



Independent Stock Idea

February 19, 2010

rating: none
s&p 500: 1111, intraday

Birchcliff Energy Ltd. (BIR.TO) **Raise NPV to US\$11 a Share from US\$9**

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	102
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (US\$/sh)</i>	9.63	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/19/10	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm)</i>	134	<i>EV/Ebitda</i>	14.7
<i>Market Capitalization (US\$mm)</i>	1,290	<i>PV/Ebitda</i>	16.5
<i>Debt (US\$mm)</i>	210	<i>Undeveloped Reserves (%)</i>	77
<i>Enterprise Value (EV) (US\$mm)</i>	1,500	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.31
<i>Present Value (PV) (US\$mm)</i>	1,680	<i>Present Value Proven Reserves(US\$/boe)</i>	23.33
<i>Net Present Value (US\$/share)</i>	11	<i>Oil and Gas Ebitda Margin (%)</i>	64
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.89	<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.			

Summary and Recommendation

Canadian small cap producer **Birchcliff Energy Ltd. (BIR.TO)** offers unlevered appreciation potential of 12% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$11 a share, up from US\$9. Preliminary estimates released last night disclosed a 58% increase in proven reserves in 2009 to 90 million barrels oil equivalent (mmboe). Probable reserves increased by a similar percentage to 67 mmboe. As a result, we increase our estimate of the value of proven reserves in an industry context to US\$1.0 billion (see table on page 3, Functional Cash Flow and Present Value). We capture some of the potential for probable reserves when we assess “Montney/Doig upside” at 40% of NPV. Reported proven and probable reserves are associated by the independent engineer with 200 net well locations while management believes it has 700 net potential locations on its lands. Birchcliff is a leading independent producer in the Montney/Doig unconventional shale gas/tight gas exploration play in northwest Alberta. Global oil companies are showing keen interest in unconventional natural gas as evidenced by a string of billion dollar deals. Prices paid put a high value on future potential that may bear little relation to current cash flow.

Kurt H. Wulff, CFA



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Birchcliff Energy Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months</i>
	<i>12/31/08</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>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
Volume (before royalty)									
Natural Gas (mmcf)	48	45	45	48	45	45	54	54	50
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	3.6	3.0	3.0	3.2	3.0	3.0	3.0	3.0	3.0
Total (bcf)	6.4	5.8	5.8	25	5.7	5.7	6.6	6.6	25
Total (mmcfed)	69	63	63	67	63	63	72	72	67
Price									
Henry Hub (US\$/mmbtu)	6.95	3.39	4.16	3.99	5.54	5.50	5.69	6.12	5.71
Currency (US\$/C\$)	0.83	0.91	0.95	0.87	0.96	0.96	0.96	0.96	0.96
Henry Hub (C\$/mmbtu)	8.40	3.72	4.40	4.57	5.80	5.75	5.95	6.41	5.98
Differential (C\$/mmbtu)	1.26	0.52	(0.00)	0.38	(0.00)	0.47	0.49	0.53	0.37
Company (C\$/mcf)	7.14	3.20	4.40	4.19	5.80	5.28	5.46	5.88	5.61
WTI Cushing (US\$/bbl)	58.45	68.22	76.09	61.70	76.00	74.80	76.25	77.71	76.19
WTI Cushing (C\$/bbl)	70.62	74.83	80.35	70.73	79.51	78.26	79.78	81.30	79.71
Differential (C\$/bbl)	11.51	6.20	7.81	7.96	7.73	8.80	8.98	9.15	8.67
Company (C\$/bbl)	59.12	68.63	72.54	62.77	71.78	69.46	70.80	72.16	71.04
Total (\$/bbl)	47.89	33.34	39.61	35.80	45.39	42.49	42.23	44.37	43.59
Revenue (\$mm)									
Natural Gas	31	13	18	74	24	22	27	29	101
Oil	19	19	20	73	19	19	19	20	77
Royalties	(8)	(4)	(1)	(11)	(3)	(3)	(3)	(3)	(13)
Total	42	29	37	135	40	38	43	45	166
Expense									
	17	14	15	59	15	15	15	15	60
Ebitda (\$mm)									
	26	15	23	77	25	23	28	30	107
Deprec., Deplet., & Amort.	24	22	22	92	22	22	22	22	87
Other non-cash	(3)	1	(6)	2	(6)				(6)
Interest	2	3	3	12	3	3	3	3	14
Ebt									
	2	(11)	4	(29)	6	(2)	3	5	12
Income tax	2	(2)	1	(5)	2	(1)	1	2	4
Net Income (\$mm)									
	-	(9)	3	(24)	4	(1)	2	3	8
Per share (\$)	-	(0.07)	0.02	(0.20)	0.03	(0.01)	0.01	0.02	0.06
Shares (millions)									
	122	125	130	120	134	134	134	134	134
Ebitda margin (after royalty)	61%	52%	61%	57%	63%	61%	65%	66%	64%
Tax rate	100%	22%	35%	16%	35%	35%	35%	35%	35%



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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>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	58	11.6	10.3	600	36%
Oil	44	13.8	9.1	400	24%
Montney Doig Upside				680	40%
	102	12.1	16.5	1,680	100%
Debt					210
Net Present Value (US\$mm)					1,470
Shares					134
Net Present Value - Standard Estimate (US\$/sh)					11
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					11

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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