



Independent Stock Idea

January 17, 2011

rating: buy
s&p 500: 1293

Birchcliff Energy Ltd. (BIR.TO) High Volume Stock Trading

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	137
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	50
<i>Price (US\$/sh)</i>	10.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/17/11	<i>Adjusted Reserves/Production NTM</i>	17.6
<i>Shares (mm)</i>	127	<i>EV/Ebitda</i>	12.3
<i>Market Capitalization (US\$mm)</i>	1,340	<i>PV/Ebitda</i>	17.4
<i>Debt (US\$mm)</i>	340	<i>Probable Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	1,680	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	17.50
<i>Present Value (PV) (US\$mm)</i>	2,380	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	18.92
<i>Net Present Value (US\$/share)</i>	16	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.15
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	69
<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\$100 a barrel and natural gas, \$8 a million btu.			
For historical analysis of Birchcliff see www.mcdep.com/5bir.htm			

Summary and Recommendation

The stock of buy-recommended Canadian small cap producer **Birchcliff Energy Ltd. (BIR.TO)** is trading up on high volume in Toronto with no apparent news. Birchcliff is a pure play on the Alberta portion of the Montney natural gas trend of Alberta and British Columbia. Apparently the largest player in the trend, buy-recommended **Encana (ECA)**, has been actively working on a Montney-related transaction worth \$5 billion or more with China National Petroleum Corporation, parent of buy-recommended **PetroChina (PTR)**. The deal may showcase the value of Encana's 1,100 net sections of Montney acreage, as alluded to by Executive Vice President Mike Graham in a presentation on January 11. Birchcliff has some 200 net sections of Montney land. The choicest portions of the Montney trend may be worth \$50 million a section. Inherently speculative, land values can reach surprising levels in an industry uptrend as we appear to be in today. Meanwhile we expect that Birchcliff has met or exceeded its year-end targeted exit rate for production of 19 thousand barrels equivalent daily.

Kurt H. Wulff, CFA



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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	69	17.1	21.4	1,480	62%
Oil	68	19.7	13.2	900	38%
	137	17.6	17.4	2,380	100%
Debt					340
Net Present Value (US\$m)					2,040
Shares					127
Net Present Value - Standard Estimate (US\$/sh)					16
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					13

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.

A large individual shareholder in Birchcliff and an officer of Birchcliff are research clients of McDep.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty 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. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.