



Independent Stock Idea

November 11, 2010

rating: buy
s&p 500: 1219

Birchcliff Energy Ltd. (BIR.TO) **Production Ahead of Forecast**

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 9/30/11 (US\$mm)</i>	126
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	49
<i>Price (US\$/sh)</i>	9.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/10/10	<i>Adjusted Reserves/Production NTM</i>	20.4
<i>Shares (mm)</i>	127	<i>EV/Ebitda</i>	12.6
<i>Market Capitalization (US\$mm)</i>	1,250	<i>PV/Ebitda</i>	16.8
<i>Debt (US\$mm)</i>	340	<i>Probable Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	1,580	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	16.61
<i>Present Value (PV) (US\$mm)</i>	2,120	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	16.85
<i>Net Present Value (US\$/share)</i>	14	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.11
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	93
<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, \$8 a million btu.			
For historical analysis of Birchcliff see www.mcdep.com/5bir.htm			

Summary and Recommendation

Canadian small cap producer **Birchcliff Energy Ltd. (BIR.TO)** offers unlevered appreciation potential of 34% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$14 a share. Phase II of the Pouce Coupe South natural gas plant is processing gas ahead of the scheduled December startup. Disclosed along with third quarter results after the market close on November 10, Birchcliff's total current production has reached 16 thousand barrels equivalent daily (mboed), up from 13.1 for the third quarter (see table Next Twelve Months Operating and Financial Estimates). As a result, we raise our estimate of Birchcliff's total fourth quarter production to 15 mboed, from 13 to account for the early startup and favorable progress. Though the year-end exit rate may be 19 mboed, we maintain a 17 mboed estimate for 2010 to allow for unexpected interruptions and other contingencies. Demonstrated rapid growth lends credibility to our estimated NPV, which includes recognition of future volumes from independently estimated proven and probable reserves (see table Functional Cash Flow and Present Value). Similarly, Chevron (CVX)'s announcement on November 9 of its agreement to acquire Marcellus Shale producer Atlas Energy for \$4.4 billion in cash and assumed debt further attests to the long-term value in future natural gas drilling potential despite the currently depressed natural gas price. Birchcliff is concentrated in the heart of the unconventional shale gas/tight gas Montney/Doig play in northwest Alberta, a prime target of industry attention.

Kurt H. Wulff, CFA



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Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/11</i>
	<i>9/30/09</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>9/30/11</i>
Volume (before royalty)									
Natural Gas (bcf)	4.2	4.8	5.3	6.4	20.4	7.4	7.5	7.5	28.8
Natural Gas (mmcf)	45	53	58	70	56	82	82	82	79
Oil (mmb)	0.28	0.32	0.32	0.32	1.25	0.31	0.31	0.32	1.26
Oil (mbd)	3.0	3.5	3.5	3.5	3.4	3.5	3.5	3.5	3.5
Total (mmboe)	0.97	1.12	1.21	1.39	4.7	1.54	1.56	1.58	6.1
Total (mboed)	10.6	12.4	13.1	15.1	12.8	17.1	17.1	17.1	16.6
Price									
Henry Hub (US\$/mmbtu)	3.39	4.09	4.38	3.74	4.38	4.29	4.25	4.38	4.17
Currency (US\$/C\$)	0.91	0.97	0.96	1.00	0.97	1.00	1.00	1.00	1.00
Henry Hub (C\$/mmbtu)	3.72	4.21	4.55	3.74	4.51	4.29	4.25	4.38	4.17
Differential (C\$/mmbtu)	0.52	0.05	0.76	0.63	0.55	0.72	0.71	0.73	0.68
Company (C\$/mcf)	3.20	4.16	3.79	3.11	3.95	3.58	3.54	3.65	3.48
WTI Cushing (US\$/bbl)	68.22	77.85	76.08	83.71	79.08	88.36	89.40	90.12	87.90
WTI Cushing (C\$/bbl)	74.83	80.05	79.05	83.70	81.33	88.35	89.39	90.11	87.89
Differential (C\$/bbl)	6.20	4.16	3.75	3.97	3.79	4.19	4.17	4.20	4.14
Company (C\$/bbl)	68.63	75.90	75.30	79.73	77.54	84.16	85.23	85.91	83.75
Total (\$/bbl)	33.34	39.43	36.60	32.63	38.21	34.11	34.15	34.82	33.97
Revenue (\$mm)									
Natural Gas	13	20	20	20	81	26	26	28	100
Oil	19	24	24	25	97	26	27	27	106
Royalties	(4)	(4)	(4)	(4)	(16)	(5)	(5)	(5)	(18)
Total	29	41	41	42	162	48	48	50	188
Expense	14	14	13	14	54	16	16	16	62
Ebitda (\$mm)	15	27	27	28	108	32	32	33	126
Deprec., Deplet., & Amort.	22	19	19	19	74	19	19	19	78
Other non-cash	1	3	3	3	12	3	3	3	13
Interest	3	4	4	4	14	4	4	4	15
Ebt	(11)	1	1	2	8	6	6	7	21
Income tax	(2)	1	1	1	5	2	2	2	7
Net Income (\$mm)	(9)	-	-	1	4	4	4	5	13
Per share (\$)	(0.07)	-	-	0.01	0.03	0.03	0.03	0.04	0.11
Shares (millions)	125	127	127	127	127	127	127	127	127
Ebitda margin (after royalty)	52%	66%	68%	67%	67%	67%	67%	67%	67%
Tax rate	22%	100%	100%	35%	57%	35%	35%	35%	35%



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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	61	20.1	24.1	1,470	69%
Oil	65	21.5	10.0	650	31%
	126	20.4	16.8	2,120	100%
Debt					340
Net Present Value (US\$m)					1,780
Shares					127
Net Present Value - Standard Estimate (US\$/sh)					14
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					13

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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