



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

## Birchcliff Energy (BIREF) Contrarian Buy at Lower NPV

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 3/31/13 (US\$mm)</i>	140
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	36
<i>Price (US\$/sh)</i>	5.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/18/12	<i>Adjusted Reserves/Production NTM</i>	22.6
<i>Shares (mm)</i>	146	<i>EV/Ebitda</i>	9.4
<i>Market Capitalization (US\$mm)</i>	860	<i>PV/Ebitda</i>	15.7
<i>Debt (US\$mm)</i>	450	<i>Undeveloped Reserves (%)</i>	73
<i>Enterprise Value (EV) (US\$mm)</i>	1,310	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	20.60
<i>Present Value (PV) (US\$mm)</i>	2,200	<i>Present Value Proven Reserves(\$/boe)</i>	17.60
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.21
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	29
<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, \$6 a million btu.			
For historical analysis of Birchcliff see <a href="http://www.mcdep.com/5bir.htm">www.mcdep.com/5bir.htm</a>			

### Summary and Recommendation

Volatile markets set up 66% unlevered appreciation potential in the common stock of Contrarian Buy **Birchcliff Energy (BIREF)** to estimated Net Present Value (NPV) of US\$12 a share where the McDep Ratio would be 1.0. We lower NPV from \$16 a share as plans for growth beyond 2013 may be stretched out (see table [Functional Cash Flow and Present Value](#) on page 2). First quarter results reported on May 15 beat our expectations on volume though wider geographical price discounts for natural gas and oil reduced cash flow (Ebitda) from the previous quarter (see table [Next Twelve Months Operating and Financial Estimates](#) on page 2). Meanwhile, low operating costs are helping the company withstand low natural gas price following unusually low winter demand in North America. Natural gas markets are recovering from the lows and we like the prospects for the clean fuel. Birchcliff also remains an attractive target for Asian buyers looking to participate in future international trade in liquefied natural gas (LNG) from Canada. The company's major shareholder, Mr. Seymour Schulich, has a record of success investing in resource rich companies that have been acquired by larger producers. Understandably, the small cap Canadian stock is speculative. Compared to most of the stocks in our coverage, Birchcliff's NPV includes more value for wells that have not yet been drilled. The company's near smallest size makes stock price and operating results more volatile. Debt is moderate at 0.20 time present value, but high at more than three times Ebitda. Investors can manage those risks when Birchcliff is part of a diversified energy portfolio.

Kurt H. Wulff, CFA



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

<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	51	12.5	26.5	1,350	61%
Oil	89	8.9	9.6	850	39%
	140	11.7	15.7	2,200	100%
Debt					450
Net Present Value (US\$m)					1,750
Shares					146
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					8

<b>Birchcliff Energy Ltd.</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(Canadian Dollars)</b>									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Q1E</i>	<i>Twelve</i>
	<i>3/31/11</i>	<i>12/31/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>Months</i>
									<i>3/31/13</i>
<b>Volume (before royalty)</b>									
Natural Gas (mmcf/d)	81	90	82	95	100	105	101	120	107
Days	90	92	365	91	91	92	366	90	365
Oil (mmb)	0.39	0.44	1.62	0.47	0.47	0.48	1.90	0.54	1.97
Oil (mbd)	4.3	4.8	4.5	5.2	5.2	5.2	5.2	6.0	5.4
Total (mboed)	17.7	19.8	18.1	21.1	21.9	22.7	22.1	26.0	23.3
<b>Price</b>									
Henry Hub (US\$/mmbtu)	4.11	3.55	4.04	2.73	2.22	2.56	2.62	3.44	2.80
Currency (US\$/C\$)	1.01	0.98	1.01	1.00	0.98	0.98	0.99	0.98	0.98
Henry Hub (C\$/mmbtu)	4.05	3.63	3.99	2.73	2.26	2.61	2.66	3.51	2.85
Differential (C\$/mmbtu)	0.03	0.23	0.14	0.41	0.34	0.39	0.40	0.53	0.41
Company (C\$/mcf)	4.02	3.40	3.86	2.32	1.92	2.21	2.26	2.98	2.44
WTI Cushing (US\$/bbl)	94.10	94.06	95.12	102.93	98.17	95.24	98.08	96.33	96.43
WTI Cushing (C\$/bbl)	92.75	96.20	93.92	103.04	100.07	97.08	99.50	98.18	98.28
Differential (C\$/bbl)	6.30	0.79	2.25	12.59	12.23	11.86	12.17	12.00	12.02
Company (C\$/bbl)	86.45	95.41	91.67	90.45	87.84	85.21	87.33	86.18	86.26
Total (\$/bbl)	39.27	38.57	39.95	32.78	29.64	29.73	30.90	33.64	31.23
<b>Revenue (\$mm)</b>									
Natural Gas	29	28	116	20	17	21	84	32	96
Oil	34	42	149	43	41	41	166	47	170
Royalties	(6)	(7)	(29)	(7)	(7)	(7)	(29)	(9)	(31)
Total	57	63	235	56	52	55	221	70	235
<b>Expense</b>	20	28	87	24	20	21	89	27	92
<b>Ebitda (\$mm)</b>	37	35	148	31	32	33	132	42	143
Deprec., Deplet., & Amort.	16	22	72	22	19	19	79	19	76
Other non-cash	3	2	6	(3)			(3)	-	-
Interest	6	5	20	6	6	6	23	6	23
<b>Ebt</b>	13	6	50	6	7	9	32	18	44
Income tax	4	2	15	2	2	3	10	5	13
<b>Net Income (\$mm)</b>	9	4	35	4	5	6	22	12	31
Per share (\$)	0.07	0.03	0.27	0.03	0.03	0.04	0.16	0.08	0.21
<b>Shares (millions)</b>	130	132	131	131	146	146	143	146	146
Ebitda margin (after royalty)	66%	55%	63%	56%	61%	61%	60%	61%	61%
Tax rate	30%	37%	30%	33%	30%	30%	30%	30%	30%



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
B = Buy	18-May	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
Range Resources	RRC	B	61.48	1.27	12,530	71	29	15.1	0.16	0.3	0.90
Peyto Exploration and Developmen	PEYUF		17.90	1.20	2,980	77	23	10.2	0.72	4.0	0.78
PDC Energy	PETD		25.25	1.89	1,130	56	44	7.3	-	-	0.76
Berry Petroleum Company	BRY		36.39	1.79	3,550	13	87	5.5	0.32	0.9	0.66
Denbury Resources Inc.	DNR		15.04	1.47	8,650	6	94	5.3	-	-	0.63
Birchcliff Energy Ltd.	BIREF	CB	5.90	1.53	1,310	61	39	9.3	-	-	0.60
Whiting Petroleum Corporation	WLL	CB	44.19	1.36	7,130	8	92	4.4	-	-	0.58
Cimarex Energy Company	XEC	CB	55.43	1.22	5,810	42	58	5.0	0.48	0.9	0.55
<i>Total or Median</i>					43,100			6.4			0.64
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT		18.45	1.00	860	37	63		1.39	7.5	0.92
Cross Timbers Royalty Trust	CRT		39.28	1.00	240	70	30		2.41	6.1	0.89
Dorchester Minerals, L.P.	DMLP	CB	22.80	1.00	700	57	43		1.79	7.9	0.84
Freehold Royalties Ltd.	FRHLF		17.48	1.04	1,180	16	84		1.68	9.6	0.84
Sabine Royalty Trust	SBR		50.10	1.00	730	55	45		3.52	7.0	0.77
<i>Total or Median</i>					3,700					7.5	0.84
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE		35.24	1.69	11,520	40	60	11.5	2.90	8.2	1.10
Vanguard Natural Resources, LLC	VNR		24.26	1.54	1,960	27	74	9.4	2.37	9.8	0.98
Enduro Royalty Trust (40%)	NDRO		18.87	1.00	250	42	58	7.0	1.69	9.0	0.90
Legacy Reserves L.P.	LGCY		25.00	1.41	1,680	23	77	7.8	2.22	8.9	0.88
San Juan Basin Royalty Trust	SJT	CB	17.44	1.00	810	100	-	14.4	0.81	4.7	0.83
Mesa RoyaltyTrust	MTR		31.50	1.00	59	75	25	10.6	2.55	8.1	0.79
Hugoton RoyaltyTrust	HGT		12.93	1.00	520	88	12	15.9	0.68	5.2	0.76
Enerplus Corporation	ERF	CB	13.71	1.62	4,400	27	73	5.5	2.12	15.5	0.64
<i>Total or Median</i>					21,200			10.0		8.6	0.85
<b>Composite</b>											
<i>Enterprise Value Weighting</i>					68,000	38	62				0.75
<i>Equal Weighting</i>						47	53				0.79
<i>Equal Weighted Buys</i>						45	55				0.70

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2013. Enterprise Value = Market Cap and Debt.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market	Net	Debt/	
	Symbol/ Rating		18-May 2012	Shares (mm)	Cap (\$mm)	Value (\$/un)	Present Value	McDep Ratio
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	61.48	160.0	9,840	70.00	0.19	0.90
Peyto Exploration and Development Cor	PEYUF		17.90	138.3	2,480	24.00	0.13	0.78
PDC Energy	PETD		25.25	23.9	600	40.00	0.36	0.76
Berry Petroleum Company	BRY		36.39	54.7	1,990	70.00	0.29	0.66
Denbury Resources Inc.	DNR		15.04	391.0	5,880	28.00	0.20	0.63
Birchcliff Energy Ltd.	BIREF	CB	5.90	146.0	860	12.00	0.20	0.60
Whiting Petroleum Corporation	WLL	CB	44.19	119.0	5,260	88.00	0.15	0.58
Cimarex Energy Company	XEC	CB	55.43	86.1	4,770	110.00	0.10	0.55
<i>Total or Median</i>					31,680		0.20	0.64
<b>Top Line Cash Payers</b>								
Permian Basin RT	PBT		18.45	46.6	860	20.00	-	0.92
Cross Timbers Royalty Trust	CRT		39.28	6.0	240	44.00	-	0.89
Dorchester Minerals, L.P.	DMLP	CB	22.80	30.7	700	27.00	-	0.84
Freehold Royalties Ltd.	FRHLF		17.48	64.7	1,130	21.00	0.03	0.84
Sabine Royalty Trust	SBR		50.10	14.6	730	65.00	-	0.77
<i>Total or Median</i>					3,660			0.84
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		35.24	193.0	6,800	30.00	0.45	1.10
Vanguard Natural Resources, LLC	VNR		24.26	52.5	1,270	25.00	0.34	0.98
Enduro Royalty Trust (40%)	NDRO		18.87	13.2	250	21.00	-	0.90
Legacy Reserves L.P.	LGCY		25.00	47.5	1,190	30.00	0.26	0.88
San Juan Basin Royalty Trust	SJT	CB	17.44	46.6	810	21.00	-	0.83
Mesa RoyaltyTrust	MTR		31.50	1.9	59	40.00	-	0.79
Hugoton RoyaltyTrust	HGT		12.93	40.0	520	17.00	-	0.76
Enerplus Corporation	ERF	CB	13.71	196.0	2,690	26.00	0.25	0.64
<i>Total or Median</i>					13,590			0.85
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		18-May 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	61.48		-	14.5	16.8	15.1
Peyto Exploration and Development Corp	PEYUF		17.90		0.39	10.5	13.1	10.2
Birchcliff Energy Ltd.	BIREF	CB	5.90		-	22.6	15.7	9.3
PDC Energy	PETD		25.25		-	8.1	9.6	7.3
Berry Petroleum Company	BRY		36.39		-	12.2	8.4	5.5
Denbury Resources Inc.	DNR		15.04		-	13.3	8.4	5.3
Cimarex Energy Company	XEC	CB	55.43		-	8.2	9.0	5.0
Whiting Petroleum Corporation	WLL	CB	44.19		-	9.7	7.7	4.4
	<i>Median</i>					11.3	9.3	6.4
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		39.28	78	0.96	16.3	17.5	15.7
Sabine Royalty Trust	SBR		50.10	100	1.00	8.8	18.5	14.2
Dorchester Minerals, L.P.	DMLP	CB	22.80	77	1.00	6.6	15.1	12.7
Permian Basin RT	PBT		18.45	32	0.91	9.7	13.2	12.1
Freehold Royalties Ltd.	FRHLF		17.48	71	0.83	5.3	10.4	8.7
	<i>Median</i>					8.8	15.1	12.7
<b>Bottom Line Cash Payers</b>								
Hugoton Royalty Trust	HGT		12.93		0.83	13.2	20.8	15.9
San Juan Basin Royalty Trust	SJT	CB	17.44		0.67	8.8	17.4	14.4
Linn Energy, LLC	LINE		35.24		1.01	14.5	10.5	11.5
Mesa Royalty Trust	MTR		31.50		0.86	7.5	13.4	10.6
Vanguard Natural Resources, LLC	VNR		24.26		0.91	13.6	9.6	9.4
Legacy Reserves L.P.	LGCY		25.00		0.66	11.3	8.9	7.8
Enduro Royalty Trust (40%)	NDRO		18.87		0.62	5.2	7.8	7.0
Enerplus Corporation	ERF	CB	13.71		0.70	6.5	8.6	5.5
	<i>Median</i>					10.1	10.0	10.0
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended March 31, 2013; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012

Table ISC-4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		18-May 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>									
	Range Resources	RRC	B	61.48	0.83	1.16	1.01	0.98	0.90
	Denbury Resources Inc.	DNR		15.04	0.75	1.28	0.87	0.93	0.63
	Whiting Petroleum Corporation	WLL	CB	44.19	0.70	1.34	0.86	0.93	0.58
	Peyto Exploration and Development C	PEYUF		17.90	0.73	1.18	1.06	0.90	0.78
	PDC Energy	PETD		25.25	0.76	1.27	0.83	0.90	0.76
	Berry Petroleum Company	BRY		36.39	0.72	1.10	0.87	0.89	0.66
	Cimarex Energy Company	XEC	CB	55.43	0.62	1.07	0.81	0.86	0.55
	Birchcliff Energy Ltd.	BIREF	CB	5.90	0.48	1.01	0.84	0.61	0.60
	<i>Median</i>				0.73	1.17	0.86	0.90	0.64
<b>Top Line Cash Payers</b>									
	Dorchester Minerals, L.P.	DMLP	CB	22.80	0.81	1.10	0.93	0.96	0.84
	Freehold Royalties Ltd.	FRHLF		17.48	0.77	1.26	0.91	0.93	0.84
	Permian Basin RT	PBT		18.45	0.79	1.02	0.85	0.88	0.92
	Cross Timbers Royalty Trust	CRT		39.28	0.77	1.09	0.94	0.87	0.89
	Sabine Royalty Trust	SBR		50.10	0.74	1.06	0.84	0.80	0.77
	<i>Median</i>				0.77	1.09	0.91	0.88	0.84
<b>Bottom Line Cash Payers</b>									
	Linn Energy, LLC	LINE		35.24	0.91	1.08	0.95	0.97	1.10
	Legacy Reserves L.P.	LGCY		25.00	0.83	1.09	0.90	0.92	0.88
	Vanguard Natural Resources, LLC	VNR		24.26	0.83	1.07	0.91	0.92	0.98
	San Juan Basin Royalty Trust	SJT	CB	17.44	0.68	1.11	0.96	0.82	0.83
	Mesa RoyaltyTrust	MTR		31.50	0.64	1.08	0.85	0.76	0.79
	Hugoton RoyaltyTrust	HGT		12.93	0.54	1.05	0.92	0.71	0.76
	Enerplus Corporation	ERF	CB	13.71	0.54	1.00	0.78	0.68	0.64
	<i>Median</i>				0.68	1.08	0.91	0.82	0.83

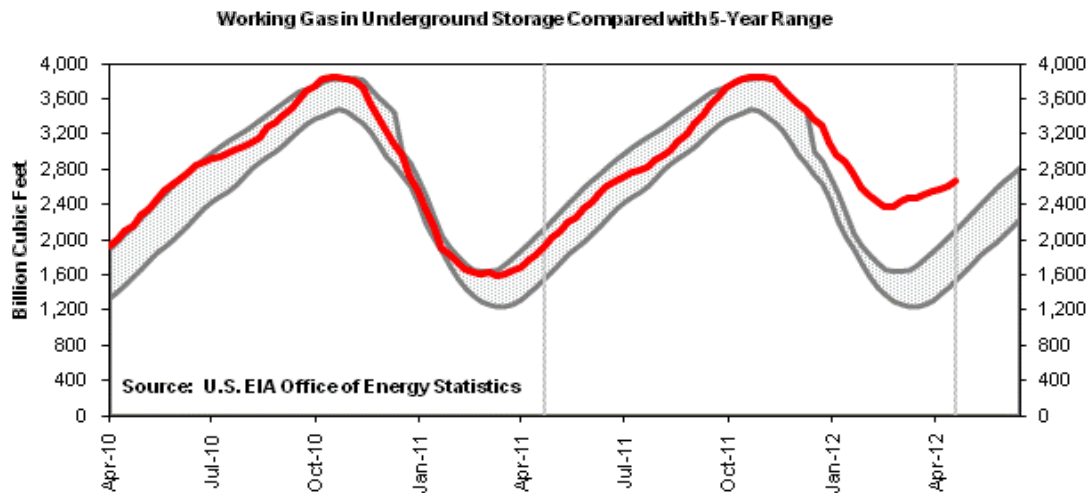
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 18, 2012



**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.

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. 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.