



Independent Stock Idea

November 13, 2014

Birchcliff Energy Ltd. (BIREF – Buy) Raise NPV to US\$16 on Alberta Natural Gas

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 9/30/15 (US\$mm)</i>	290
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	68
<i>Price (US\$/sh)</i>	9.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/12/14	<i>Adjusted Reserves/Production NTM</i>	13.4
<i>Shares (mm)</i>	155	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$mm)</i>	1,430	<i>PV/Ebitda</i>	10.3
<i>Debt (US\$mm)</i>	530	<i>Undeveloped Reserves (%)</i>	72
<i>Enterprise Value (EV) (US\$mm)</i>	1,960	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	25.40
<i>Present Value (PV) (US\$mm)</i>	3,000	<i>Present Value Proven Reserves(\$/boe)</i>	17.10
<i>Net Present Value (US\$/share)</i>	16	<i>Oil and Gas Ebitda Margin (%)</i>	73
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.51
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	18
<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 since 2008 see www.mcdep.com/5bir.htm			

Summary and Recommendation

Surprising new strength in the Alberta natural gas market contributing to better cash flow spurs an increase in estimated Net Present Value (NPV) to US\$16 a share from US\$14 for Contrarian Buy-recommended **Birchcliff Energy (BIREF)** (see table [Present Value](#) on page 3). Natural gas price increased 68% from the previous year; volume, 39%; and unlevered cash flow (Ebitda), 83% in the third quarter reported last night (see table [Operating and Financial Estimates](#) on page 2). The deep swoon in seasonal natural gas price that Western Canada saw last year did not recur. Discouraged by competition from the U.S. Marcellus shale and the slow progress of liquefied natural gas export projects in British Columbia, large Canadian producers cut capacity. At the same time, demand continued to increase from oil sands projects. As a result, there was not enough natural gas to rebuild storage inventories in Alberta after a cold winter. The better relative pricing has had a virtuous effect by giving Birchcliff confidence to test latest industry fracing techniques in a new horizon. Just as U.S. drillers are adding prospective new oil and gas formations above or below the initial targets in North Dakota, Texas, Pennsylvania and Oklahoma, Birchcliff now adds the Montney “D4” to the Montney/Doig in its inventory. Chief executive Jeff Tonken and his team take the latest developments into account in a new five-year plan to grow production 20% a year to an exit rate of 100,000 barrels equivalent daily in 2019 from 40,000 in 2014. The plan is conditioned on a growing natural gas market with firm pricing and would be adjusted promptly should unfavorable surprises occur. Though the risks are obvious as reflected in the volatility of Birchcliff’s stock price, the lows seem to be moving higher as the company grows in value. At the current McDep Ratio of 0.65 the opportunities in BIREF outweigh the risks for long-term investors, we believe.

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Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q3	Year	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	
	9/30/13	2013	6/30/14	9/30/14	12/31/14	2014E	3/31/15	6/30/15	9/30/15	9/30/15
Volume (before royalty)										
Natural Gas (mmcf)	120	126	155	173	196	171	208	204	204	203
Days	92	365	91	92	92	365	90	91	92	365
Oil (mmb)	0.43	1.78	0.48	0.50	0.49	1.96	0.48	0.49	0.49	1.95
Oil (mbd)	4.7	4.9	5.3	5.5	5.4	5.4	5.4	5.4	5.4	5.4
Total (mmb/e)	2.27	9.4	2.84	3.15	3.50	12.3	3.60	3.58	3.62	14.3
Total (mbo/e)	24.7	25.8	31.2	34.2	38.0	33.8	40.0	39.4	39.4	39.2
Price										
Henry Hub (US\$/mmbtu)	3.58	3.65	4.67	4.07	4.00	4.42	4.30	3.73	3.75	3.94
Currency (US\$/C\$)	0.96	0.97	0.92	0.92	0.88	0.91	0.88	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	3.71	3.76	5.10	4.43	4.56	4.88	4.89	4.24	4.27	4.49
Differential (C\$/mmbtu)	1.11	0.35	0.29	0.06	(0.03)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Company (C\$/mcf)	2.60	3.41	4.81	4.37	4.59	4.93	4.92	4.28	4.30	4.52
WTI Cushing (US\$/bbl)	105.83	97.98	102.98	97.24	79.70	94.67	77.37	77.71	78.07	78.21
WTI Cushing (C\$/bbl)	109.92	100.91	112.28	105.85	90.67	104.52	88.02	88.41	88.82	88.98
Differential (C\$/bbl)	8.36	11.26	9.75	12.26	10.50	11.32	9.53	9.57	9.62	9.80
Company (C\$/bbl)	101.56	89.64	102.53	93.59	80.17	93.20	78.49	78.83	79.20	79.18
Total (\$/bbl)	32.08	33.52	41.34	36.96	34.95	39.66	36.09	32.91	33.08	34.25
Revenue (\$mm)										
Natural Gas	29	156	68	69	83	307	92	79	81	335
Oil	44	160	49	47	39	182	38	38	39	155
Royalties	(7)	(28)	(10)	(8)	(9)	(39)	(10)	(9)	(10)	(38)
Total	66	289	108	108	114	450	120	108	110	452
Expense										
	22	97	27	28	30	113	32	29	30	121
Ebitda (\$mm)										
	44	191	80	80	83	337	87	79	81	330
Deprec., Deplet., & Amort.	26	109	33	33	42	139	43	43	43	170
Other non-cash	(1)	(2)	4	2	2	11	2	2	2	8
Interest	6	24	6	6	6	23	6	6	6	24
Ebt										
	13	61	38	40	34	164	37	29	30	129
Income tax	4	25	11	11	10	45	11	9	9	39
Net Income (\$mm)										
	9	36	27	29	24	119	26	20	21	90
Per share (\$)	0.06	0.25	0.18	0.19	0.15	0.78	0.17	0.13	0.13	0.58
Shares (millions)										
	145	145	153	155	155	152	155	155	155	155
Ebitda margin (after royalty)	66%	66%	75%	74%	73%	75%	73%	73%	73%	73%
Tax rate	33%	40%	28%	26%	30%	28%	30%	30%	30%	30%



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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	198	9.8	11.4	2,250	75%
Oil	92	9.9	8.3	760	25%
	290	9.9	10.4	3,010	100%
Debt					530
Net Present Value (US\$mm)					2,480
Shares					155
Net Present Value - Standard Estimate (US\$/sh)					16
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					18

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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