



# Independent Stock Idea

June 22, 2016 Intraday

## Birchcliff Energy Ltd. (BIREF) Half Billion Dollar Deal with Encana

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/17 (US\$mm)</i>	235
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (US\$/sh)</i>	5.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/22/16	<i>Adjusted Reserves/Production NTM</i>	14.0
<i>Shares (mm)</i>	253	<i>EV/Ebitda</i>	8.4
<i>Market Capitalization (US\$mm)</i>	1,300	<i>PV/Ebitda</i>	13.6
<i>Debt (US\$mm)</i>	660	<i>Undeveloped Reserves (%)</i>	64
<i>Enterprise Value (EV) (US\$mm)</i>	1,960	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	13.20
<i>Present Value (PV) (US\$mm)</i>	3,190	<i>Present Value Proven Reserves(\$/boe)</i>	8.70
<i>Net Present Value (US\$/share)</i>	10	<i>Oil and Gas Ebitda Margin (%)</i>	57
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.05
<i>McDep Ratio - EV/PV</i>	0.62	<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\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of Birchcliff since 2008 see <a href="http://www.mcdep.com/5bir.htm">www.mcdep.com/5bir.htm</a>			

### Summary and Recommendation

Canadian natural gas producer **Birchcliff Energy (BIREF)** agreed to acquire C\$625 million (US\$488 million) of oil and gas properties from Encana to be financed by a matching equity issue including exercise of the overallotment option. The properties are an excellent fit being adjacent to and surrounded by Birchcliff's concentrated operations in the Peace River Arch area of Alberta. Encana is a willing seller after unfortunate timing of a major acquisition in the U.S. financed by debt. Priced in line with current oil and gas price, the properties can be quite rewarding in the oil and gas price environment we expect. As a result, Birchcliff's McDep Ratio on the pro forma basis above remains at a low 0.62 and the stock looks attractive for purchase, we believe. Our numbers reflect a quick first reaction to the transaction announced late on June 21 (see tables Operating and Financial Estimates on page 2 and Present Value on page 3). While we may refine the estimates, we expect the conclusion to remain positive. The upward stock price trend after forming the golden cross supports investor confidence in providing equity to finance the company's plans (see chart on page 3).

Kurt H. Wulff, CFA



# Independent Stock Idea

June 22, 2016 Intraday

Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016	3/31/17	6/30/17	6/30/17
<b>Volume (before royalty)</b>										
Natural Gas (bcf)	18.1	<b>73.5</b>	20.0	18.7	25.5	26.4	<b>90.6</b>	26.6	26.8	<b>105.3</b>
Natural Gas (mmcf)	199	<b>201</b>	223	205	277	287	<b>248</b>	295	295	<b>288</b>
Days	91	<b>365</b>	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)	0.49	<b>1.96</b>	0.44	0.41	1.10	1.20	<b>3.15</b>	1.20	1.21	<b>4.71</b>
Oil (mbd)	5.4	<b>5.4</b>	4.9	4.5	12.0	13.0	<b>8.6</b>	13.3	13.3	<b>12.9</b>
Total (mmb)	3.50	<b>14.2</b>	3.78	3.52	5.35	5.60	<b>18.2</b>	5.62	5.68	<b>22.3</b>
Total (mboed)	38.5	<b>38.9</b>	42.0	38.7	58.2	60.8	<b>50.0</b>	62.5	62.5	<b>61.0</b>
<b>Price</b>										
Henry Hub (US\$/mmbtu)	2.66	<b>2.67</b>	2.09	1.95	2.66	2.92	<b>2.41</b>	3.24	2.94	<b>2.94</b>
Currency (US\$/C\$)	0.81	<b>0.79</b>	0.73	0.78	0.78	0.78	<b>0.77</b>	0.78	0.78	<b>0.78</b>
Henry Hub (C\$/mmbtu)	3.28	<b>3.40</b>	2.86	2.50	3.41	3.74	<b>3.13</b>	4.15	3.77	<b>3.77</b>
Differential (C\$/mmbtu)	0.42	<b>0.50</b>	0.87	0.76	1.04	0.90	<b>0.84</b>	0.90	0.90	<b>0.93</b>
Company (C\$/mcf)	2.86	<b>2.90</b>	1.99	1.74	2.37	2.84	<b>2.29</b>	3.25	2.87	<b>2.84</b>
WTI Cushing (US\$/bbl)	57.94	<b>48.79</b>	33.47	45.35	48.54	49.93	<b>44.32</b>	50.75	51.07	<b>50.07</b>
WTI Cushing (C\$/bbl)	71.53	<b>62.09</b>	45.84	58.09	62.18	63.95	<b>57.63</b>	65.00	65.42	<b>64.14</b>
Differential (C\$/bbl)	8.23	<b>9.32</b>	7.18	9.10	9.74	10.02	<b>6.99</b>	10.19	10.25	<b>10.01</b>
Company (C\$/bbl)	63.30	<b>52.77</b>	38.66	48.99	52.44	53.93	<b>50.63</b>	54.82	55.17	<b>54.12</b>
Total (\$/bbl)	23.60	<b>22.30</b>	15.05	14.92	22.09	24.93	<b>20.12</b>	27.02	25.28	<b>24.87</b>
<b>Revenue (\$mm)</b>										
Natural Gas	52	<b>213</b>	40	32	60	75	<b>208</b>	86	77	<b>299</b>
Oil	31	<b>104</b>	17	20	58	65	<b>159</b>	66	67	<b>255</b>
Royalties	(2)	<b>(11)</b>	(3)	(3)	(6)	(7)	<b>(19)</b>	(8)	(8)	<b>(29)</b>
Total	81	<b>306</b>	54	50	112	132	<b>348</b>	144	136	<b>524</b>
<b>Expense</b>	30	<b>122</b>	27	27	54	56	<b>164</b>	56	57	<b>223</b>
<b>Ebitda (\$mm)</b>	51	<b>184</b>	27	23	58	76	<b>184</b>	88	79	<b>302</b>
Deprec., Deplet., & Amort.	38	<b>146</b>	34	34	60	60	<b>188</b>	60	60	<b>240</b>
Other non-cash	2	<b>6</b>	4	2	2	2	<b>10</b>	2	2	<b>8</b>
Interest	6	<b>25</b>	7	7	7	7	<b>28</b>	7	7	<b>28</b>
<b>Ebt</b>	5	<b>6</b>	(18)	(20)	(11)	7	<b>(41)</b>	19	10	<b>26</b>
Income tax	10	<b>23</b>	(4)	(6)	(3)	2	<b>(11)</b>	6	3	<b>8</b>
<b>Net Income (\$mm)</b>	(5)	<b>(17)</b>	(14)	(14)	(7)	5	<b>(30)</b>	13	7	<b>18</b>
Per share (\$)	(0.03)	<b>(0.11)</b>	(0.09)	(0.09)	(0.03)	0.02	<b>(0.19)</b>	0.05	0.03	<b>0.07</b>
<b>Shares (millions)</b>	155	<b>154</b>	153	153	233	253		253	253	<b>253</b>
Ebitda margin (after royalty)	63%	<b>60%</b>	50%	46%	52%	58%	<b>53%</b>	61%	58%	<b>58%</b>
Tax rate	187%		23%	30%	30%	30%	<b>27%</b>	30%	30%	<b>30%</b>



# Independent Stock Idea

June 22, 2016 Intraday

<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	127	14.5	15.7	1,990	62%
Oil	108	12.0	11.1	1,200	38%
	235	14.0	13.6	3,190	100%
Debt					660
Net Present Value (US\$mm)					2,530
Shares					253
Net Present Value - Standard Estimate (US\$/sh)					10
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					16





# Independent Stock Idea

June 22, 2016 Intraday

**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. An officer of Birchcliff is a research client of McDep.

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.