



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

Birchcliff Energy Ltd. (BIREF - Buy) Production Up 26% in 2012

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 12/31/13 (US\$mm)</i>	200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	45
<i>Price (US\$/sh)</i>	7.51	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/13/13	<i>Adjusted Reserves/Production NTM</i>	19.4
<i>Shares (mm)</i>	157	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$mm)</i>	1,180	<i>PV/Ebitda</i>	12.0
<i>Debt (US\$mm)</i>	510	<i>Undeveloped Reserves (%)</i>	71
<i>Enterprise Value (EV) (US\$mm)</i>	1,690	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	25.30
<i>Present Value (PV) (US\$mm)</i>	2,400	<i>Present Value Proven Reserves(\$/boe)</i>	16.10
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.26
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	29
<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)** produced 26% more natural gas and oil in 2012, beating our recently raised expectations for volume, price and cash flow margin (see table [Operating and Financial Estimates](#) on page 2 compared to *Stock Idea Birchcliff*, November 15, 2012). Reported on February 1, the favorable progress adds credibility to our estimate of Net Present Value (NPV) of \$12 a share (see table [Present Value](#) on page 3). Most of NPV is justified by multiple of cash flow related to proven reserves. Yet, proven reserves for a resource company like Birchcliff are just the tip of the iceberg that includes probable reserves, contingent resources and prospective resources (see chart [Resource Promotion](#) on page 3). The company has advanced from the land rush stage, during which it accumulated acreage with prospective resources in the Alberta Montney trend, to a drilling and development stage where it is “promoting” prospective resources to contingent resources to possible reserves to proven reserves. Most notably last year, proven producing reserves increased 41% and contingent resources more than doubled. Contingent resources are the plum that attracts a large corporate buyer who can add value merely by accelerating drilling financed by its deeper pockets. Meanwhile, Birchcliff’s financial pockets were deep enough for the company to survive the tough test of low natural gas price in the second quarter last year as a result of a record warm winter. After demonstrating resistance to the downside, the company continues to grow in the current environment while offering extra upside as an attractive acquisition target. Finally, Birchcliff’s McDep Ratio is low at 0.71, Debt/Present Value is moderate at 0.21, unlevered cash flow multiple (EV/Ebitda) is low at 8.5 compared to adjusted reserve life of 19 years and stock price has favorable momentum (see [Tables 1- 4](#) on pages 4-7).

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/11</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>Months</i>
	<i>12/31/11</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>12/31/13</i>
Volume (before royalty)									
Natural Gas (mmcf)	90	100	131	107	127	127	127	139	130
Days	92	92	92	366	90	91	92	92	365
Oil (mmb)	0.44	0.44	0.44	1.83	0.42	0.43	0.43	0.44	1.72
Oil (mbd)	4.8	4.7	4.8	5.0	4.7	4.7	4.7	4.8	4.7
Total (mmboe)	1.82	1.97	2.45	8.3	2.33	2.35	2.38	2.57	9.6
Total (mboed)	19.8	21.4	26.7	22.8	25.9	25.9	25.9	28.0	26.4
Price									
Henry Hub (US\$/mmbtu)	3.55	2.80	3.40	2.79	3.29	3.42	3.55	3.75	3.50
Currency (US\$/C\$)	0.98	1.00	1.01	1.00	1.00	1.00	1.00	1.00	1.00
Henry Hub (C\$/mmbtu)	3.63	2.79	3.37	2.78	3.29	3.42	3.56	3.75	3.51
Differential (C\$/mmbtu)	0.23	0.32	(0.06)	0.15	(0.06)	(0.06)	(0.06)	(0.06)	(0.07)
Company (C\$/mcf)	3.40	2.47	3.43	2.63	3.35	3.48	3.62	3.82	3.57
WTI Cushing (US\$/bbl)	94.06	92.22	88.18	94.16	96.29	98.02	98.85	98.33	97.87
WTI Cushing (C\$/bbl)	96.20	91.79	87.41	94.01	96.44	98.16	99.00	98.47	98.02
Differential (C\$/bbl)	0.79	9.73	4.53	9.66	4.99	5.08	5.13	5.10	5.07
Company (C\$/bbl)	95.41	82.07	82.88	84.35	91.44	93.08	93.87	93.37	92.95
Total (\$/bbl)	38.57	29.72	31.80	30.81	33.05	33.99	34.83	35.00	34.24
Revenue (\$mm)									
Natural Gas	28	23	41	103	38	40	42	49	170
Oil	42	36	37	154	39	40	41	41	160
Royalties	(7)	(5)	(6)	(24)	(7)	(8)	(8)	(9)	(31)
Total	63	54	72	233	70	72	75	82	299
Expense	28	20	26	92	28	29	30	33	119
Ebitda (\$mm)	35	33	46	140	42	43	45	49	179
Deprec., Deplet., & Amort.	22	22	29	96	29	29	29	26	114
Other non-cash	2	1	2	2	2	1	1	1	5
Interest	5	6	6	22	6	6	6	6	24
Ebt	6	5	9	20	5	7	9	16	37
Income tax	2	2	3	8	1	2	3	5	11
Net Income (\$mm)	4	3	6	13	3	5	6	11	26
Per share (\$)	0.03	0.02	0.04	0.09	0.02	0.03	0.04	0.07	0.16
Shares (millions)	132	144	144	140	163	163	163	163	163
Ebitda margin (after royalty)	55%	62%	64%	60%	60%	60%	60%	60%	60%
Tax rate	37%	41%	35%	38%	30%	30%	30%	30%	30%

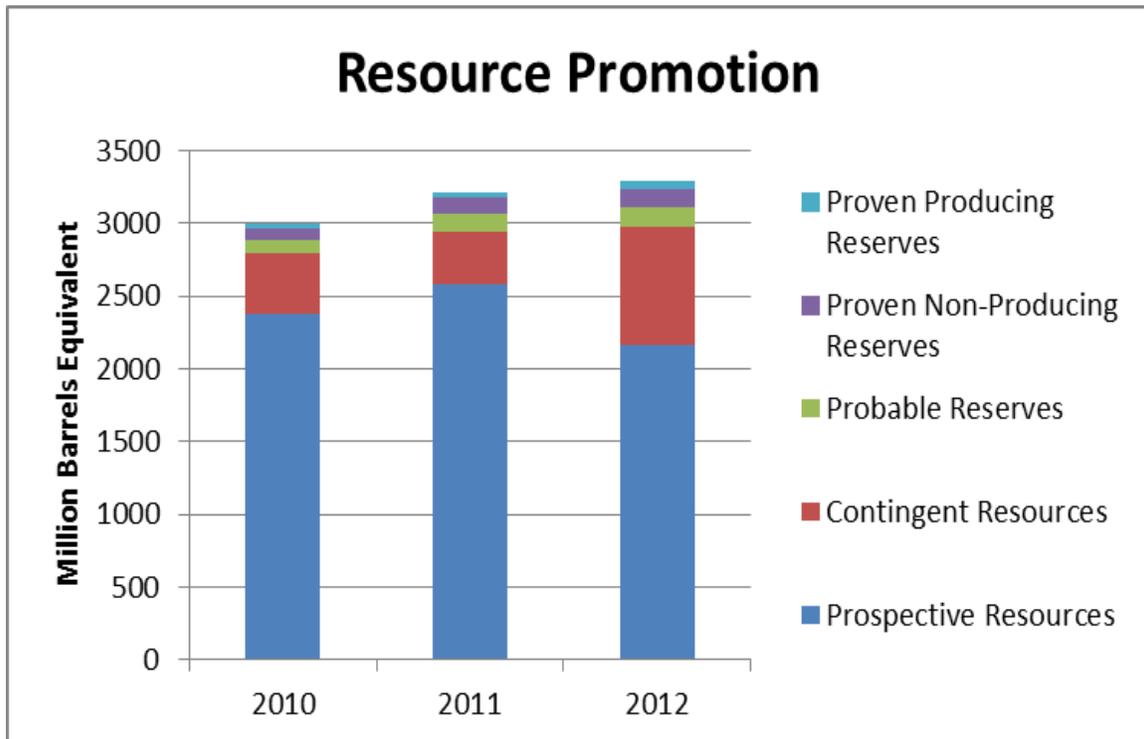


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

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	92	12.9	18.2	1,670	68%
Oil	87	10.5	9.2	800	32%
	179	12.5	13.8	2,470	100%
Debt					510
Net Present Value (US\$mm)					1,960
Shares					163
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10





Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

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		14-Feb	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2013	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
Small Cap Independent Producers										
PDC Energy	PDCE	44.05	1.59	2,120	44	56	12.6	-	-	1.06
Range Resources	RRC B	71.73	1.30	14,910	72	28	18.0	0.16	0.2	1.02
Peyto Exploration and Developmen	PEYUF	24.30	1.21	4,230	76	24	10.9	0.72	3.0	0.92
Continental Resources (32%)	CLR B	85.40	1.19	5,960	24	76	7.7	-	-	0.87
Halcón Resources	HK	7.47	1.58	4,000	15	85	5.6	-	-	0.82
Denbury Resources Inc.	DNR	18.92	1.44	10,620	4	96	6.9	-	-	0.75
Berry Petroleum Company	BRY	40.66	1.78	4,010	12	88	5.8	-	-	0.71
Birchcliff Energy Ltd.	BIREF B	7.31	1.43	1,700	68	32	9.5	-	-	0.69
Cimarex Energy Company	XEC B	67.25	1.24	7,230	41	59	5.4	0.48	0.7	0.66
Whiting Petroleum Corporation	WLL B	50.67	1.35	8,160	9	91	4.8	-	-	0.65
<i>Total or Median</i>				1.39	62,900	33	67	7.3		0.79
Leveraged Cash Payers										
Linn Energy, LLC	LINE	37.33	1.67	14,490	43	57	12.2	2.90	7.8	1.13
Vanguard Natural Resources, LLC	VNR	28.31	1.61	2,420	33	67	11.4	2.40	8.5	1.08
Legacy Reserves L.P.	LGCY	26.51	1.46	1,840	25	75	9.1	2.26	8.5	0.92
Enerplus Corporation	ERF CB	13.19	1.68	4,400	31	69	5.9	1.08	8.2	0.74
<i>Total or Median</i>				1.64	23,200	32	68	10.2	8.3	1.00
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	23.06	TL	1,580	16	84	10.8	1.68	7.3	1.09
Dorchester Minerals, L.P.	DMLP B	23.60	TL	720	61	39	12.6	1.82	7.7	0.87
Enduro Royalty Trust (40%)	NDRO	16.70	BL	220	48	52	7.9	1.88	11.2	0.79
San Juan Basin Royalty Trust	SJT B	16.32	BL	760	100	-	11.5	0.99	6.0	0.78
Sabine Royalty Trust	SBR	48.22	TL	700	51	49	12.2	3.94	8.2	0.74
Permian Basin RT	PBT	14.32	TL	670	33	67	9.1	0.87	6.1	0.72
Cross Timbers Royalty Trust	CRT	29.72	TL	180	70	30	9.3	3.10	10.4	0.67
Hugoton RoyaltyTrust	HGT	8.45	BL	340	88	13	7.3	0.56	6.6	0.60
Mesa RoyaltyTrust	MTR	23.04	BL	43	75	25	9.0	2.05	8.9	0.58
<i>Total or Median</i>				5,200	61	39	9.3		7.7	0.74
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, 2013. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

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		14-Feb 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	71.73		-	15.0	17.6	18.0
PDC Energy	PDCE		44.05		-	15.0	11.9	12.6
Peyto Exploration and Development Corp	PEYUF		24.30		0.32	9.2	11.9	10.9
Birchcliff Energy Ltd.	BIREF	B	7.31		-	19.9	13.8	9.5
Continental Resources (32%)	CLR	B	85.40		-	11.8	8.8	7.7
Denbury Resources Inc.	DNR		18.92		-	14.2	9.2	6.9
Berry Petroleum Company	BRY		40.66		-	12.1	8.2	5.8
Halcón Resources	HK		7.47		-	5.5	6.8	5.6
Cimarex Energy Company	XEC	B	67.25		-	7.4	8.2	5.4
Whiting Petroleum Corporation	WLL	B	50.67		-	9.1	7.4	4.8
	<i>Median</i>					12.0	9.0	7.3
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.33		1.04	14.0	10.7	12.2
Vanguard Natural Resources, LLC	VNR		28.31		1.02	13.2	10.6	11.4
Legacy Reserves L.P.	LGCY		26.51		0.74	11.0	9.9	9.1
Enerplus Corporation	ERF	CB	13.19		0.41	6.3	7.9	5.9
	<i>Median</i>					12.1	10.2	10.2
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	23.60	77	0.97	6.7	14.4	12.6
Sabine Royalty Trust	SBR		48.22	100	1.00	8.1	16.5	12.2
San Juan Basin Royalty Trust	SJT	B	16.32		0.69	9.1	14.8	11.5
Freehold Royalties Ltd.	FRHLF		23.06	80	0.79	5.1	9.9	10.8
Cross Timbers Royalty Trust	CRT		29.72	78	0.97	14.2	13.8	9.3
Permian Basin RT	PBT		14.32	52	0.55	9.9	12.7	9.1
Mesa RoyaltyTrust	MTR		23.04		0.80	7.7	15.6	9.0
Enduro Royalty Trust (40%)	NDRO		16.70		0.89	6.4	9.9	7.9
Hugoton RoyaltyTrust	HGT		8.45		0.48	12.9	12.1	7.3
	<i>Median</i>					8.1	13.8	9.3
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, 2013; 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 15, 2013

Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		14-Feb	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers									
PDC Energy	PDCE		44.05	33	0.99	1.55	1.12	1.25	1.06
Continental Resources (32%)	CLR	B	85.40	16	0.90	1.31	1.07	1.12	0.87
Denbury Resources Inc.	DNR		18.92	17	0.92	1.27	1.07	1.12	0.75
Cimarex Energy Company	XEC	B	67.25	17	0.80	1.34	1.08	1.11	0.66
Peyto Exploration and Development C	PEYUF		24.30	5	0.93	1.50	1.03	1.10	0.92
Whiting Petroleum Corporation	WLL	B	50.67	17	0.84	1.28	1.08	1.09	0.65
Range Resources	RRC	B	71.73	14	0.98	1.25	1.07	1.08	1.02
Berry Petroleum Company	BRY		40.66	21	0.81	1.17	1.09	1.05	0.71
Birchcliff Energy Ltd.	BIREF	B	7.31	(3)	0.65	1.29	0.99	1.03	0.69
Halcón Resources	HK		7.47	8	0.67		1.01	0.97	0.82
	<i>Median</i>			16	0.87	1.29	1.07	1.10	0.79
Leveraged Cash Payers									
Vanguard Natural Resources, LLC	VNR		28.31	10	0.96	1.14	1.02	1.02	1.08
Legacy Reserves L.P.	LGCY		26.51	14	0.92	1.12	1.05	1.00	0.92
Linn Energy, LLC	LINE		37.33	7	0.92	1.05	1.00	0.98	1.13
Enerplus Corporation	ERF	CB	13.19	3	0.66	1.09	1.00	0.95	0.74
Enduro Royalty Trust (40%)	NDRO		16.70	0	0.76	1.11	0.99	0.94	0.79
	<i>Median</i>			7	0.92	1.11	1.00	0.98	0.92
RTF Cash Payers									
Freehold Royalties Ltd.	FRHLF		23.06	4	0.95	1.36	1.02	1.14	1.09
San Juan Basin Royalty Trust	SJT	B	16.32	22	0.79	1.35	1.13	1.11	0.78
Hugoton RoyaltyTrust	HGT		8.45	16	0.54	1.48	1.06	1.08	0.60
Dorchester Minerals, L.P.	DMLP	B	23.60	18	0.89	1.19	1.10	1.07	0.87
Sabine Royalty Trust	SBR		48.22	22	0.73	1.24	1.08	0.97	0.74
Cross Timbers Royalty Trust	CRT		29.72	12	0.60	1.26	1.05	0.91	0.67
Permian Basin RT	PBT		14.32	17	0.62	1.19	1.08	0.90	0.72
Mesa RoyaltyTrust	MTR		23.04	20	0.53	1.23	1.05	0.88	0.58
	<i>Median</i>			18	0.67	1.25	1.07	1.02	0.73

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

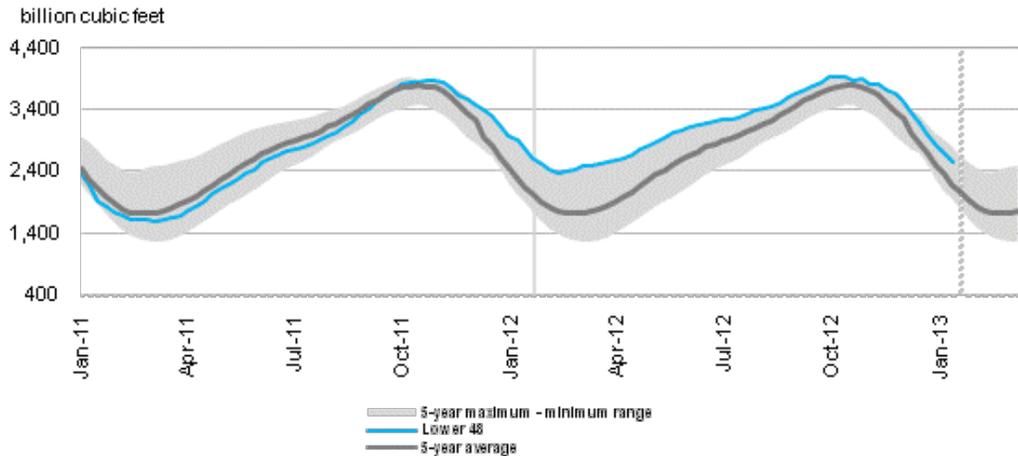


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 15, 2013

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

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. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.