



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 14, 2009

## **Birchcliff Energy (BIREF, BIR.TO)** **Spirited Small Cap Canadian Natural Gas Producer**

**Birchcliff Energy (BIR)** offers unlevered appreciation potential of 52% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$9 a share. On July 14 we reduced NPV from \$10 when we reduced estimated Present Value of North American Natural Gas by 20%. Unproven potential in the Montney/Doig formation underlying 395,000 acres (88% BIR) drives 31% of NPV (see table Functional Cash Flow and Present Value). Should bullish expectations for natural gas materialize in the next few years, BIR would be pursuing an ambitious program to develop the acreage itself or possibly be acquired by a larger company seeking such prospects. Meanwhile, to help endure the peak pressure on natural gas price over the next few months, BIR limited spending in the first half of 2009 to cash flow and has raised new equity. Last month the company committed to building a natural gas processing plant and to reaccelerate drilling in the Pouce Coupe heart of its Montney Doig activity (see map from annual report, page 3). As a result, we project an end to the short-term volume decline in 2010 (see table Next Twelve Months Operating and Financial Performance, page 4). Released late August 12, second quarter results benefited from lower royalties assessed by the Province of Alberta. Well-known Canadian investor Seymour Schulich increased his holdings to 29 million shares for a 23% ownership of BIR. Promising exciting market action with risk and reward, BIR stock has doubled from its 52-week low and could double again before exceeding its 52-week high.

High Noon may be approaching for small cap natural gas producers as volume may need to be curtailed temporarily before the heating season begins. We think stock prices have already reflected the likely pressure on cash natural gas price. Yet, there is a chance of a final climactic event from which recovery could be sharp considering the prevailing caution of equity investors and record short interest in natural gas futures. Our weekly valuation tables on small cap and income stocks provide updated statistical perspective (see Tables 1-3, pages 5-7).

Kurt H. Wulff, CFA

*Note: Income and Small Cap Weekly may not be created for the next two regular dates, August 21 and 28, as we take some vacation time. KHW*



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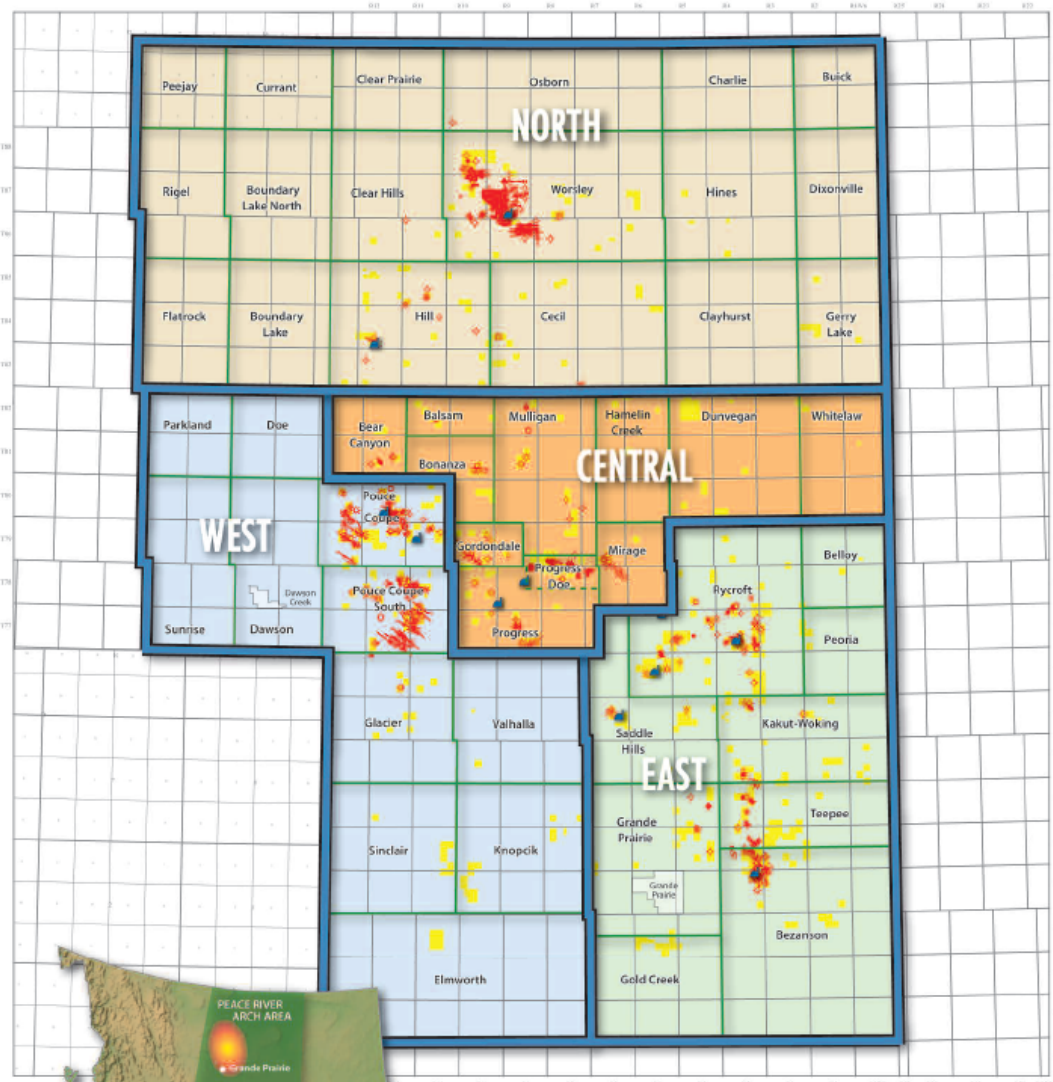
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<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	92
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	50
<i>Price (US\$/sh)</i>	5.92	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/13/09	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	124	<i>EV/Ebitda</i>	10.0
<i>Market Capitalization (US\$mm)</i>	730	<i>PV/Ebitda</i>	14.1
<i>Debt (US\$mm)</i>	190	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$mm)</i>	920	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	7.63
<i>Present Value (PV) (US\$mm)</i>	1,310	<i>Present Value Proven Reserves(US\$/boe)</i>	46.79
<i>Net Present Value (US\$/share)</i>	9	<i>Oil and Gas Ebitda Margin (%)</i>	65
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	
<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.			

<b>Birchcliff Energy Ltd.</b>					
<b>Functional Cash Flow and Present Value</b>					
	<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	46	7.4	8.7	400	31%
Oil	46	16.8	10.9	500	38%
Montney Doig Upside				410	31%
	92	10.1	14.2	1,310	100%
Debt					190
Net Present Value (US\$mm)					1,120
Shares					124
Net Present Value - Standard Estimate (US\$/sh)					9

## PRINCIPAL OIL & GAS OPERATIONS



**LEGEND**  
 ■ Birchcliff Non-Confidential Land  
 ■ Birchcliff W Facilities

**BIRCHCLIFF WELLS**

**Bottom Hole Locations:**

- Location
- ⊠ Service or Drain
- ⊛ Gas
- ⬮ Abandoned Oil
- ⬮ Abandoned Gas
- ◇ Suspended
- Oil
- ◇ Dry and Abandoned
- ⊛ Suspended Gas
- ⬮ Injection

**Surface Locations:**

- ⊠ Directional Wall
- ⬮ Horizontal Wall





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<b>Birchcliff Energy Ltd.</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(Canadian Dollars)</b>									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/10</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
<b>Volume (before royalty)</b>									
Natural Gas (mmcf)	39	54	49	47	47	<b>49</b>	47	47	<b>47</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	3.2	3.5	3.2	3.1	3.1	<b>3.2</b>	3.1	3.1	<b>3.1</b>
Total (bcf)	5.2	6.8	6.2	6.1	6.0	<b>25</b>	5.9	5.9	<b>24</b>
Total (mmcfed)	57	75	68	66	65	<b>68</b>	65	65	<b>65</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	3.66	4.70	<b>4.19</b>	5.71	5.67	<b>4.93</b>
Currency (US\$/C\$)	0.99	0.80	0.86	0.92	0.92	<b>0.87</b>	0.92	0.92	<b>0.92</b>
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	3.98	5.11	<b>4.82</b>	6.21	6.17	<b>5.37</b>
Differential (C\$/mmbtu)	0.11	0.82	0.33	0.32	0.41	<b>0.44</b>	0.50	0.57	<b>0.46</b>
Company (C\$/mcf)	10.93	5.27	3.75	3.66	4.71	<b>4.37</b>	5.71	5.60	<b>4.91</b>
WTI Cushing (US\$/bbl)	123.97	42.96	59.52	68.44	73.91	<b>61.21</b>	76.62	78.41	<b>74.35</b>
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	74.48	80.43	<b>70.38</b>	83.38	85.33	<b>80.91</b>
Differential (C\$/bbl)	5.04	4.35	6.75	7.24	7.82	<b>7.79</b>	8.11	9.45	<b>8.19</b>
Company (C\$/bbl)	120.19	49.08	62.63	67.24	72.61	<b>62.59</b>	75.27	75.89	<b>72.72</b>
Total (\$/bbl)	83.60	36.48	33.78	34.96	40.95	<b>36.52</b>	46.03	45.73	<b>41.87</b>
<b>Revenue (\$mm)</b>									
Natural Gas	38	26	17	16	20	<b>78</b>	24	24	<b>84</b>
Oil	35	15	18	19	21	<b>74</b>	21	22	<b>83</b>
Royalties	(11)	(9)	(2)	(2)	(3)	<b>(16)</b>	(4)	(4)	<b>(13)</b>
Total	62	32	32	33	38	<b>136</b>	41	41	<b>154</b>
<b>Expense</b>	14	16	13	13	13	<b>55</b>	14	14	<b>53</b>
<b>Ebitda (\$mm)</b>	48	16	20	20	25	<b>81</b>	28	28	<b>100</b>
Deprec., Deplet., & Amort.	22	25	23	23	23	<b>94</b>	23	23	<b>92</b>
Other non-cash	11	3	1			<b>4</b>	-		<b>-</b>
Interest	2	2	3	3	3	<b>11</b>	3	3	<b>12</b>
<b>Ebt</b>	13	(14)	(8)	(6)	(1)	<b>(28)</b>	2	2	<b>(4)</b>
Income tax	3	(3)	(1)	(2)	(0)	<b>(6)</b>	1	1	<b>(1)</b>
<b>Net Income (\$mm)</b>	9	(11)	(7)	(4)	(1)	<b>(22)</b>	1	1	<b>(2)</b>
Per share (\$)	0.08	(0.09)	(0.06)	(0.03)	(0.01)	<b>(0.19)</b>	0.01	0.01	<b>(0.02)</b>
<b>Shares (millions)</b>	117	122	114	124	124	<b>120</b>	124	124	<b>124</b>
Ebitda margin (after royalty)	78%	51%	61%	61%	65%	<b>60%</b>	67%	67%	<b>65%</b>
Tax rate	26%	19%	13%	35%	35%	<b>21%</b>	35%	35%	<b>35%</b>



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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	13-Aug 2009	Cap							
<b>Canadian Income Trusts (US\$)</b>										
Penn West Energy Trust	PWE	H	13.56	1.74	9,600	27	73	1.65	12.2	0.81
Pengrowth Energy Trust	PGH		8.66	1.81	4,100	34	66	1.10	12.7	0.75
Peyto Energy Trust	PEYUF		8.29	1.49	1,310	67	33	1.33	16.1	0.72
Enerplus Resources Fund	ERF		21.50	1.25	4,400	43	57	2.00	9.3	0.65
Canadian Oil Sands Trust	COSWF	B	25.24	1.12	13,700		100	1.80	7.1	0.63
<i>Total or Median</i>					33,100					0.72
<b>Small Cap Independent Producers</b>										
Encore Acquisition Company	EAC	B	36.98	1.87	3,660	23	77	-	-	0.91
Cimarex Energy Company	XEC	B	39.18	1.26	4,050	62	38	0.24	0.6	0.88
Berry Petroleum Company	BRY	H	23.64	2.07	2,200	31	69	0.30	1.3	0.81
Birchcliff Energy Ltd. (US\$)	BIREF		5.92	1.26	920	60	40	-	-	0.70
<i>Total or Median</i>					10,830					0.85
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT		24.52	1.00	150	64	36	1.86	7.6	0.88
Freehold Royalty Trust (US\$)	FRHLF		14.58	1.21	870	25	38	1.11	7.6	0.88
Dorchester Minerals, L.P.	DMLP	B	22.38	1.00	670	63	38	1.39	6.2	0.83
Sabine Royalty Trust	SBR		39.49	1.00	580	38	63	2.91	7.4	0.72
Permian Basin RT	PBT		10.89	1.00	510	27	73	0.91	8.4	0.61
<i>Total or Median</i>					2,780					0.83
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE		22.42	1.56	3,980	38	62	2.52	11.2	1.27
Encore Energy Partners, L.P. (52%)	ENP		15.46	1.36	490	24	76	2.15	13.9	0.93
San Juan Basin Royalty Trust	SJT	H	14.18	1.00	660	100	-	0.94	6.6	0.68
Hugoton Royalty Trust	HGT	B	14.60	1.00	580	89	11	0.93	6.4	0.63
Mesa Royalty Trust	MTR		24.80	1.00	46	75	25	1.79	7.2	0.44
<i>Total or Median</i>					5,760					0.68
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>					38,800	39	61			0.81
<i>Equal Weighting</i>						49	51			0.78
<i>Equal Weighted Buys</i>						48	52			0.81
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		13-Aug 2009	Shares (mm)	(\$mm)	(\$/un)		
<b>Canadian Income Trusts (US\$)</b>								
	PWE	H	13.56	410.0	5,560	19.00	0.34	0.81
	PGH		8.66	260.0	2,250	14.00	0.33	0.75
	PEYUF		8.29	105.9	880	13.00	0.24	0.72
	ERF		21.50	165.7	3,560	36.00	0.13	0.65
	COSWF	B	25.24	484.0	12,220	42.00	0.07	0.63
	<i>Total or Median</i>				24,500		0.24	0.72
<b>Small Cap Independent Producers</b>								
	EAC	B	36.98	53.0	1,960	44.00	0.42	0.91
	XEC	B	39.18	82.0	3,210	46.00	0.18	0.88
	BRY	H	23.64	44.8	1,060	35.00	0.42	0.81
	BIREF		5.92	124.0	730	9.00	0.14	0.70
	<i>Total or Median</i>				6,960		0.30	0.85
<b>Top Line Cash Payers</b>								
	CRT		24.52	6.0	150	28.00	-	0.88
	FRHLF		14.58	49.5	720	17.00	0.15	0.88
	DMLP	B	22.38	29.8	670	27.00	-	0.83
	SBR		39.49	14.6	580	55.00	-	0.72
	PBT		10.89	46.6	510	18.00	-	0.61
	<i>Total or Median</i>				2,630			0.83
<b>Bottom Line Cash Payers</b>								
	LINE		22.42	114.0	2,560	15.00	0.45	1.27
	ENP		15.46	23.4	360	17.00	0.25	0.93
	SJT	H	14.18	46.6	660	21.00	-	0.68
	HGT	B	14.60	40.0	580	23.00	-	0.63
	MTR		24.80	1.9	50	56.00	-	0.44
	<i>Total or Median</i>				4,210			0.68
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3									
Oil and Gas Income and Small Cap Stocks									
Value Multiples - Rank by EV/Ebitda									
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	
	Symbol/ Rating		13-Aug 2009	Royalty (%)	Ebitda	NTM	NTM	NTM	
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF	B	25.24		0.57	22.2	13.2	8.3
	Peyto Energy Trust	PEYUF		8.29		1.16	17.1	11.3	8.2
	Penn West Energy Trust	PWE	H	13.56		0.77	8.1	8.8	7.2
	Enerplus Resources Fund	ERF		21.50		0.58	9.3	10.5	6.8
	Pengrowth Energy Trust	PGH		8.66		0.70	7.7	8.9	6.6
	<i>Median</i>						9.3	10.5	7.2
<b>Small Cap Independent Producers</b>									
	Birchcliff Energy Ltd. (US\$)	BIREF		5.92		-	10.1	14.1	10.0
	Encore Acquisition Company	EAC	B	36.98		-	11.7	9.1	8.2
	Berry Petroleum Company	BRY	H	23.64		-	12.1	8.7	7.1
	Cimarex Energy Company	XEC	B	39.18		-	7.6	6.2	5.5
	<i>Median</i>						10.9	8.9	7.7
<b>Top Line Cash Payers</b>									
	Dorchester Minerals, L.P.	DMLP	B	22.38	64	0.88	8.2	17.0	14.1
	Sabine Royalty Trust	SBR		39.49	100	1.00	10.0	18.9	13.6
	Cross Timbers Royalty Trust	CRT		24.52	84	0.93	13.2	14.0	12.2
	Permian Basin RT	PBT		10.89	32	0.86	10.9	17.1	10.3
	Freehold Royalty Trust (US\$)	FRHLF		14.58	71	0.63	6.3	9.7	8.5
	<i>Median</i>						10.0	17.0	12.2
<b>Bottom Line Cash Payers</b>									
	Linn Energy, LLC	LINE		22.42		2.49	18.0	14.8	18.9
	Hugoton Royalty Trust	HGT	B	14.60		0.69	13.1	17.1	10.8
	San Juan Basin Royalty Trust	SJT	H	14.18		0.70	9.1	15.6	10.6
	Mesa Royalty Trust	MTR		24.80		0.76	16.8	23.8	10.5
	Encore Energy Partners, L.P.	ENP		15.46		1.31	13.8	10.4	9.7
	<i>Median</i>						13.8	15.6	10.6
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses									



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