



Independent Stock Idea

November 12, 2015

Birchcliff Energy Ltd. (BIREF) Encouraging Volume, Uncertain Price

Symbol	BIREF	Ebitda Next Twelve Months ending 9/30/16 (US\$mm)	137
Rating	Buy	North American Natural Gas/Ebitda (%)	69
Price (US\$/sh)	4.30	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	11/11/15	Adjusted Reserves/Production NTM	12.5
Shares (mm)	154	EV/Ebitda	8.9
Market Capitalization (US\$mm)	660	PV/Ebitda	17.5
Debt (US\$mm)	560	Undeveloped Reserves (%)	68
Enterprise Value (EV) (US\$mm)	1,220	Natural Gas and Oil Ebitda (\$/boe)	11.50
Present Value (PV) (US\$mm)	2,410	Present Value Proven Reserves(\$/boe)	10.70
Net Present Value (US\$/share)	12	Oil and Gas Ebitda Margin (%)	58
Debt/Present Value	0.23	Earnings Next Twelve Months (US\$/sh)	-0.10
McDep Ratio - EV/PV	0.51	Price/Earnings Next Twelve Months	-44
Dividend Yield (%/year)	0.0	Indicated Annual Dividend (US\$/sh)	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\$70 a barrel and natural gas, \$4.50 a million btu.			
For historical analysis of Birchcliff since 2008 see www.mcdep.com/5bir.htm			

Summary and Recommendation

Canadian natural gas producer **Birchcliff Energy (BIREF)** delivers on a well-defined growth strategy depending on future natural gas price. The strategy builds on a strong resource position as a leading pure play in the Alberta Montney shale gas trend. Volumes are tracking expanding capacity of natural gas processing. The latest expansion of the company's Pouce Coupee plant is full. Plans are under way, though the money has not been spent, to increase capacity a year from now to 260 million cubic feet daily (mmcf/d) compared to 180 mmcf/d today. On our estimates for the next twelve months, cash flow generation would cover capital outlays and the company has flexibility on its balance sheet and with lenders. Third quarter results released after the market close on November 11 disclosed a modest shortfall in volume because of unplanned pressure testing on the TransCanada pipeline that takes most of Birchcliff's natural gas (see table Operating and Financial Estimates on page 2). While early fourth quarter volumes are up, there may be further testing before year end not included in our estimate. In any case, Birchcliff has operating costs that are among the lowest in the industry, protecting cash flow on the downside and converting more of cash flow to profits on the upside. As for future natural gas price, we expect higher levels than today. Little of that optimism appears reflected in Birchcliff stock price considering its low McDep Ratio of 0.51. Satisfied that the company is well-managed to deal with tough times currently for oil and gas producers, we like Birchcliff stock for future participation in capital gains as the price cycle turns up.

Kurt H. Wulff, CFA



Independent Stock Idea

November 12, 2015

Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q3	Year	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	
	9/30/14	2014	6/30/15	9/30/15	12/31/15	2015E	3/31/16	6/30/16	9/30/16	9/30/16
Volume (before royalty)										
Natural Gas (bcf)	15.9	62.0	18.1	18.4	19.8	73.9	19.4	19.6	19.8	78.5
Natural Gas (mmcf)	173	170	199	200	215	202	215	215	215	215
Days	92	365	91	92	92	365	90	91	92	365
Oil (mmb)	0.50	1.98	0.49	0.47	0.47	1.95	0.46	0.47	0.47	1.88
Oil (mbd)	5.5	5.4	5.4	5.1	5.1	5.4	5.1	5.1	5.1	5.1
Total (mmb)	3.15	12.3	3.50	3.54	3.77	14.3	3.69	3.73	3.77	15.0
Total (mboed)	34.2	33.7	38.5	38.4	41.0	39.1	41.0	41.0	41.0	41.0
Price										
Henry Hub (US\$/mmbtu)	4.07	4.43	2.66	2.76	2.33	2.68	2.55	2.54	2.63	2.51
Currency (US\$/C\$)	0.92	0.91	0.81	0.77	0.75	0.79	0.75	0.75	0.75	0.75
Henry Hub (C\$/mmbtu)	4.43	4.89	3.28	3.59	3.09	3.41	3.38	3.37	3.49	3.33
Differential (C\$/mmbtu)	0.06	0.15	0.42	0.47	0.44	0.52	0.48	0.51	0.53	0.49
Company (C\$/mcf)	4.37	4.74	2.86	3.12	2.65	2.90	2.89	2.86	2.97	2.84
WTI Cushing (US\$/bbl)	97.24	93.04	57.94	46.39	45.12	49.52	46.30	48.20	49.27	47.22
WTI Cushing (C\$/bbl)	105.85	102.69	71.53	60.25	59.88	62.94	61.43	63.96	65.38	62.66
Differential (C\$/bbl)	12.26	12.27	8.23	8.42	8.37	9.52	9.30	9.68	9.89	9.30
Company (C\$/bbl)	93.59	90.42	63.30	51.83	51.51	53.42	52.14	54.28	55.49	53.36
Total (\$/bbl)	36.96	38.39	23.60	23.15	20.36	22.32	21.73	21.81	22.53	21.60
Revenue (\$mm)										
Natural Gas	69	294	52	57	52	214	56	56	59	223
Oil	47	179	31	25	24	104	24	25	26	100
Royalties	(8)	(38)	(2)	(3)	(3)	(11)	(3)	(3)	(3)	(11)
Total	108	435	81	79	74	307	77	79	82	312
Expense	28	116	30	28	29	119	30	35	36	130
Ebitda (\$mm)	80	319	51	51	45	188	47	44	46	182
Deprec., Deplet., & Amort.	33	137	38	35	45	157	44	44	45	178
Other non-cash	2	7	2	3	2	8	2	2	2	8
Interest	6	22	6	7	7	26	6	6	6	25
Ebt	40	152	5	6	(9)	(2)	(5)	(8)	(7)	(28)
Income tax	11	42	10	3	(3)	10	(1)	(2)	(2)	(9)
Net Income (\$mm)	29	111	(5)	3	(6)	(12)	(3)	(6)	(5)	(20)
Per share (\$)	0.19	0.73	(0.03)	0.02	(0.04)	(0.08)	(0.02)	(0.04)	(0.03)	(0.13)
Shares (millions)	155	152	155	154	154	154	154	154	154	154
Ebitda margin (after royalty)	74%	73%	63%	64%	61%	61%	61%	56%	56%	58%
Tax rate	26%	27%	187%	49%	30%		30%	30%	30%	30%



Independent Stock Idea

November 12, 2015

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	95	12.5	19.6	1,860	77%
Oil	42	12.2	13.1	550	23%
	137	12.5	17.6	2,410	100%
Debt					560
Net Present Value (US\$mm)					1,850
Shares					154
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					15

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.

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.