



# Independent Stock Idea

November 15, 2013

## Birchcliff Energy Ltd. (BIREF – Contrarian Buy) 15% a Year Growth to 2018

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 9/30/14 (US\$mm)</i>	200
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	51
<i>Price (US\$/sh)</i>	6.97	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/14/13	<i>Adjusted Reserves/Production NTM</i>	18.2
<i>Shares (mm)</i>	163	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$mm)</i>	1,140	<i>PV/Ebitda</i>	12.6
<i>Debt (US\$mm)</i>	560	<i>Undeveloped Reserves (%)</i>	69
<i>Enterprise Value (EV) (US\$mm)</i>	1,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.70
<i>Present Value (PV) (US\$mm)</i>	2,520	<i>Present Value Proven Reserves(\$/boe)</i>	16.90
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	66
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.30
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	23
<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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Birchcliff see <a href="http://www.mcdep.com/5bir.htm">www.mcdep.com/5bir.htm</a>			

### Summary and Recommendation

Contrarian Buy **Birchcliff Energy (BIREF)** expects to double oil and gas production by 2018 according to its recently updated five-year plan. The 15% a year growth rate would be achieved with reinvestment of cash flow and a gradual decrease in debt ratio against the backdrop of current oil price and gradually improving natural gas price. To protect against unexpected price volatility, management would modify its long-standing hedge-free policy, perhaps to purchase put options to limit the downside without limiting the upside. Meanwhile, third quarter results released the night of November 13 met our expectations for cash flow (Ebitda). Low operating costs from efficient operations cushioned a temporary Canadian natural gas price dislocation that has since corrected (see table Operating and Financial Estimates on page 2). Continued progress and modest recognition of the company's strong resource position supports estimated Net Present Value (NPV) of \$12 a share (see table Present Value on page 3). Birchcliff is a leading land holder and experienced user of horizontal drilling and multi-stage fracturing in the Alberta Montney. That low cost resource play is well-positioned to supply the liquefied natural gas (LNG) export plants under construction and planning for British Columbia. LNG exports may begin in 2017. Until then Birchcliff sells into the well-integrated North American market where transportation differentials are usually moderate. Despite that connectedness, Canadian oil and gas producers seem to be lagging U.S. counter parts in stock price in 2013. There may be an unpredictable currency influence as the Canadian dollar has declined compared to the U.S. dollar in 2013. We think low McDep Ratios for Canadian stocks like Birchcliff point to opportunity for patient investors.

Kurt H. Wulff, CFA



# Independent Stock Idea

November 15, 2013

Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Year</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	
	<i>9/30/12</i>	<i>2012</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>6/30/14</i>	<i>9/30/14</i>	<i>9/30/14</i>
<b>Volume (before royalty)</b>										
Natural Gas (mmcf)	100	<b>107</b>	117	120	140	<b>126</b>	144	144	144	<b>143</b>
Days	92	<b>366</b>	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mmb)	0.44	<b>1.83</b>	0.42	0.43	0.50	<b>1.78</b>	0.45	0.46	0.46	<b>1.86</b>
Oil (mbd)	4.7	<b>5.0</b>	4.6	4.7	5.4	<b>4.9</b>	5.0	5.0	5.0	<b>5.1</b>
Total (mmb/e)	1.97	<b>8.3</b>	2.20	2.27	2.64	<b>9.5</b>	2.61	2.64	2.67	<b>10.6</b>
Total (mbo/e)	21.4	<b>22.8</b>	24.1	24.7	28.7	<b>25.9</b>	29.0	29.0	29.0	<b>28.9</b>
<b>Price</b>										
Henry Hub (US\$/mmbtu)	2.80	<b>2.79</b>	4.10	3.58	3.87	<b>3.72</b>	3.62	3.64	3.72	<b>3.71</b>
Currency (US\$/C\$)	1.00	<b>1.00</b>	0.98	0.96	0.95	<b>0.97</b>	0.95	0.95	0.95	<b>0.95</b>
Henry Hub (C\$/mmbtu)	2.79	<b>2.78</b>	4.19	3.71	4.06	<b>3.83</b>	3.80	3.81	3.90	<b>3.89</b>
Differential (C\$/mmbtu)	0.32	<b>0.15</b>	0.41	1.11	0.46	<b>0.48</b>	0.43	0.43	0.44	<b>0.44</b>
Company (C\$/mcf)	2.47	<b>2.63</b>	3.78	2.60	3.60	<b>3.35</b>	3.37	3.38	3.45	<b>3.45</b>
WTI Cushing (US\$/bbl)	92.22	<b>94.16</b>	94.22	105.83	96.78	<b>97.81</b>	95.49	94.88	93.34	<b>95.12</b>
WTI Cushing (C\$/bbl)	91.79	<b>94.01</b>	96.41	109.92	101.44	<b>100.74</b>	100.10	99.46	97.84	<b>99.71</b>
Differential (C\$/bbl)	9.73	<b>9.66</b>	5.92	8.36	7.71	<b>7.93</b>	7.61	7.56	7.44	<b>7.55</b>
Company (C\$/bbl)	82.07	<b>84.35</b>	90.49	101.56	93.73	<b>92.80</b>	92.49	91.90	90.40	<b>92.16</b>
Total (\$/bbl)	29.72	<b>30.81</b>	35.73	32.08	35.14	<b>33.81</b>	32.67	32.63	32.74	<b>33.30</b>
<b>Revenue (\$mm)</b>										
Natural Gas	23	<b>103</b>	40	29	46	<b>154</b>	44	44	46	<b>180</b>
Oil	36	<b>154</b>	38	44	47	<b>165</b>	42	42	42	<b>172</b>
Royalties	(5)	<b>(24)</b>	(7)	(7)	(9)	<b>(29)</b>	(8)	(8)	(8)	<b>(32)</b>
Total	54	<b>233</b>	71	66	84	<b>291</b>	77	78	79	<b>319</b>
<b>Expense</b>	20	<b>92</b>	24	22	29	<b>99</b>	27	27	27	<b>110</b>
<b>Ebitda (\$mm)</b>	33	<b>140</b>	47	44	55	<b>192</b>	51	51	52	<b>209</b>
Deprec., Deplet., & Amort.	22	<b>96</b>	25	26	26	<b>104</b>	26	26	26	<b>104</b>
Other non-cash	1	<b>1</b>	1	(1)	2	<b>5</b>	2	2	2	<b>8</b>
Interest	6	<b>23</b>	7	6	6	<b>25</b>	6	6	6	<b>23</b>
<b>Ebt</b>	5	<b>20</b>	14	13	22	<b>58</b>	17	18	18	<b>75</b>
Income tax	2	<b>8</b>	4	4	6	<b>18</b>	5	5	6	<b>22</b>
<b>Net Income (\$mm)</b>	3	<b>13</b>	10	9	15	<b>40</b>	12	12	13	<b>52</b>
Per share (\$)	0.02	<b>0.09</b>	0.07	0.06	0.09	<b>0.26</b>	0.07	0.08	0.08	<b>0.32</b>
<b>Shares (millions)</b>	144	<b>140</b>	145	145	163	<b>151</b>	163	163	163	<b>163</b>
Ebitda margin (after royalty)	62%	<b>60%</b>	67%	66%	66%	<b>66%</b>	66%	66%	66%	<b>66%</b>
Tax rate	41%	<b>38%</b>	29%	33%	30%	<b>31%</b>	30%	30%	30%	<b>30%</b>



# Independent Stock Idea

November 15, 2013

<b>Birchcliff Energy Ltd.</b>					
<b>Functional Cash Flow and Present Value</b>					
	<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	102	11.9	17.1	1,740	69%
Oil	98	9.9	8.0	780	31%
	200	11.6	12.6	2,520	100%
Debt					560
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)					11

**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. An officer of Birchcliff and a major shareholder of the company are research clients of McDep LLC.

**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.