



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Birchcliff Energy (BIREF – Buy) Reserves Up 37% in 2011

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$mm)</i>	173
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	36
<i>Price (US\$/sh)</i>	12.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/22/12	<i>Adjusted Reserves/Production NTM</i>	24.0
<i>Shares (mm)</i>	131	<i>EV/Ebitda</i>	11.6
<i>Market Capitalization (US\$mm)</i>	1,590	<i>PV/Ebitda</i>	14.5
<i>Debt (US\$mm)</i>	410	<i>Probable Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	2,000	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	17.27
<i>Present Value (PV) (US\$mm)</i>	2,510	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	11.39
<i>Net Present Value (US\$/share)</i>	16	<i>Oil and Gas Ebitda Margin (%)</i>	65
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.43
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	28
<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

Buy-recommended **Birchcliff Energy (BIREF)** disclosed a 37% increase in proven and probable reserves and a 29% increase in Present Value (PV10) to \$3.3 billion, discounted at 10% a year (see table Net Present Value of Future Net Revenue on page 2). The independent engineer's estimate translates to Net Present Value per share (NPV) of \$22 compared to our estimate of \$16 (see table Functional Cash Flow and Present Value on page 2). The engineer has complete access to Birchcliff's confidential information while we have constrained our estimate as a multiple of current cash flow. The confidential information has also been disclosed to one or more buyers with whom Birchcliff is in negotiations to sell the whole company. Buyers from each of the major Asian consuming countries, China, Japan and Korea have been actively completing deals with Canadian producers. Most recently last week, Mitsubishi and Encana announced a \$2.9 billion transaction involving resources adjacent to Birchcliff lands. Meanwhile, management today confirms fourth quarter production ahead of our expectations. Moreover, February production to date of 21.1 thousand barrels equivalent daily is ahead of the 20.9 mboed in our estimate (see table Next Twelve Months Operating and Financial Results on page 3). Full results for 2011 will be disclosed on March 14. Lately, Birchcliff stock has fallen back to a McDep Ratio of 0.80 along with a decline in natural gas price. We think the timing looks good for an energy consuming buyer to act in today's uncertain environment to lock in large scale long-term resources in a stable political jurisdiction. The engineer's fresh estimate provides ample justification for a price higher than our NPV.

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

	NET PRESENT VALUE OF FUTURE NET REVENUE ⁽¹⁾					
	Before Income Taxes Discounted at % per year					
	(Forecast Prices And Costs)					
	0%	5%	8%	10%	15%	20%
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)
PROVED						
Developed Producing	1,291.1	992.1	871.1	806.1	681.1	592.0
Developed Non-Producing	178.3	139.2	122.3	113.0	94.5	80.9
Undeveloped	2,764.2	1,697.6	1,284.9	1,070.2	677.4	418.9
TOTAL PROVED	4,233.6	2,828.9	2,278.3	1,989.3	1,453.0	1,091.8
PROBABLE	4,187.1	2,252.1	1,627.7	1,330.8	838.7	552.9
PROVED PLUS PROBABLE	8,420.7	5,081.0	3,906.0	3,320.2	2,291.7	1,644.7

(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.

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	62	26.4	22.7	1,410	56%
Oil	111	15.7	9.9	1,100	44%
	173	24.0	14.5	2,510	100%
Debt					410
Net Present Value (US\$mm)					2,100
Shares					131
Net Present Value - Standard Estimate (US\$/sh)					16



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/10</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>Months</i>
									<i>12/31/12</i>
Volume (before royalty)									
Natural Gas (mmcf)	74	79	89	82	95	100	105	105	101
Oil (mbd)	4.0	4.5	5.0	4.5	5.0	5.0	5.0	4.9	5.0
Total (mboed)	16.4	17.6	19.8	18.1	20.9	21.7	22.5	22.4	21.9
Price									
Henry Hub (US\$/mmbtu)	3.80	4.19	3.55	4.04	2.79	2.87	3.06	3.34	3.01
Currency (US\$/C\$)	0.99	1.02	1.00	1.02	1.00	1.00	1.00	1.00	1.00
Henry Hub (C\$/mmbtu)	3.85	4.11	3.54	3.97	2.78	2.86	3.05	3.33	3.01
Differential (C\$/mmbtu)	(0.09)	0.19	0.16	0.12	0.13	0.13	0.14	0.15	0.13
Company (C\$/mcf)	3.94	3.92	3.38	3.85	2.66	2.73	2.91	3.18	2.88
WTI Cushing (US\$/bbl)	85.10	89.76	94.06	95.12	102.64	106.76	107.58	107.55	106.13
WTI Cushing (C\$/bbl)	86.13	87.94	93.88	93.40	102.45	106.56	107.37	107.35	105.93
Differential (C\$/bbl)	5.03	1.75	1.87	2.64	2.04	2.12	2.14	2.14	2.11
Company (C\$/bbl)	81.10	86.19	92.01	90.76	100.41	104.44	105.24	105.21	103.82
Total (\$/bbl)	37.83	39.44	38.50	39.93	36.30	36.79	37.07	37.92	37.04
Revenue (\$mm)									
Natural Gas	27	28	28	115	23	25	28	31	107
Oil	30	36	43	149	46	48	49	47	190
Royalties	(5)	(7)	(7)	(29)	(8)	(8)	(8)	(9)	(33)
Total	52	57	63	235	61	65	68	70	264
Expense	19	20	22	80	21	22	24	24	91
Ebitda (\$mm)	33	38	41	155	40	42	45	45	173
Deprec., Deplet., & Amort.	22	18	18	68	18	18	18	18	71
Other non-cash	4	(1)	(1)	3	(1)	(1)	(1)	(1)	(4)
Interest	4	5	5	20	5	5	5	5	18
Ebt	3	16	20	64	19	21	23	24	87
Income tax	2	5	7	20	7	7	8	8	31
Net Income (\$mm)	1	12	13	44	12	14	15	16	57
Per share (\$)	0.01	0.09	0.10	0.34	0.09	0.10	0.12	0.12	0.43
Shares (millions)	126	131	131	131	131	131	131	131	131
Ebitda margin (after royalty)	64%	66%	65%	66%	65%	65%	65%	65%	65%
Tax rate	60%	28%	35%	31%	35%	35%	35%	35%	35%



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
B = Buy	22-Feb	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	66.10	1.24	13,080	64	36	15.6	0.16	0.2	0.95
PDC Energy	PETD		35.80	1.44	1,220	55	45	7.0	-	-	0.92
Peyto Exploration and Developmen	PEYUF		18.99	1.22	3,080	75	25	10.0	0.72	3.8	0.82
Berry Petroleum Company	BRY		51.90	1.51	4,280	17	83	6.3	0.32	0.6	0.81
Birchcliff Energy Ltd.	BIREF	B	12.14	1.26	2,000	56	44	11.6	-	-	0.80
Cimarex Energy Company	XEC	B	83.73	1.13	8,130	43	57	6.3	0.48	0.6	0.78
Denbury Resources Inc.	DNR		19.64	1.32	10,400	4	96	6.1	-	-	0.76
Whiting Petroleum Corporation	WLL	B	56.56	1.24	8,340	9	91	4.8	-	-	0.69
<i>Total or Median</i>					50,500			6.6			0.81
Top Line Cash Payers											
Permian Basin RT	PBT		22.34	1.00	1,040	37	63		1.56	7.0	1.12
Cross Timbers Royalty Trust	CRT		48.30	1.00	290	70	30		2.67	5.5	1.10
Sabine Royalty Trust	SBR		66.37	1.00	970	55	45		4.12	6.2	1.02
Freehold Royalties Ltd.	FRHLF		20.55	1.06	1,280	14	86		1.68	8.2	0.98
Dorchester Minerals, L.P.	DMLP	CB	23.36	1.00	720	57	43		1.84	7.9	0.87
<i>Total or Median</i>					4,300					7.0	1.02
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.98	1.46	9,470	29	71	12.9	2.76	7.5	1.15
Vanguard Natural Resources, LLC	VNR		27.38	1.54	2,060	26	74	9.6	2.31	8.4	1.06
Enduro Royalty Trust (40%)	NDRO		21.51	1.00	280	45	55	7.4	1.78	8.3	1.02
Legacy Reserves L.P.	LGCY		29.45	1.34	1,880	18	82	8.5	2.20	7.5	0.99
Hugoton RoyaltyTrust	HGT		15.38	1.00	620	87	13	14.9	0.89	5.8	0.90
San Juan Basin Royalty Trust	SJT	CB	18.55	1.00	870	100	-	13.8	1.01	5.4	0.88
Mesa RoyaltyTrust	MTR		42.60	1.00	79	75	25	12.5	2.96	6.9	0.88
Enerplus Corporation	ERF	CB	24.41	1.20	5,800	26	74	6.5	2.16	8.9	0.75
<i>Total or Median</i>					21,100			11.1		7.5	0.95
Composite											
<i>Enterprise Value Weighting</i>					75,900	35	65				0.85
<i>Equal Weighting</i>						46	54				0.92
<i>Equal Weighted Buys</i>						42	58				0.82

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2012. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Table ISC-2

McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>22-Feb</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
Range Resources	RRC	B	66.10	160.0	10,580	70.00	0.18	0.95
PDC Energy	PETD		35.80	23.8	850	40.00	0.28	0.92
Peyto Exploration and Development Cor	PEYUF		18.99	133.1	2,530	24.00	0.15	0.82
Berry Petroleum Company	BRY		51.90	54.7	2,840	70.00	0.27	0.81
Birchcliff Energy Ltd.	BIREF	B	12.14	131.0	1,590	16.00	0.17	0.80
Cimarex Energy Company	XEC	B	83.73	86.2	7,220	110.00	0.09	0.78
Denbury Resources Inc.	DNR		19.64	403.0	7,910	28.00	0.18	0.76
Whiting Petroleum Corporation	WLL	B	56.56	119.0	6,730	88.00	0.13	0.69
<i>Total or Median</i>					40,250		0.17	0.81
Top Line Cash Payers								
Permian Basin RT	PBT		22.34	46.6	1,040	20.00	-	1.12
Cross Timbers Royalty Trust	CRT		48.30	6.0	290	44.00	-	1.10
Sabine Royalty Trust	SBR		66.37	14.6	970	65.00	-	1.02
Freehold Royalties Ltd.	FRHLF		20.55	58.8	1,210	21.00	0.05	0.98
Dorchester Minerals, L.P.	DMLP	CB	23.36	30.7	720	27.00	-	0.87
<i>Total or Median</i>					4,230			1.02
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.98	176.0	6,510	30.00	0.36	1.15
Vanguard Natural Resources, LLC	VNR		27.38	48.8	1,340	25.00	0.37	1.06
Enduro Royalty Trust (40%)	NDRO		21.51	13.2	280	21.00	-	1.02
Legacy Reserves L.P.	LGCY		29.45	47.5	1,400	30.00	0.25	0.99
Hugoton Royalty Trust	HGT		15.38	40.0	620	17.00	-	0.90
San Juan Basin Royalty Trust	SJT	CB	18.55	46.6	870	21.00	-	0.88
Mesa Royalty Trust	MTR		42.60	1.9	79	48.00	-	0.88
Enerplus Corporation	ERF	CB	24.41	196.0	4,780	34.00	0.13	0.75
<i>Total or Median</i>					15,880			0.95

B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		22-Feb 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	66.10		-	15.9	16.4	15.6
Birchcliff Energy Ltd.	BIREF	B	12.14		-	24.0	14.5	11.6
Peyto Exploration and Development Corp	PEYUF		18.99		0.37	16.1	12.2	10.0
PDC Energy	PETD		35.80		-	8.2	7.5	7.0
Berry Petroleum Company	BRY		51.90		-	11.4	7.7	6.3
Cimarex Energy Company	XEC	B	83.73		-	8.2	8.0	6.3
Denbury Resources Inc.	DNR		19.64		-	13.5	8.1	6.1
Whiting Petroleum Corporation	WLL	B	56.56		-	10.2	7.0	4.8
	<i>Median</i>					<i>12.4</i>	<i>8.1</i>	<i>6.6</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		48.30	80	0.96	14.4	15.9	17.4
Sabine Royalty Trust	SBR		66.37	100	1.00	7.3	15.8	16.1
Permian Basin RT	PBT		22.34	32	0.98	17.2	12.6	14.1
Dorchester Minerals, L.P.	DMLP	CB	23.36	77	0.84	6.1	12.3	10.7
Freehold Royalties Ltd.	FRHLF		20.55	71	0.81	6.7	10.1	9.9
	<i>Median</i>					<i>7.3</i>	<i>12.6</i>	<i>14.1</i>
Bottom Line Cash Payers								
Hugoton Royalty Trust	HGT		15.38		0.87	14.2	16.5	14.9
San Juan Basin Royalty Trust	SJT	CB	18.55		0.75	8.5	15.6	13.8
Linn Energy, LLC	LINE		36.98		1.03	16.2	11.2	12.9
Mesa Royalty Trust	MTR		42.60		0.87	13.9	14.2	12.5
Vanguard Natural Resources, LLC	VNR		27.38		0.84	8.7	9.0	9.6
Legacy Reserves L.P.	LGCY		29.45		0.63	11.7	8.6	8.5
Enduro Royalty Trust (40%)	NDRO		21.51		0.61	5.7	7.2	7.4
Enerplus Corporation	ERF	CB	24.41		0.55	8.1	8.6	6.5
	<i>Median</i>					<i>10.2</i>	<i>10.1</i>	<i>11.1</i>
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended December 31, 2012; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 23, 2012

Disclosure: A large shareholder and an officer of Birchcliff are research clients of McDep.

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