVN	41.61	182	29.89	63	18.90	2.74	3,447	4	0.32
Hess Corporation	HES	60.43	97	45.06	56	25.10	0.00	2,439	13	1.00
Cimarex Energy Company	XEC	93.70	86	31.01	68	21.00	0.00	1,816	3	0.64
<i>Total or Median</i>			<i>641</i>	<i>40.90</i>	<i>68</i>	<i>25.10</i>	<i>0.00</i>	<i>16,117</i>	<i>4</i>	
Small Independent										
Whiting Petroleum Corporation	WLL	52.54	49	47.83	67	32.10	0.00	1,589	-	-
Range Resources	RRC	15.36	138	19.22	53	10.20	0.00	1,413	1	0.08
California Resources	CRC	35.04	49	52.84	50	26.30	0.00	1,301	-	-
Birchcliff Energy Ltd.	BIREF	3.28	23	19.15	73	13.90	0.00	314	7	0.08
<i>Total or Median</i>			<i>260</i>	<i>33.52</i>	<i>60</i>	<i>20.10</i>	<i>0.00</i>	<i>4,616</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	20.80	2.34	39.65	73	28.83	0.00	68	86	1.79
Sabine Royalty Trust	SBR	48.95	1.63	33.01	85	28.09	0.00	46	100	3.14
Permian Basin RT	PBT	9.70	1.25	47.67	69	33.00	0.00	41	97	0.86
San Juan Basin Royalty Trust	SJT	6.59	3.45	14.56	54	7.86	0.00	27	98	0.57
Cross Timbers Royalty Trust	CRT	13.83	0.44	40.86	63	25.75	0.00	11	82	1.55
<i>Total or Median</i>			<i>9</i>	<i>39.65</i>	<i>69</i>	<i>28.09</i>	<i>0.00</i>	<i>193</i>	<i>97</i>	

For historical research see www.mcdep.com



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i> <i>(mm)</i>	<i>Debt</i> <i>(\$mm)</i>	<i>P/E</i> <i>NTM</i>	<i>Devel.</i> <i>Resrvs/</i> <i>Prod</i> <i>NTM</i>	<i>Undev/</i> <i>Devel.</i> <i>Resrvs</i> <i>(%)</i>	<i>Nat</i> <i>Gas/</i> <i>Ebitda</i> <i>(%)</i>	<i>Top</i> <i>Line/</i> <i>Ebitda</i> <i>(%)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	
	<i>Symbol/Rating</i>	<i>30-May</i> <i>2018</i>									
Integrated											
	Chevron Corporation	CVX	123.34	1,913	62,659	16	7.1	57	24	150.00	
	Royal Dutch Shell	RDS-B	71.56	4,189	116,710	12	7.2	22	32	100.00	
	Exxon Mobil Corporation	XOM	80.26	4,270	90,941	13	9.6	52	29	90.00	
	Suncor Energy	SU	39.85	1,644	19,313	12	8.5	87		50.00	
	<i>Median</i>					7.9	55				
Large Independent											
	Pioneer Natural Resources	PXD	195.47	171	2,600	21	7.3	9	7	200.00	
	EOG Resources, Inc.	EOG	118.50	598	7,071	19	4.9	43	10	130.00	
	ConocoPhillips	COP	67.62	1,186	23,143	15	7.7	31	24	80.00	
	Occidental Petroleum Corp.	OXY	83.44	767	13,700	17	7.4	35	4	75.00	
	<i>Median</i>					7.3	33				
Mid-Size Independent											
	Cimarex Energy Company	XEC	93.70	96	1,498	10	4.8	35	19	140.00	
	Continental Resources	CLR	67.19	374	6,333	23	5.6	121	18	70.00	
	Devon Energy Corporation	DVN	41.61	528	7,944	16	8.3	24	15	60.00	
	Hess Corporation	HES	60.43	310	8,399		7.4	59	11	55.00	
	Marathon Oil Corporation	MRO	21.19	852	6,734	12	5.4	60	10	40.00	
	<i>Median</i>					5.6	59				
Small Independent											
	Whiting Petroleum Corporation	WLL	52.54	91	3,367	31	6.8	84	3	100.00	
	California Resources	CRC	35.04	46	6,300		8.9	41	8	100.00	
	Range Resources	RRC	15.36	247	4,657	13	10.0	83	56	40.00	
	Birchcliff Energy Ltd.	BIREF	3.28	268	633	13	7.2	228	52	9.00	
	<i>Median</i>					8.0	83				
Income											
	Sabine Royalty Trust	SBR	48.95	15	-	16	11.0	3	37	100	50.00
	Cross Timbers Royalty Trust	CRT	13.83	6	-	9	11.7	-	69	82	25.00
	Dorchester Minerals, L.P.	DMLP	20.80	32	-	15	6.9	-	21	76	24.00
	Permian Basin RT	PBT	9.70	47	-	11	6.7	-	21	37	10.00
	San Juan Basin Royalty Trust	SJT	6.59	47	-	12	12.1	-	100	-	8.00
	<i>Median</i>					11.0					
P/E = Stock Price to Earnings. For historical research see www.mcdep.com .											



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Table 4									
McDep Energy Stocks									
Total Return Year-to-Date 2018									
Ranked by Unlevered Total Return									
		Price	Price	Price	Cash	Equity	Unlevered		
	Symbol/Rati	(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep
		30-May	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
		2018	2017						
Integrated									
Suncor Energy	SU	39.85	36.72	9	1	9	12	7	0.84
Royal Dutch Shell	RDS-B	71.56	68.29	5	3	8	28	5	0.78
Chevron Corporation	CVX	123.34	125.19	(1)	2	0	33	0	0.85
Exxon Mobil Corporation	XOM	80.26	83.64	(4)	2	(2)	21	(2)	0.91
	<i>Median</i>			2		4		3	0.84
Large Independent									
ConocoPhillips	COP	67.62	54.89	23	1	24	20	18	0.88
Pioneer Natural Resources	PXD	195.47	172.85	13	0	13	15	12	0.98
Occidental Petroleum Corp.	OXY	83.44	73.66	13	1	14	18	12	1.09
EOG Resources, Inc.	EOG	118.50	107.91	10	0	10	12	9	0.92
	<i>Median</i>			13		14		12	0.95
Mid-Size Independent									
Continental Resources	CLR	67.19	52.97	27	-	27	17	20	0.97
Hess Corporation	HES	60.43	47.47	27	1	28	27	18	1.07
Marathon Oil Corporation	MRO	21.19	16.93	25	1	26	8	18	0.61
Devon Energy Corporation	DVN	41.61	41.40	1	0	1	15	0	0.76
Cimarex Energy Company	XEC	93.70	122.01	(23)	0	(23)	16	(20)	0.70
	<i>Median</i>			25		26		18	0.76
Small Independent									
Whiting Petroleum Corporation	WLL	52.54	26.48	98	-	98	37	41	0.65
California Resources	CRC	35.04	19.44	80	-	80	137	10	0.73
Birchcliff Energy Ltd.	BIREF	3.28	3.50	(6)	1	(6)	2	(3)	0.50
Range Resources	RRC	15.36	17.06	(10)	0	(10)	19	(5)	0.58
	<i>Median</i>			37		37		3	0.62
Income									
Dorchester Minerals, L.P.	DMLP	20.80	15.20	37	5	42	-	42	0.87
Permian Basin RT	PBT	9.70	8.87	9	3	13	-	13	0.97
Sabine Royalty Trust	SBR	48.95	44.60	10	2	12	-	12	0.98
Cross Timbers Royalty Trust	CRT	13.83	14.69	(6)	4	(2)	-	(2)	0.55
San Juan Basin Royalty Trust	SJT	6.59	8.24	(20)	3	(17)	-	(17)	0.82
	<i>Median</i>			9		12		12	0.87
	<i>Grand Median</i>			10		11		10	0.84
Natural Gas (\$/mmbtu)									
		2.89	2.95	(2)					
Oil - West Texas Intermediate (\$/bbl)									
		67.38	60.09	12					
Total Stock Market - U.S.	VTI	140.28	137.25	2	0	3			
Developed Markets - ex US	VEA	44.03	44.86	(2)	0	(1)			
Emerging Markets	VWO	44.09	45.91	(4)	0	(4)			
Total Stock Market - World	VT	74.27	74.26	0	0	0			

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



Independent Stock Idea

Intraday May 30, 2018

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