



# Independent Stock Idea

March 18, 2011

rating: buy  
s&p 500: 1274

## **Birchcliff Energy Ltd. (BIR.TO)** **Long-Term Natural Gas Resource for Asia**

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 3/31/12 (US\$mm)</i>	178
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	48
<i>Price (US\$/sh)</i>	11.55	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/17/11	<i>Adjusted Reserves/Production NTM</i>	20.2
<i>Shares (mm)</i>	126	<i>EV/Ebitda</i>	10.2
<i>Market Capitalization (US\$mm)</i>	1,460	<i>PV/Ebitda</i>	13.4
<i>Debt (US\$mm)</i>	360	<i>Probable Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	1,810	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	20.42
<i>Present Value (PV) (US\$mm)</i>	2,380	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	14.78
<i>Net Present Value (US\$/share)</i>	16	<i>Oil and Gas Ebitda Margin (%)</i>	64
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.29
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	40
<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, \$8 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**

Canadian small cap producer **Birchcliff Energy Ltd. (BIR.TO)** offers unlevered appreciation potential of 31% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$16 a share. Final results for the fourth quarter of 2010 disclosed last night confirm strong volumes reported on a preliminary basis on February 16 (see table Next Twelve Months Operating and Financial Estimates). Especially pertinent today is **PetroChina (PTR)** President Zhou Jiping's declaration yesterday that PTR would accelerate its global expansion in the wake of "the pretty big impact" Japan's nuclear plant closure will have on world natural gas markets. PTR recently committed \$5.4 billion for a half interest in Encana's Montney position, which happens to surround Birchcliff's. Natural gas reserves in the same area account for \$1.48 billion, or 62% of our estimated present value for Birchcliff (see table Functional Cash Flow and Present Value). That estimate counts 76 net sections of proven and probable reserves with about 3 wells per section and 4 billion cubic feet (bcf) of reserves per well. On the upside, Birchcliff has 264 net sections with Montney/Doig potential that might have 16 wells per section on full development with reserves of 6 bcf per well. The total potential by those parameters is more than 25 times the proven and probable reserves, though it would take many years to realize. Asia could absorb those volumes on an economic basis competitive with supplies from Australia according to recent analysis presented in China by our mentor from decades ago (see chart Costs of LNG on page 3). As a result, Birchcliff appears well-positioned in a rapidly changing world.

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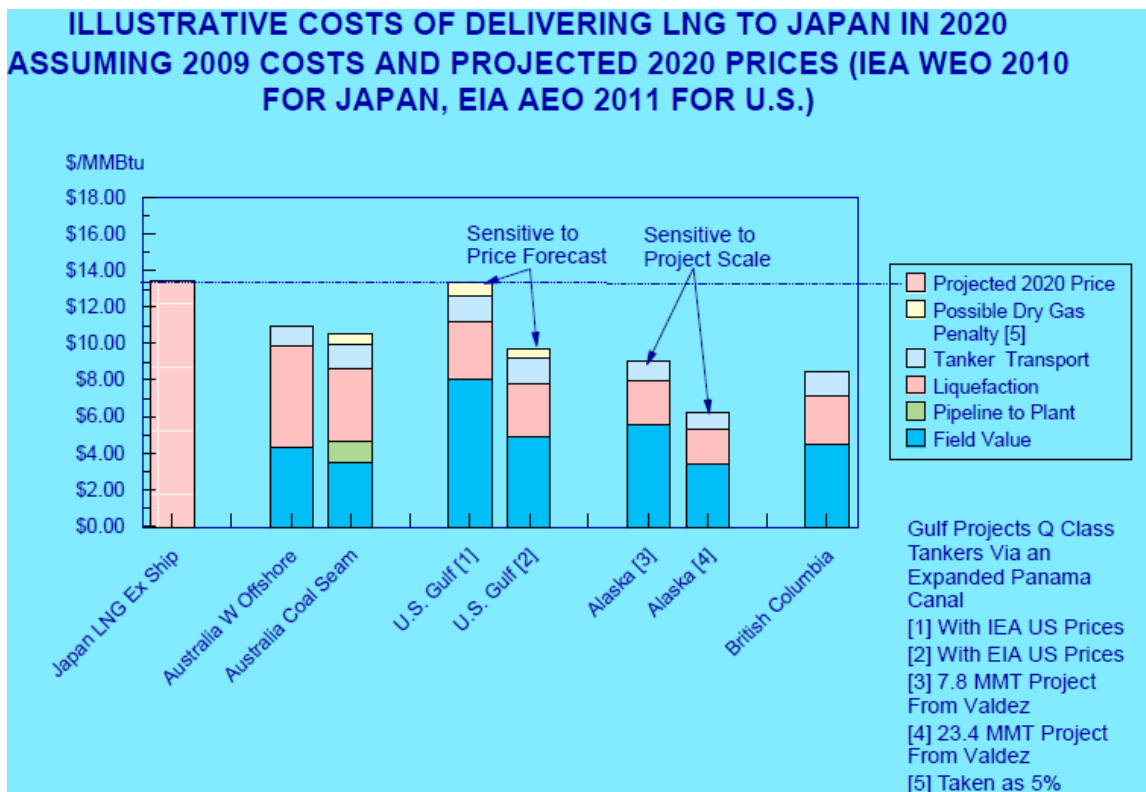
<b>Birchcliff Energy Ltd.</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(Canadian Dollars)</b>									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Months</i>
	<i>3/31/10</i>	<i>12/31/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>3/31/12</i>
<b>Volume (before royalty)</b>									
Natural Gas (bcf)	3.8	6.8	7.2	7.3	8.3	8.3	<b>31.0</b>	8.2	<b>32.0</b>
Natural Gas (mmcf)	43	74	80	80	90	90	<b>85</b>	90	<b>88</b>
Days	90	92	90	91	92	92	<b>365</b>	91	<b>366</b>
Oil (mmb)	0.30	0.37	0.38	0.38	0.41	0.41	<b>1.59</b>	0.41	<b>1.62</b>
Oil (mbd)	3.3	4.0	4.2	4.2	4.5	4.5	<b>4.4</b>	4.5	<b>4.4</b>
Total (mmboe)	0.94	1.51	1.58	1.60	1.79	1.79	<b>6.8</b>	1.77	<b>7.0</b>
Total (mboed)	10.4	16.4	17.5	17.5	19.5	19.5	<b>18.5</b>	19.5	<b>19.0</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	5.32	3.80	4.11	4.23	4.40	4.68	<b>4.35</b>	4.36	<b>4.41</b>
Currency (US\$/C\$)	0.96	0.99	1.01	1.01	1.01	1.01	<b>1.01</b>	1.01	<b>1.01</b>
Henry Hub (C\$/mmbtu)	5.53	3.85	4.05	4.17	4.34	4.61	<b>4.29</b>	4.30	<b>4.35</b>
Differential (C\$/mmbtu)	0.19	(0.09)	(0.10)	(0.10)	(0.11)	(0.11)	<b>(0.12)</b>	(0.10)	<b>(0.11)</b>
Company (C\$/mcf)	5.34	3.94	4.15	4.27	4.44	4.72	<b>4.41</b>	4.40	<b>4.46</b>
WTI Cushing (US\$/bbl)	78.67	85.10	96.29	102.38	103.92	104.35	<b>91.92</b>	103.62	<b>103.57</b>
WTI Cushing (C\$/bbl)	81.82	86.13	94.94	100.94	102.45	102.88	<b>90.63</b>	102.16	<b>102.11</b>
Differential (C\$/bbl)	2.48	5.03	5.55	4.77	4.84	4.86	<b>(4.78)</b>	4.83	<b>4.81</b>
Company (C\$/bbl)	79.34	81.10	89.39	96.17	97.61	98.01	<b>95.41</b>	97.33	<b>97.30</b>
Total (\$/bbl)	47.12	37.83	40.35	42.52	43.02	44.42	<b>42.65</b>	42.77	<b>43.20</b>
<b>Revenue (\$mm)</b>									
Natural Gas	20	27	30	31	37	39	<b>137</b>	36	<b>143</b>
Oil	24	30	34	37	40	41	<b>152</b>	40	<b>158</b>
Royalties	(5)	(5)	(6)	(6)	(7)	(7)	<b>(26)</b>	(7)	<b>(27)</b>
Total	39	52	58	62	70	73	<b>263</b>	69	<b>274</b>
<b>Expense</b>	13	19	21	22	25	26	<b>95</b>	25	<b>99</b>
<b>Ebitda (\$mm)</b>	26	33	37	40	45	46	<b>168</b>	44	<b>175</b>
Deprec., Deplet., & Amort.	16	22	22	22	22	22	<b>86</b>	22	<b>86</b>
Other non-cash	3	4	4	4	4	4	<b>17</b>	4	<b>17</b>
Interest	3	4	4	4	4	4	<b>17</b>	4	<b>17</b>
<b>Ebt</b>	5	3	7	9	15	16	<b>48</b>	14	<b>55</b>
Income tax	2	2	2	3	5	6	<b>17</b>	5	<b>19</b>
<b>Net Income (\$mm)</b>	3	1	5	6	10	11	<b>31</b>	9	<b>36</b>
Per share (\$)	0.02	0.01	0.04	0.05	0.08	0.08	<b>0.25</b>	0.07	<b>0.28</b>
<b>Shares (millions)</b>	127	126	126	126	126	126	<b>126</b>	126	<b>126</b>
Ebitda margin (after royalty)	67%	64%	64%	64%	64%	64%	<b>64%</b>	64%	<b>64%</b>
Tax rate	44%	60%	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>



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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	85	20.3	17.4	1,480	62%
Oil	93	19.6	9.7	900	38%
	178	20.2	13.4	2,380	100%
Debt					360
Net Present Value (US\$m)					2,020
Shares					126
Net Present Value - Standard Estimate (US\$/sh)					16
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					17



Source: James T. Jensen, JAI-Energy.com, Presentation in Shanghai, February 18, 2011



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