



Independent Stock Idea

March 4, 2009

rating: none
s&p 500: 696

Birchcliff Energy Ltd. (BIR.TO) **Alberta Reduces Royalties (Taxes) on New Wells**

<i>Symbol</i>	BIR.TO	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	45
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	50
<i>Price (US\$/sh)</i>	3.45	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/3/09	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	117	<i>EV/Ebitda</i>	12.9
<i>Market Capitalization (US\$m)</i>	400	<i>PV/Ebitda</i>	29.8
<i>Debt (US\$m)</i>	180	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$m)</i>	580	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.54
<i>Present Value (PV) (US\$m)</i>	1,350	<i>Present Value Proven Reserves(US\$/boe)</i>	48.21
<i>Net Present Value (US\$/share)</i>	10	<i>Oil and Gas Ebitda Margin (%)</i>	50
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.43	<i>Price/Earnings Next Twelve Months</i>	
<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\$75 a barrel and natural gas, \$10 a million btu.			

Summary and Recommendation

Practical political reality leads the government of Alberta to cut royalties on new oil and gas wells with the largest incentives targeted to small producers like **Birchcliff Energy Ltd. (BIR.TO)***. Announced on March 3 for wells drilled in the next year, the changes limit the maximum royalty rate to 5% and give a credit, depending on depth drilled, of about US\$600,000 for a 12,000 foot typical well. The total would exceed a million dollars a well. The provincial government cites that each well drilled supports 120 jobs (<http://www.energy.gov.ab.ca>). Aside from global economic concerns, Alberta royalties (taxes) have been the main negative factor inhibiting investor interest and consequently drilling activity in the province. Meanwhile we are awaiting fourth quarter results to update our cash flow projections (see table Next Twelve Months Operating and Financial Estimates). Estimated Net Present Value (NPV) of US\$10 a share includes about half for large resource potential in an important emerging area (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$58 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA

*A large individual shareholder in Birchcliff and an officer of Birchcliff are research clients of McDep LLC.



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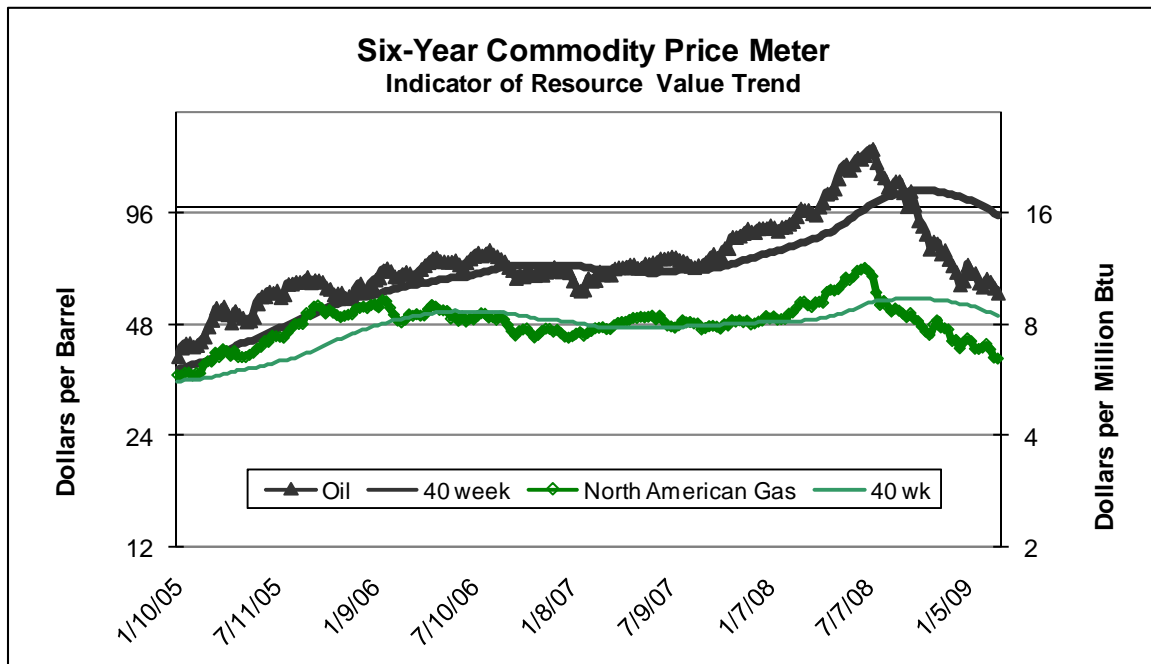
Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next
	Q4	Q3	Q4E	Year	Q1E	Q2E	Year	Q1E	Twelve
	12/31/07	9/30/08	12/31/08	2008E	3/31/09	6/30/09	2009E	3/31/10	Months
									3/31/10
Volume (before royalty)									
Natural Gas (mmcf)	37	39	39	39	39	39	39	39	39
Days	92	92	92	366	90	91	365	90	365
Oil (mbd)	3.1	3.5	3.5	3.3	3.5	3.5	3.5	3.5	3.5
Total (bcf)	5	6	6	21	5	5	22	5	22
Total (mmcfed)	56	60	60	59	60	60	60	60	60
Price									
Henry Hub (US\$/mmbtu)	6.97	10.25	6.95	9.04	4.90	4.25	4.74	6.02	5.02
Currency (US\$/C\$)	1.02	0.96	0.77	0.93	0.77	0.77	0.77	0.77	0.77
Henry Hub (C\$/mmbtu)	6.84	10.66	8.99	9.69	6.33	5.49	6.13	7.79	6.49
Differential (C\$/mmbtu)	0.13	2.19	1.85	0.97	1.30	1.13	1.26	1.60	1.34
Company (C\$/mcf)	6.71	8.47	7.14	8.71	5.03	4.36	4.87	6.19	5.15
WTI Cushing (US\$/bbl)	90.67	117.99	58.45	99.59	40.35	42.09	43.99	49.69	46.32
WTI Cushing (C\$/bbl)	88.91	122.77	75.57	106.75	52.17	54.43	56.87	64.25	59.90
Differential (C\$/bbl)	7.69	7.59	4.67	7.08	3.22	3.36	3.48	3.97	3.71
Company (C\$/bbl)	81.22	115.19	70.90	99.67	48.94	51.06	53.39	60.28	56.19
Total (\$/bbl)	54.17	73.43	52.71	68.50	36.77	34.90	37.69	45.24	39.78
Revenue (\$mm)									
Natural Gas	23	30	26	123	18	15	69	22	73
Oil	24	37	23	122	15	16	68	19	72
Royalties	(4)	(13)	(9)	(42)	(6)	(6)	(25)	(9)	(28)
Total	42	55	40	203	27	26	112	32	117
Expense									
Ebitda (\$mm)	9	12	11	49	13	13	56	16	58
Deprec., Deplet., & Amort.	33	43	29	154	13	13	56	16	58
Other non-cash	21	22	22	88	22	22	90	22	90
Interest	12	(4)		10	-	-	-	-	-
Ebt	5	2	2	10	2	2	7	2	7
Income tax	(5)	23	5	46	(11)	(11)	(40)	(8)	(38)
Net Income (\$mm)	(1)	7	2	13	(4)	(4)	(14)	(3)	(13)
Per share (\$)	(4)	16	3	33	(7)	(7)	(26)	(5)	(25)
	(0.04)	0.14	0.03	0.29	(0.06)	(0.06)	(0.22)	(0.05)	(0.21)
Shares (millions)									
Ebitda margin (after royalty)	96	117	117	115	117	117	117	117	117
Tax rate	78%	79%	73%	76%	50%	50%	50%	50%	50%
	21%	29%	35%	29%	35%	35%	35%	35%	35%



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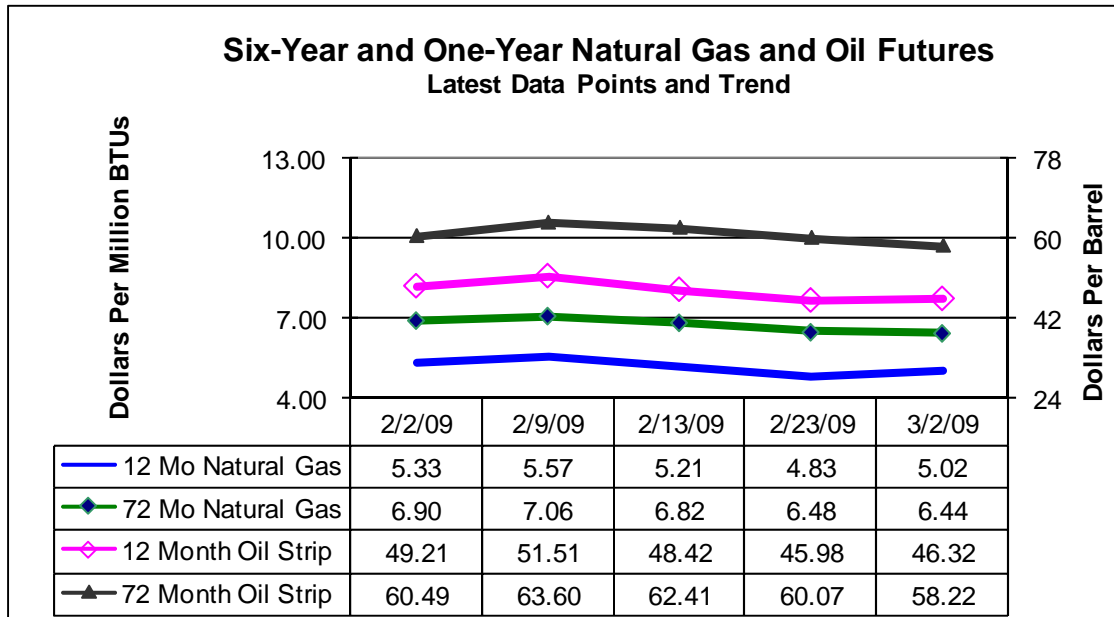
Birchcliff Energy Ltd.						
Functional Cash Flow and Present Value						
	NTM	Adjusted	PV/	Present		
	Ebitda	R/P	Ebitda	Value		
North American Natural Gas	23	5.5	11.7	270		20%
Oil	22	9.4	15.9	350		25%
Montney Doig Upside				760		55%
	45	6.9	30.7	1,380		100%
Debt						180
Net Present Value (US\$mm)						1,200
Shares						117
Net Present Value - Standard Estimate (US\$/sh)						10





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