



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 24, 2013

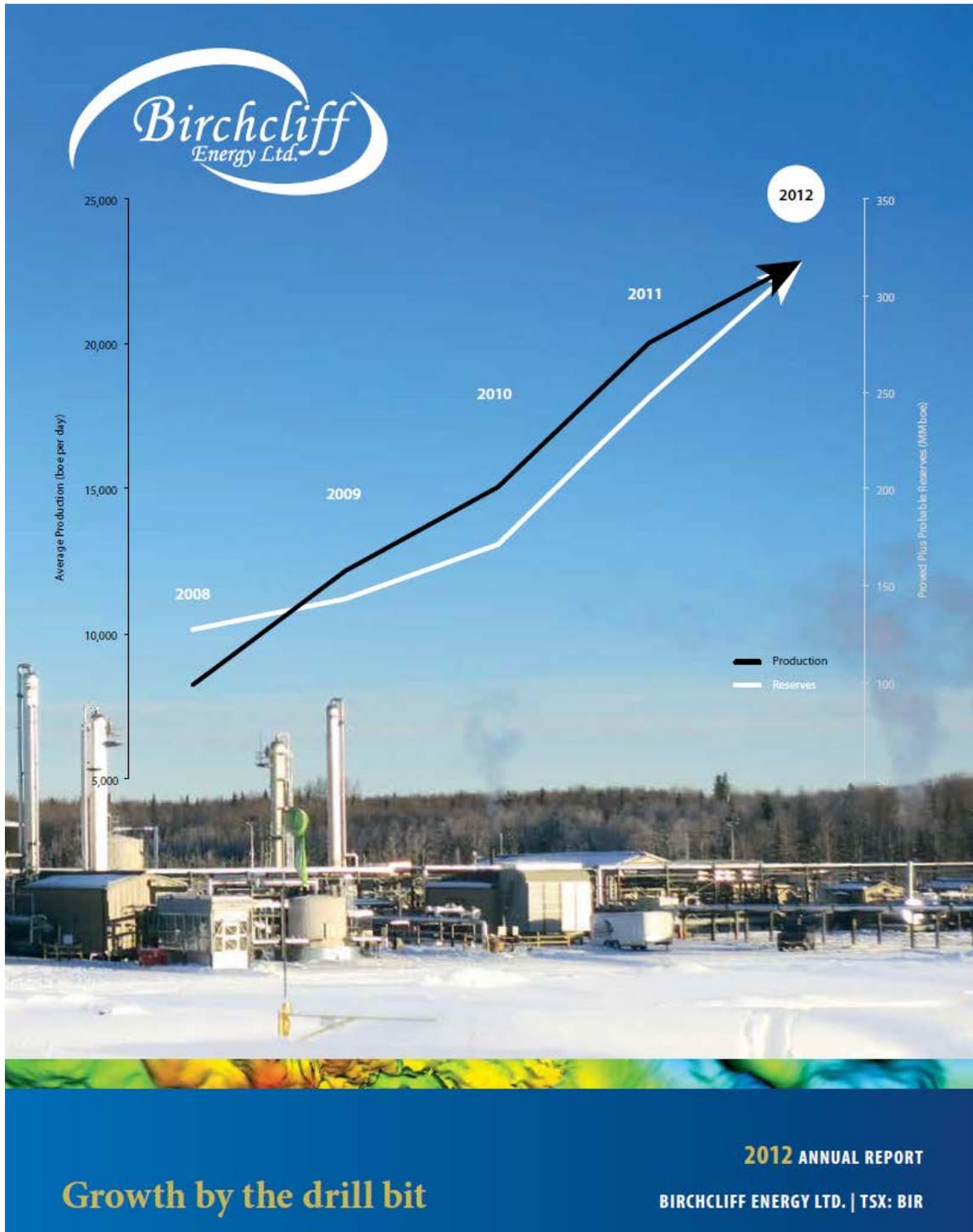
Birchcliff Energy Ltd. (BIREF - Buy) Small Cap North American Natural Gas

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	195
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (US\$/sh)</i>	8.32	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/23/13	<i>Adjusted Reserves/Production NTM</i>	19.6
<i>Shares (mm)</i>	164	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$mm)</i>	1,360	<i>PV/Ebitda</i>	12.9
<i>Debt (US\$mm)</i>	540	<i>Undeveloped Reserves (%)</i>	69
<i>Enterprise Value (EV) (US\$mm)</i>	1,910	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	24.80
<i>Present Value (PV) (US\$mm)</i>	2,510	<i>Present Value Proven Reserves(\$/boe)</i>	16.90
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.26
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	32
<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 **Birchcliff Energy (BIREF)** for small cap upside in the world's most economical clean fuel, North American natural gas. Production and reserves tripled in the past four years and we are estimating 15% production growth in 2013 (see snapshot Growth by the Drill Bit on page 2 and table Operating and Financial Estimates on page 3). Latest results for the first quarter reported on May 15 met expectations underlying our estimated Net Present Value (NPV) of \$12 a share (see table Present Value on page 3). A leading driller in the Montney/Doig Natural Gas Resource Play, Birchcliff has completed over 100 horizontal wells, mostly in its Pouce Coupe Development Area (see map on page 4). While the company can sell its growing output into the existing pipeline grid in Canada, the longer term excitement lies in exporting to global markets. Birchcliff's resources are strategically located on the route of proposed pipelines to liquefaction plants and terminals to be built on the British Columbia coast for eventual shipment to Asia (see map on page 5). Liquefied natural gas in the Far East sells for an oil equivalent price that is four times the wellhead price in North America. Progress on those projects may accelerate with the completion of elections in British Columbia last week. Recent approval of two competitive U.S. export projects also ought to spur action in Canada. Global LNG developers typically line up long term natural gas supply by acquisition of local producers or by contract. Birchcliff has the natural gas resources to attract large amounts of capital to acquire the whole company or to finance acceleration of production growth. Finally, Birchcliff's McDep Ratio is low at 0.76, Debt/Present Value is moderate at 0.22, unlevered cash flow multiple (EV/Ebitda) is low at 9.8 compared to adjusted life of proven reserves of 20 years and stock price has favorable momentum (see Tables ISC-1 to ISC-4 on pages 6-9).

Kurt H. Wulff, CFA





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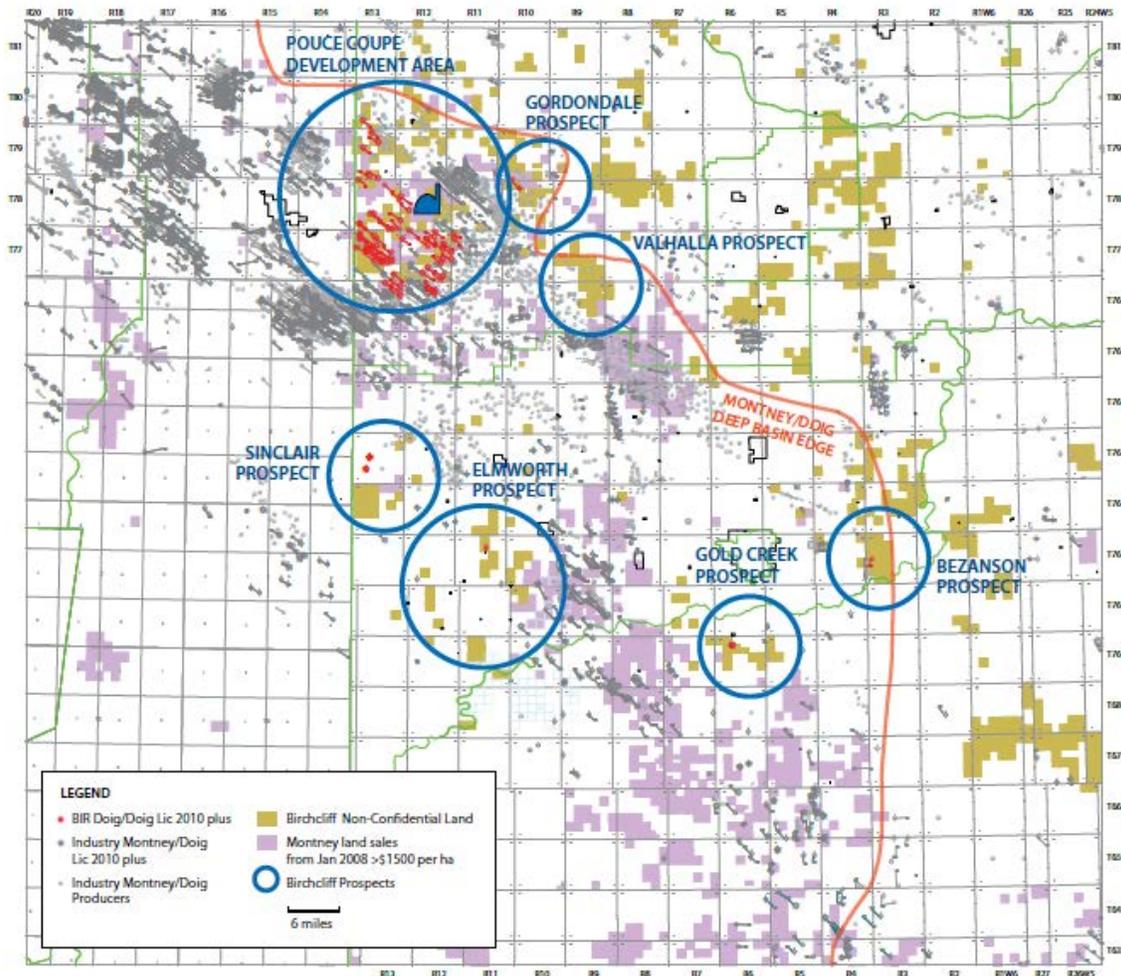
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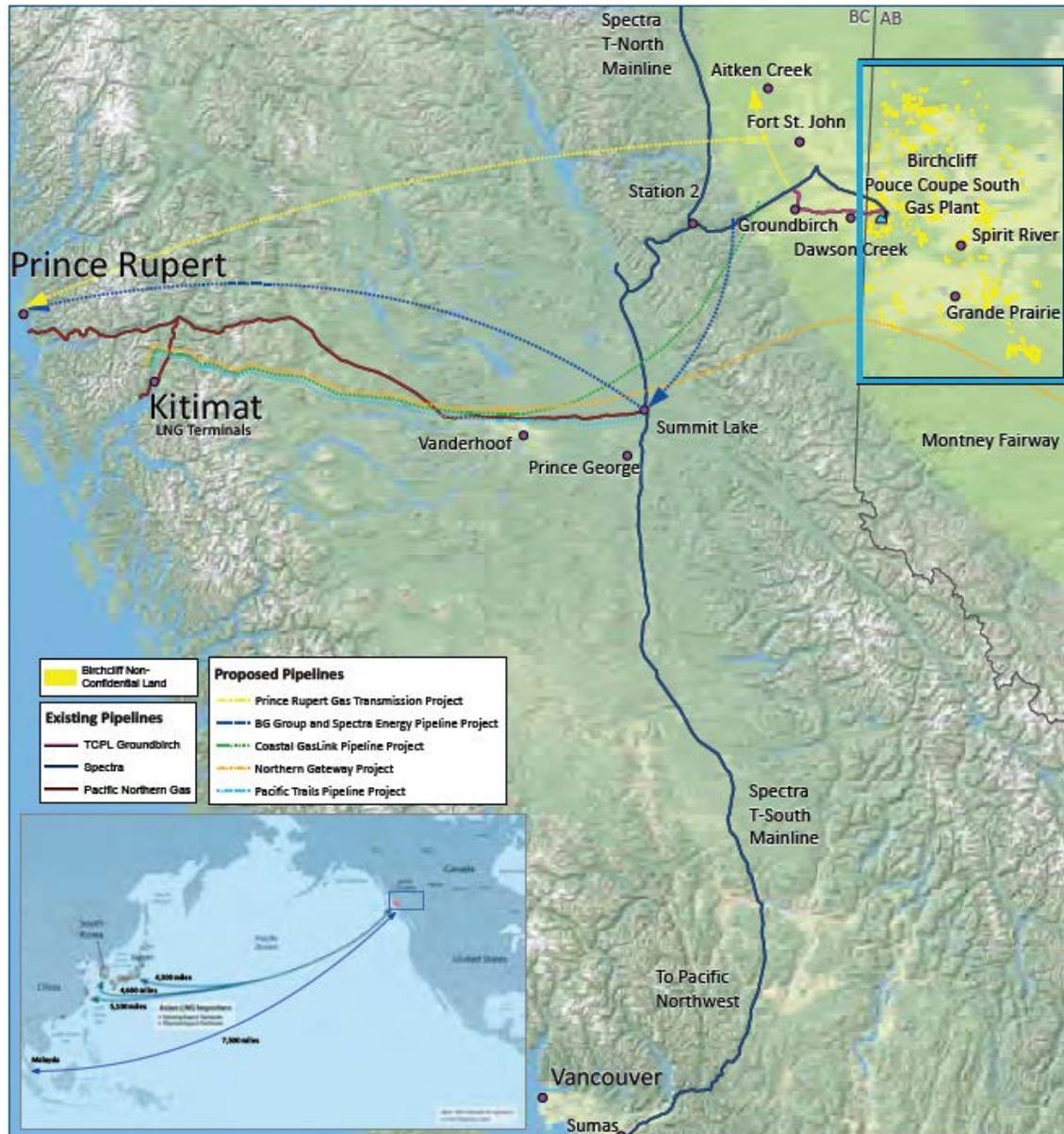
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Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	
	<i>3/31/12</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>2013E</i>	<i>3/31/14</i>	<i>3/31/14</i>
Volume (before royalty)										
Natural Gas (mmcf)	95	131	107	128	115	131	134	127	144	131
Days	91	92	366	90	91	92	92	365	90	365
Oil (mmb)	0.47	0.44	1.83	0.43	0.39	0.43	0.57	1.82	0.45	1.85
Oil (mbd)	5.2	4.8	5.0	4.8	4.3	4.7	6.2	5.0	5.0	5.1
Total (mmboe)	1.92	2.45	8.3	2.35	2.14	2.49	2.62	9.6	2.61	9.9
Total (mboed)	21.1	26.7	22.8	26.1	23.5	27.0	28.5	26.3	29.0	27.0
Price										
Henry Hub (US\$/mmbtu)	2.73	3.40	2.79	3.34	4.08	4.15	4.28	3.96	4.45	4.24
Currency (US\$/C\$)	1.00	1.01	1.00	0.97	0.97	0.97	0.97	0.97	0.97	0.97
Henry Hub (C\$/mmbtu)	2.73	3.37	2.78	3.44	4.20	4.28	4.41	4.08	4.59	4.37
Differential (C\$/mmbtu)	0.41	(0.06)	0.15	0.04	0.04	0.05	0.05	0.04	0.05	0.04
Company (C\$/mcf)	2.32	3.43	2.63	3.40	4.15	4.23	4.36	4.04	4.54	4.33
WTI Cushing (US\$/bbl)	102.93	88.18	94.16	94.41	94.90	96.99	95.97	95.57	94.40	95.57
WTI Cushing (C\$/bbl)	103.04	87.41	94.01	97.24	97.75	99.90	98.85	98.43	97.23	98.43
Differential (C\$/bbl)	12.59	4.53	9.66	12.13	12.19	12.46	12.33	12.23	12.13	12.24
Company (C\$/bbl)	90.45	82.88	84.35	85.12	85.56	87.44	86.52	86.20	85.10	86.19
Total (\$/bbl)	32.78	31.80	30.81	32.19	35.97	35.71	39.37	35.91	37.20	37.14
Revenue (\$mm)										
Natural Gas	20	41	103	39	44	51	54	187	59	207
Oil	43	37	154	36	33	38	50	157	38	159
Royalties	(7)	(6)	(24)	(6)	(7)	(8)	(9)	(29)	(8)	(31)
Total	56	72	233	69	70	81	94	315	89	335
Expense										
Total	24	26	92	24	28	32	38	122	36	134
Ebitda (\$mm)										
Total	31	46	140	46	42	49	57	193	53	201
Deprec., Deplet., & Amort.	22	29	96	27	27	27	26	107	26	106
Other non-cash	(3)	1	1	3	1	1	1	6	2	5
Interest	6	7	23	7	7	7	7	27	7	27
Ebt										
Total	6	9	20	9	8	14	23	53	19	63
Income tax	2	3	8	3	2	4	7	16	6	19
Net Income (\$mm)										
Total	4	6	13	6	5	10	16	37	13	44
Per share (\$)	0.03	0.04	0.09	0.04	0.03	0.06	0.10	0.23	0.08	0.27
Shares (millions)										
Total	131	144	140	144	164	164	164	161	164	164
Ebitda margin (after royalty)	56%	64%	60%	66%	60%	60%	60%	61%	60%	60%
Tax rate	33%	35%	38%	34%	30%	30%	30%	31%	30%	30%

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	110	13.0	15.5	1,710	68%
Oil	85	10.0	9.4	800	32%
	195	12.4	12.9	2,510	100%
Debt					540
Net Present Value (US\$mm)					1,970
Shares					164
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10

MONTNEY/DOIG NATURAL GAS RESOURCE PLAY







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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	23-May	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE	49.84	1.51	2,340	26	74	11.5	-	-	1.00	
Range Resources	RRC B	78.03	1.29	16,160	66	34	13.7	0.16	0.2	0.89	
Peyto Exploration and Development Corp	PEYUF	30.10	1.18	5,270	68	32	9.9	0.86	2.8	0.88	
Halcón Resources	HK	5.52	2.25	5,210	8	92	7.6	-	-	0.83	
Continental Resources (32%)	CLR B	83.98	1.27	6,300	18	82	6.6	-	-	0.80	
Berry Petroleum Company	BRY	44.95	1.74	4,320	12	88	6.7	0.32	0.7	0.76	
Birchcliff Energy Ltd.	BIREF B	8.32	1.40	1,900	68	32	9.7	-	-	0.76	
Denbury Resources Inc.	DNR	18.71	1.49	10,390	5	95	6.3	-	-	0.75	
Cimarex Energy Company	XEC B	71.62	1.23	7,610	40	60	5.5	0.56	0.8	0.70	
Whiting Petroleum Corporation	WLL CB	45.79	1.47	8,020	7	93	4.2	-	-	0.61	
<i>Total or Median</i>				1.44	67,500	22	78	7.1			0.78
Leveraged Cash Payers											
Vanguard Natural Resources, LLC	VNR	29.41	1.56	2,970	37	63	11.0	2.46	8.4	1.11	
Linn Energy, LLC	LINE	35.23	1.76	14,430	42	58	12.8	2.90	8.2	1.09	
Legacy Reserves L.P.	LGCY	27.83	1.58	2,520	19	81	10.3	2.30	8.3	0.95	
Enerplus Corporation	ERF	16.06	1.57	4,900	31	69	6.6	1.05	6.5	0.84	
<i>Total or Median</i>				1.58	24,800	34	66	10.7			1.02
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF	23.30	TL	1,600	27	73	11.0	1.63	7.0	1.11	
Dorchester Minerals, L.P.	DMLP B	25.02	TL	770	61	39	14.2	1.67	6.7	0.93	
Enduro Royalty Trust (40%)	NDRO	16.41	BL	220	41	59	9.0	1.52	9.3	0.87	
Sabine Royalty Trust	SBR	54.74	TL	800	45	55	13.0	4.20	7.7	0.84	
Mesa Royalty Trust	MTR	24.79	BL	46	75	25	9.8	2.06	8.3	0.77	
San Juan Basin Royalty Trust	SJT B	16.08	BL	750	100	-	9.8	1.10	6.8	0.77	
Permian Basin RT	PBT	13.95	TL	650	31	69	9.1	0.82	5.9	0.70	
Hugoton Royalty Trust	HGT	9.66	BL	390	88	13	9.6	0.86	8.9	0.69	
Cross Timbers Royalty Trust	CRT	29.92	TL	180	80	20	12.4	2.16	7.2	0.68	
<i>Total or Median</i>				5,400	61	39	9.8				7.2
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 March 31, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											



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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		23-May 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	78.03		-	14.2	15.4	13.7
PDC Energy	PDCE		49.84		-	15.8	11.5	11.5
Peyto Exploration and Development Corp	PEYUF		30.10		0.28	9.7	11.3	9.9
Birchcliff Energy Ltd.	BIREF	B	8.32		-	19.6	12.9	9.7
Halcón Resources	HK		5.52		-	5.7	9.1	7.6
Berry Petroleum Company	BRY		44.95		-	12.1	8.8	6.7
Continental Resources (32%)	CLR	B	83.98		-	10.5	8.3	6.6
Denbury Resources Inc.	DNR		18.71		-	13.9	8.4	6.3
Cimarex Energy Company	XEC	B	71.62		-	7.8	7.9	5.5
Whiting Petroleum Corporation	WLL	CB	45.79		-	8.7	6.8	4.2
	<i>Median</i>					11.3	9.0	7.1
Leveraged Cash Payers								
Linn Energy, LLC	LINE		35.23		1.13	14.1	11.7	12.8
Vanguard Natural Resources, LLC	VNR		29.41		0.98	11.0	10.0	11.0
Legacy Reserves L.P.	LGCY		27.83		0.83	11.0	10.8	10.3
Enerplus Corporation	ERF		16.06		0.39	6.5	7.9	6.6
	<i>Median</i>					11.0	10.4	10.7
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	25.02	77	0.94	7.0	15.3	14.2
Sabine Royalty Trust	SBR		54.74	100	1.00	8.9	15.5	13.0
Cross Timbers Royalty Trust	CRT		29.92	97	0.90	13.0	18.2	12.4
Freehold Royalties Ltd.	FRHLF		23.30	88	0.78	4.6	10.0	11.0
Mesa Royalty Trust	MTR		24.79		0.82	5.2	12.7	9.8
San Juan Basin Royalty Trust	SJT	B	16.08		0.67	10.4	12.8	9.8
Hugoton Royalty Trust	HGT		9.66		0.86	13.0	13.9	9.6
Permian Basin RT	PBT		13.95	58	0.54	12.7	13.1	9.1
Enduro Royalty Trust (40%)	NDRO		16.41		0.83	6.1	10.4	9.0
	<i>Median</i>					8.9	13.1	9.8
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 March 31, 2014; 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).								



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Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		23-May	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers									
PDC Energy	PDCE		49.84	50	0.95	1.68	1.04	1.20	1.00
Peyto Exploration and Development C	PEYUF		30.10	33	0.97	1.66	1.07	1.18	0.88
Cimarex Energy Company	XEC	B	71.62	25	0.92	1.41	0.99	1.09	0.70
Range Resources	RRC	B	78.03	24	0.95	1.33	1.01	1.08	0.89
Birchcliff Energy Ltd.	BIREF	B	8.32	7	0.95	1.41	1.03	1.07	0.76
Berry Petroleum Company	BRY		44.95	34	0.95	1.23	0.98	1.07	0.76
Denbury Resources Inc.	DNR		18.71	15	0.97	1.25	1.02	1.07	0.75
Continental Resources (32%)	CLR	B	83.98	14	0.91	1.27	1.01	1.05	0.80
Whiting Petroleum Corporation	WLL	CB	45.79	5	0.88	1.18	0.98	0.99	0.61
Halcón Resources	HK		5.52	(19)	0.69	1.23	0.91	0.89	0.83
	<i>Median</i>			20	0.95	1.30	1.01	1.07	0.78
Leveraged Cash Payers									
Enerplus Corporation	ERF		16.06	28	0.95	1.23	1.07	1.07	0.84
Legacy Reserves L.P.	LGCY		27.83	22	0.95	1.14	1.02	1.03	0.95
Vanguard Natural Resources, LLC	VNR		29.41	17	0.98	1.17	1.02	1.03	1.11
Linn Energy, LLC	LINE		35.23	4	0.89	1.02	0.97	0.95	1.09
	<i>Median</i>			19	0.95	1.16	1.02	1.03	1.02
RTF Cash Payers									
Hugoton RoyaltyTrust	HGT		9.66	37	0.97	1.69	1.07	1.24	0.69
Sabine Royalty Trust	SBR		54.74	41	0.98	1.41	1.11	1.13	0.84
Dorchester Minerals, L.P.	DMLP	B	25.02	28	0.97	1.26	1.06	1.11	0.93
San Juan Basin Royalty Trust	SJT	B	16.08	20	0.90	1.33	1.05	1.10	0.77
Freehold Royalties Ltd.	FRHLF		23.30	8	0.96	1.37	1.00	1.07	1.11
Mesa RoyaltyTrust	MTR		24.79	33	0.70	1.32	1.00	1.02	0.77
Cross Timbers Royalty Trust	CRT		29.92	15	0.75	1.27	1.05	1.01	0.68
Permian Basin RT	PBT		13.95	16	0.72	1.17	1.10	1.00	0.70
Enduro Royalty Trust (40%)	NDRO		16.41	1	0.83	1.10	1.01	0.95	0.87
	<i>Median</i>			20	0.90	1.32	1.05	1.07	0.77

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

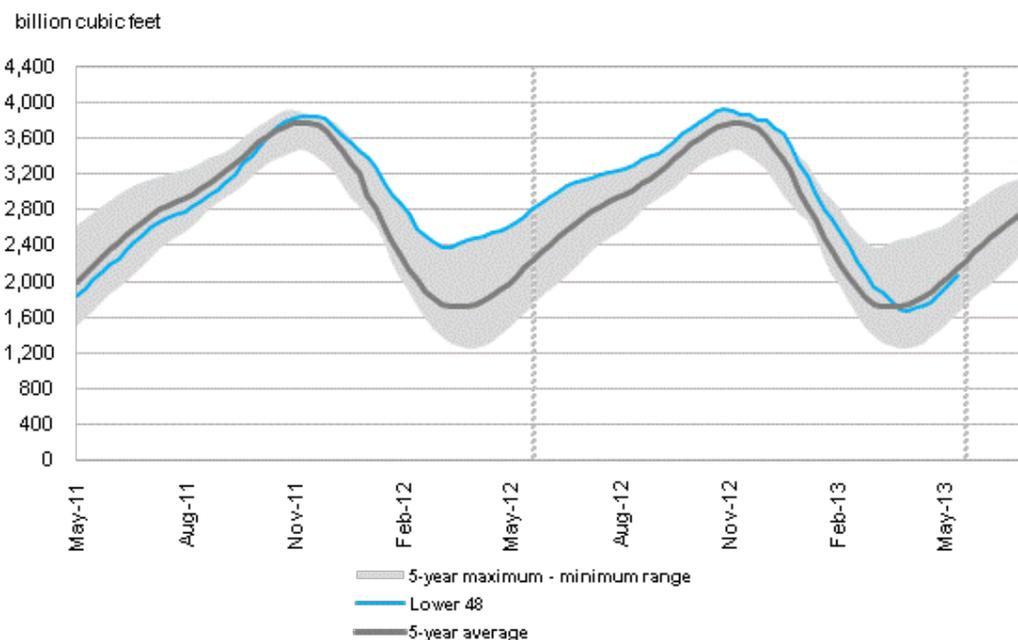


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Working gas in underground storage compared with the 5-year maximum and minimum



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.

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