Independent Stock Idea

February 13, 2014

Birchcliff Energy Ltd. (BIREF – Buy)
Cash Flow Estimate Up 30%

Symbol	BIREF	*Ebitda Next Twelve Months ending 12/31/14 (US$mm)*	262
Rating	Buy	*North American Natural Gas/Ebitda (%)*	55
Price (US$/sh)	8.15	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	2/13/14	*Adjusted Reserves/Production NTM*	16.0
Shares (mm)	163	*EV/Ebitda*	7.3
Market Capitalization (US$mm)	1,330	*PV/Ebitda*	9.7
Debt (US$mm)	580	*Undeveloped Reserves (%)*	72
Enterprise Value (EV) (US$mm)	1,910	*Natural Gas and Oil Ebitda ($/boe)*	27.30
Present Value (PV) (US$mm)	2,540	*Present Value Proven Reserves($/boe)*	14.40
Net Present Value (US$/share)	12	*Oil and Gas Ebitda Margin (%)*	66
Debt/Present Value	0.23	*Earnings Next Twelve Months (US$/sh)*	0.44
McDep Ratio - EV/PV	0.75	*Price/Earnings Next Twelve Months*	18
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$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

Buy **Birchcliff Energy (BIREF)** on a 30% increase in our cash flow estimate from three months ago and a 24% increase in resources from a year ago. Preliminary financial results for 2013 and final third party estimates of reserves and resources were disclosed last night. Stock price has almost 50% appreciation potential to unchanged Net Present Value (NPV) of $12 a share (see table Present Value on page 3). The small cap Canadian producer makes money on its own internal growth at the same time it presents a strategically attractive acquisition opportunity for an Asian buyer. The need for natural gas in energy-starved Japan and in the polluted coastal cities of China is signaled by a price more than three times what it is in North America. We like Birchcliff for investment in global growth and for inflation protection. The main risk is economic stagnation, or deflation, a contingency more than amply covered for most investors with cash reserves.

Volume and Price Drives Cash Flow Higher

A long-term recovery for U.S. and Canadian natural gas price from the painful bottom of two years ago has gotten extra impetus from an unusually cold winter. Our estimate of the company's composite oil and gas price for the next twelve months, with cues from the futures market, is up 20% from last November to C$40 a barrel (see table Operating and Financial Estimates on page 4). More specific to Birchcliff, forward volume is up 14% to 33 thousand barrels daily. Volume gains arise from a combination of operations beating guidance and management raising its forecast along with an advantageous acquisition of the minority interest held by Devon Energy (DVN) in properties operated by Birchcliff. A new volume forecast and the acquisition were disclosed in a press release on January 15.

As a parenthetical thought, the latest chart released by the U.S. Department of Energy minutes ago at 10:30 AM today traces a rather startlingly sharp rate of decline in natural gas inventory (see chart on last page Working Gas). The greater the drop in inventories, the stronger the outlook for price as those inventories need to be replaced during the off-winter months.

Resources Grow to Support Future Volume

Total resources and reserves grew 24% in 2013 to more than 4 billion barrels equivalent before royalties (see chart Resource Promotion on page 3). Proven reserves (up 19%) for a resource company like Birchcliff are the tip of the iceberg that includes probable reserves (up 14%), contingent resources (up 34%) and prospective resources (up 22%). The company invests actively to develop the evidence that allows the independent evaluator, Deloitte LLP, to make authoritative estimates. The strategy is to "promote" prospective resources to contingent resources to probable reserves to proven reserves. Contingent resources are the plum that attracts a large corporate buyer who can add value merely by accelerating drilling financed by its deeper pockets.

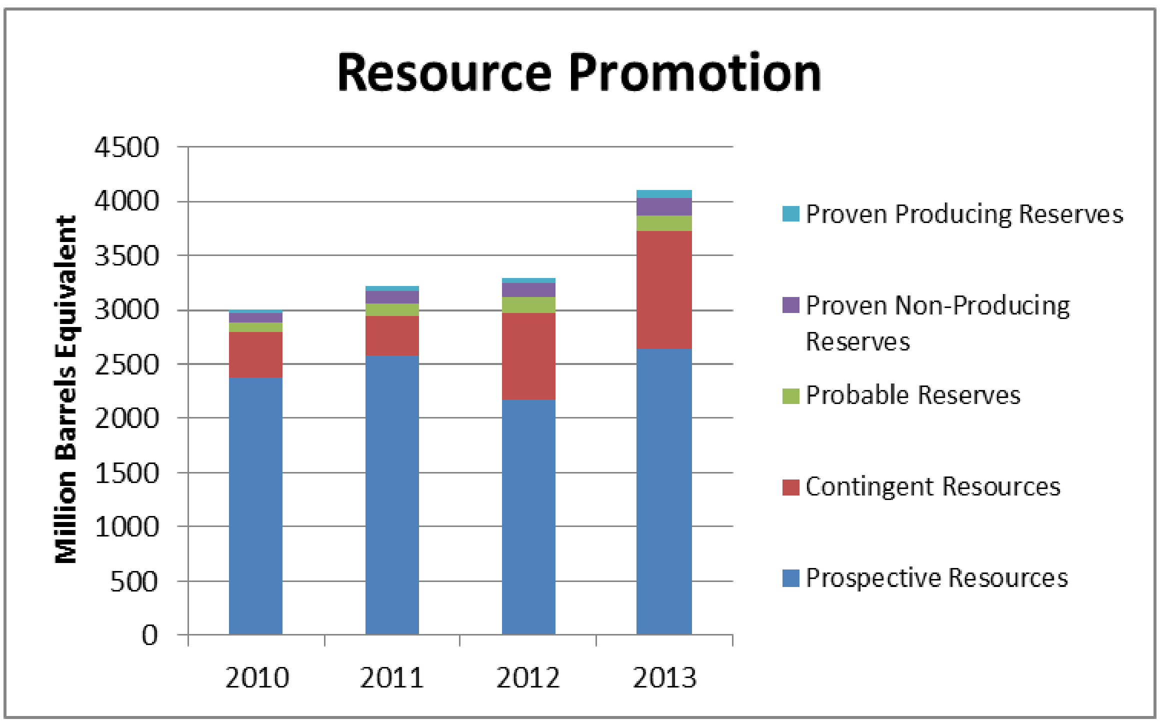
LNG Projects Advancing

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. The next milestone on that road to progress may be the final determination of the tax to be paid by LNG producers to the province of British Columbia. Perhaps to be announced before long, the amount should be nominal. We are optimistic that several of the proposed multi-billion dollar projects will be built to the benefit of Canada and Asian customers. We see strong logic to the acquisition of Birchcliff by an Asian customer to balance unpredictable price exposure along the links in the LNG value chain.

Unpredictable political factors can create surprises as Canada vies with Alaska and the U.S. Lower 48 to build natural gas export projects. In a recent example, we read that expansion of the Panama Canal to take LNG tankers has been halted over a dispute between the government of Panama and the low bidding contractor. Directionally, the unavailability of an expanded canal increases the relative competitiveness of West Coast projects in Oregon, British Columbia and Alaska. West Coast exporters do not have to deal with the politics of a Latin American energy transit state. Yet, Oregon depends on the USA as a sometimes obstinate energy transit state for the Canadian gas it would ship. Not to be downplayed, Alberta depends on British Columbia. Accommodation that appears to be underway between the two provinces, is a high priority for Canada, we believe.

Kurt H. Wulff, CFA

Birchcliff Energy Ltd.					
Functional Cash Flow and Present Value					
	NTM	*Adjusted*	*PV/*	*Present*	
	Ebitda	*R/P*	*Ebitda*	*Value*	
North American Natural Gas	145	12.5	12.1	1,760	69%
Oil	117	8.5	6.7	780	31%
	262	11.7	9.7	2,540	100%
Debt					580
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)					13



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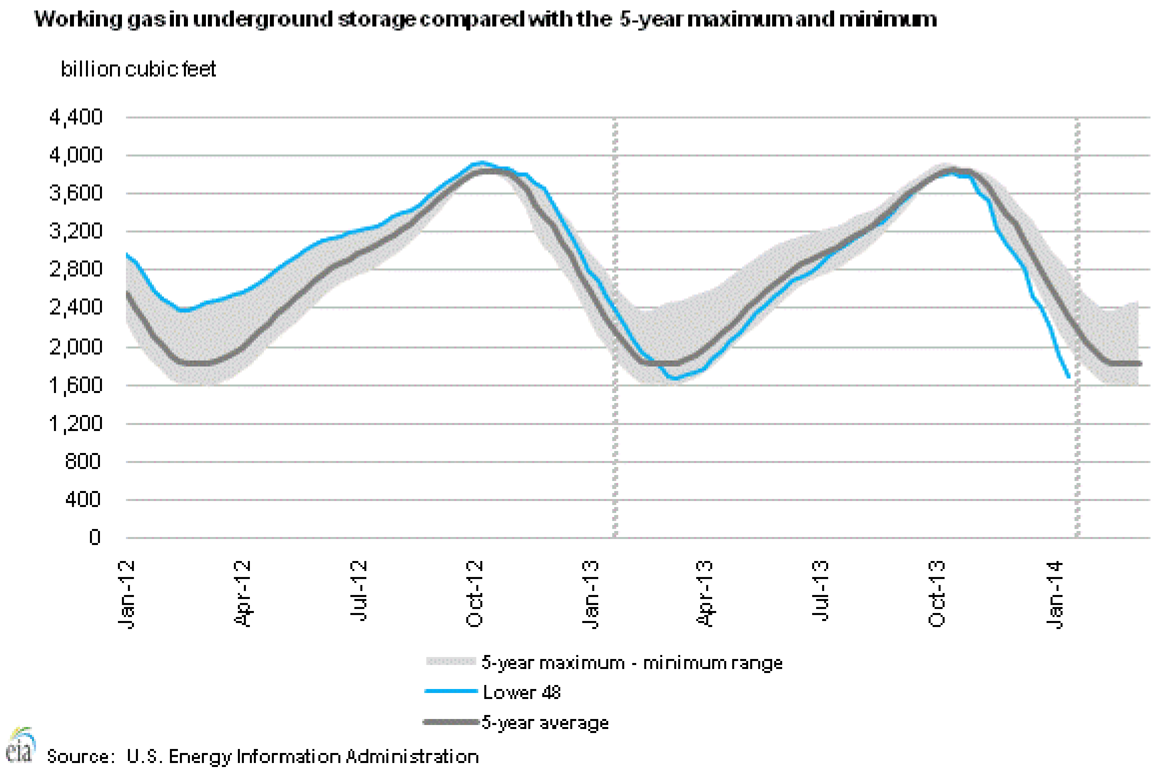
	Q4	Year	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/12	2012	9/30/13	12/31/13	2013	3/31/14	6/30/14	9/30/14	12/31/14	12/31/14
Volume (before royalty)										
Natural Gas (mmcfd)	131	**107**	120	138	**126**	153	153	153	182	**160**
Days	92	**366**	92	92	**365**	90	91	92	92	**365**
Oil (mmb)	0.44	**1.83**	0.43	0.49	**1.78**	0.53	0.54	0.55	0.65	**2.27**
Oil (mbd)	4.8	**5.0**	4.7	5.4	**4.9**	5.9	5.9	5.9	7.1	**6.2**
Total (mmboe)	2.45	**8.3**	2.27	2.61	**9.4**	2.83	2.86	2.89	3.45	**12.0**
Total (mboed)	26.7	**22.8**	24.7	28.4	**25.8**	31.4	31.4	31.4	37.5	**32.9**
Price										
Henry Hub (US$/mmbtu)	3.40	**2.79**	3.58	3.60	**3.65**	4.86	4.42	4.45	4.52	**4.56**
Currency (US$/C$)	1.01	**1.00**	0.96	0.95	**0.97**	0.91	0.91	0.91	0.91	**0.91**
Henry Hub (C$/mmbtu)	3.37	**2.78**	3.71	3.78	**3.76**	5.34	4.86	4.90	4.97	**5.02**
Differential (C$/mmbtu)	(0.06)	**0.15**	1.11	(0.03)	**0.35**	(0.04)	0.48	1.47	(0.04)	**0.45**
Company (C$/mcf)	3.43	**2.63**	2.60	3.81	**3.41**	5.38	4.38	3.43	5.00	**4.57**
WTI Cushing (US$/bbl)	88.18	**94.16**	105.83	97.46	**97.98**	98.15	98.63	96.10	93.65	**96.63**
WTI Cushing (C$/bbl)	87.41	**94.01**	109.92	102.26	**100.91**	107.88	108.41	105.63	102.94	**106.21**
Differential (C$/bbl)	4.53	**9.66**	8.36	19.91	**11.26**	12.04	12.10	11.79	11.49	**12.00**
Company (C$/bbl)	82.88	**84.35**	101.56	82.36	**89.64**	95.85	96.31	93.84	91.45	**94.21**
Total ($/bbl)	31.80	**30.81**	32.08	34.11	**33.52**	44.32	39.52	34.42	41.64	**40.03**
Revenue ($mm)										
Natural Gas	41	**103**	29	48	**156**	74	61	48	84	**267**
Oil	37	**154**	44	41	**160**	51	52	51	60	**214**
Royalties	(6)	**(24)**	(7)	(7)	**(28)**	(11)	(10)	(9)	(12)	**(42)**
Total	72	**233**	66	82	**289**	114	103	91	131	**439**
Expense	26	**92**	22	27	**97**	39	35	31	45	**151**
Ebitda ($mm)	46	**140**	44	55	**191**	75	68	60	86	**288**
Deprec., Deplet., & Amort.	29	**96**	26	31	**109**	34	34	34	41	**143**
Other non-cash	1	**1**	(1)	3	**7**	2	2	2	2	**8**
Interest	7	**23**	6	5	**24**	6	6	6	6	**24**
Ebt	9	**20**	13	16	**52**	33	26	17	37	**113**
Income tax	3	**8**	4	4	**16**	10	8	5	11	**34**
Net Income ($mm)	6	**13**	9	12	**36**	23	18	12	26	**79**
Per share ($)	0.04	**0.09**	0.06	0.08	**0.25**	0.14	0.11	0.07	0.16	**0.49**
Shares (millions)	144	**140**	145	145	**145**	163	163	163	163	**163**
Ebitda margin (after royalty)	64%	**60%**	66%	67%	**66%**	66%	66%	66%	66%	**66%**
Tax rate	35%	**38%**	33%	27%	**30%**	30%	30%	30%	30%	**30%**

Birchcliff Energy Ltd.
Next Twelve Months Operating and Financial Estimates
(Canadian Dollars)



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