

BIRCHCLIFF

ENERGY

TSX: BIR

Presented by: Lauren Dang, Cole Gramlich, Ayoung Lee

Agenda

1

Recommendation

1. Investment Thesis
2. Investment Decision

2

Company Overview & Analysis

1. Company Overview
2. ESG Performance
3. Core Areas, Business Model, Operations Forecast

3

Industry Overview

1. Industry Outlook
2. Core Area Outlook

4

Valuation

1. Comparable Company Analysis
2. Net Asset Value & Weighted Valuation

5

Investment Thesis Fit

1. Investment Thesis Fit

Recommendation

Investment Thesis

- Seasoned Management & Commitment to ESG
- Strong Operational Results
- Growth Prospects
- Under Valued

Investment Decision

Action	BUY
Current Price	\$8.46
Target Price	\$9.96
Implied Return	17.73%

Company Overview

Company Highlights

- **History:** Birchcliff Energy Ltd. (Birchcliff) is a Calgary, Alberta based intermediate oil and gas company that was founded in 2004. Birchcliff's operations are in the Peace River Arch area and is head quartered in Calgary, Alberta, Canada.
- **Stock Performance:** With a YTD of 14.55% return and 1 year return of 179.25%, Birchcliff remains competitive among its industry peers. The TSX has returned 3.82% for the same period. Volatility remains high with a beta of 2.63, however, this is of the lower betas in the industry.
- **Strategy:** To successfully carry-on business in the oil & gas sector, to significantly enhance value and liquidity for its shareholders and to be a responsible corporate citizen to shareholders, employees, the community and the environment

Recent Corporate Finance Activity

- **Acquisitions:** Birchcliff has been and will continue to focus on acquiring core properties in the Peace River Arch area and on its Montney/Doig Resource Play. Birchcliff has 7423 net future potential Montney/Doig horizontal drilling locations. In 2019, the company acquired 15.1 contiguous sections of Montney land between Pouce Coupe and Gordondale for \$39M.
- **Divestitures:** Decommissioning obligations from the disposition of various Gordondale lands and assets in December 2019, 2020, and 2021.

Valuation & Share Performance

Key Valuation Statistics

Enterprise Value	2.52B		
Market Cap	2.24B	EDBITDA*	\$650.5M
EV/2P*	2.47x	Capital Budget	\$240M
EV/EBITDA*	6.28x	EPS	\$1.13
Cash	\$63k	Total Debt	\$500.87M

*ASSUMPTIONS: Proved + Probable, EDBITA is 2021A

Share Price

Current: **\$8.46**



Environment

- Birchcliff is a Low Emissions Intensity Producer (LEIP) with one of the lowest direct emission intensity in their peer group
- Birchcliff also runs carbon sequestration at the Pouce Coupe Gas Plant, which has over 56,300 tonnes of CO2 injected to-date

Social

- Implemented Birchcliff Mentorship Program and Birchcliff Equality and Advocacy Committee to support their values, culture, vision, and mission
- Since 2013, Birchcliff has granted multiple scholarships to over 70 students, helping them to pay tuitions, books, fees, etc.

Governance

- The Board of Directors has four committees, which include the Audit committee, Compensation Committee, Nominating Committee, and Reserves Evaluation Committee
- The Board regularly provides input in the development of balanced legislation, regulations, best practices, and guidelines



Land Position & Core Areas



Montney/DOIG Resource Play Update

- Large contiguous land base with 425.7 (404.8 net) sections prospective for the Montney/Doig as at December 31, 2021. Low decline production base estimated at 20% in 2022.

Gordondale Update

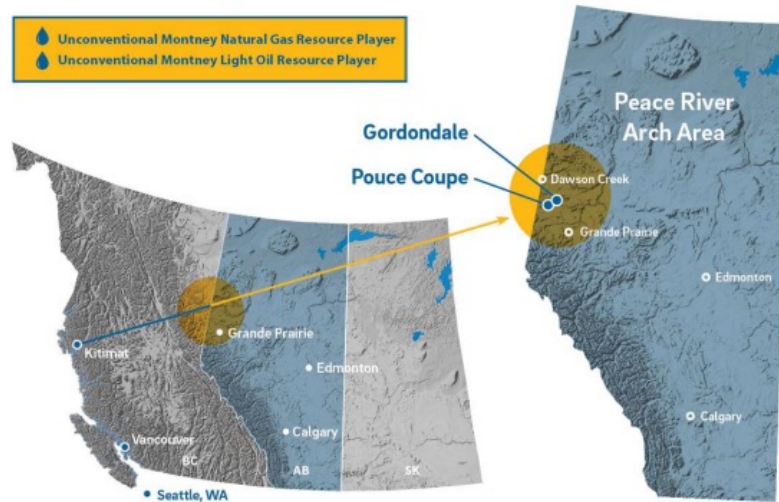
- High oil & NGLs weighting. Exploration success in 2021 added another commercial development interval in Montney. The 2022 drilling program includes 9 (9.0 net) horizontal oil wells. In 2022, Birchcliff will bring 9 wells on production in the Gordondale area.

Pouce Coupe Update

- Birchcliff has a 100% working interest in its Pouce Coupe Gas Plant and two oil batteries, as well as various working interests in other infrastructure. In 2018, the Corporation expanded processing capacity to 340 MMcf/d from 260 MMcf/d.

Business Model & Growth Prospects

Asset Overview



Overarching Competitive Advantage

- Owning and operating its own gas plant gives Birchcliff a strong competitive advantage over its competitors who pay for natural gas processing
- By fully utilizing the available processing capacity of their existing infrastructure, this allows Birchcliff to maximize free funds flow and reduce indebtedness, ultimately increasing their shareholder returns

Operational Highlights

Peach River Arch: Birchcliff's operations are concentrated in the Peach River Arch, which is one of the most prolific natural gas and light oil producing areas. In 2021, facilities and infrastructure spending reduced significantly compared to 2020.

Montney/Doig Resource Play: One of Birchcliff's main assets is the Montney/Doig resource play. Montney/Doig has horizontal and vertical wells, which allows low risk, a low-cost structure, and minimal environmental impact.

Pouce Coupe Gas Plant Growth Prospects: The Pouce Coupe Gas Plant and the surrounding field infrastructure is 100% owned and operated by Birchcliff which allows them to maintain a low-cost structure and high production rates. Due to the 2021 Capital Program, Birchcliff reduced per well costs, and in 2022, will bring 26 wells on production.

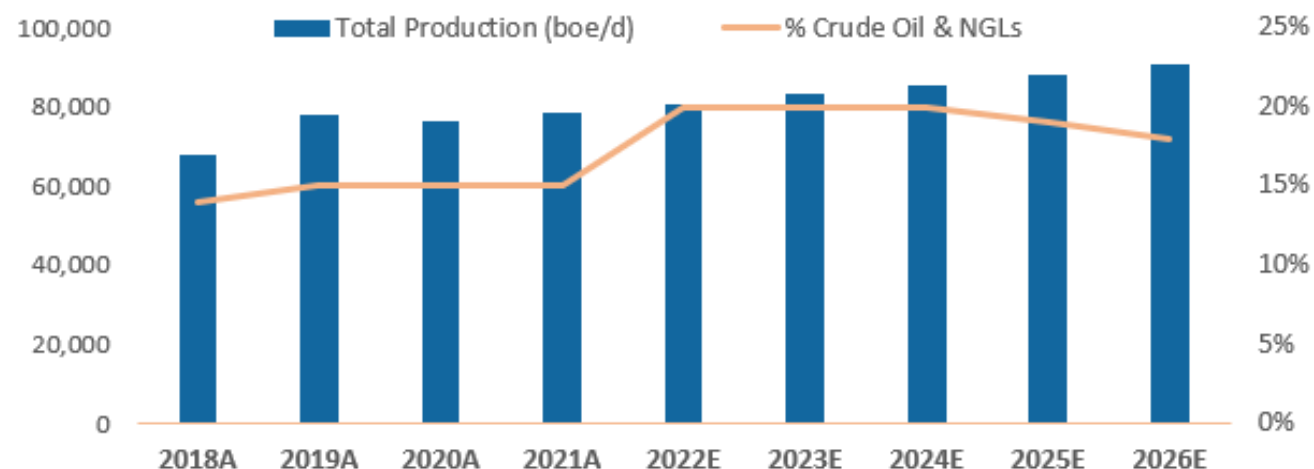
Operations Forecast

Revenue and EBITDA Forecast

(in thousands of dollars, \$000s)	2019A	2020A	2021YTD	2022E	2023E	2024E	2025E	2026E
Total Revenue by Segment								
Light Oil	118,182.00	68,498.00	83,836.00	117,370.40	134,975.96	155,222.35	170,744.59	187,819.05
Condensate	127,816.00	102,397.00	178,651.00	250,111.40	287,628.11	330,772.33	363,849.56	400,234.52
NGL	36,488.00	38,123.00	85,891.00	120,247.40	138,284.51	159,027.19	174,929.91	192,422.90
Natural Gas	330,973.00	319,473.00	583,991.00	817,587.40	940,225.51	1,081,259.34	1,189,385.27	1,308,323.80
Total Revenues	613,459.00	528,491.00	932,369.00	1,305,316.60	1,501,114.09	1,726,281.20	1,898,909.32	2,088,800.26
Total Revenue Growth, YOY%		-13.9%	76.4%	40.0%	15.0%	15.0%	10.0%	10.0%
EBITDA Forecast	148,440.00	167,233.00	650,495.00	456,860.81	525,389.93	604,198.42	664,618.26	731,080.09

Production Forecast

- Birchcliff's 2022 estimated average production is 78,000 – 80,000 boe/day, based on its compound per-share production growth of about 10% per year since inception
- The company's total 2022 capital expenditure program is approximately \$250 million, with about 64% expected to be allocated to DDCET activities, and 14% allocated to facilities and infrastructure



Industry Overview

Decarbonization and Clean Energy

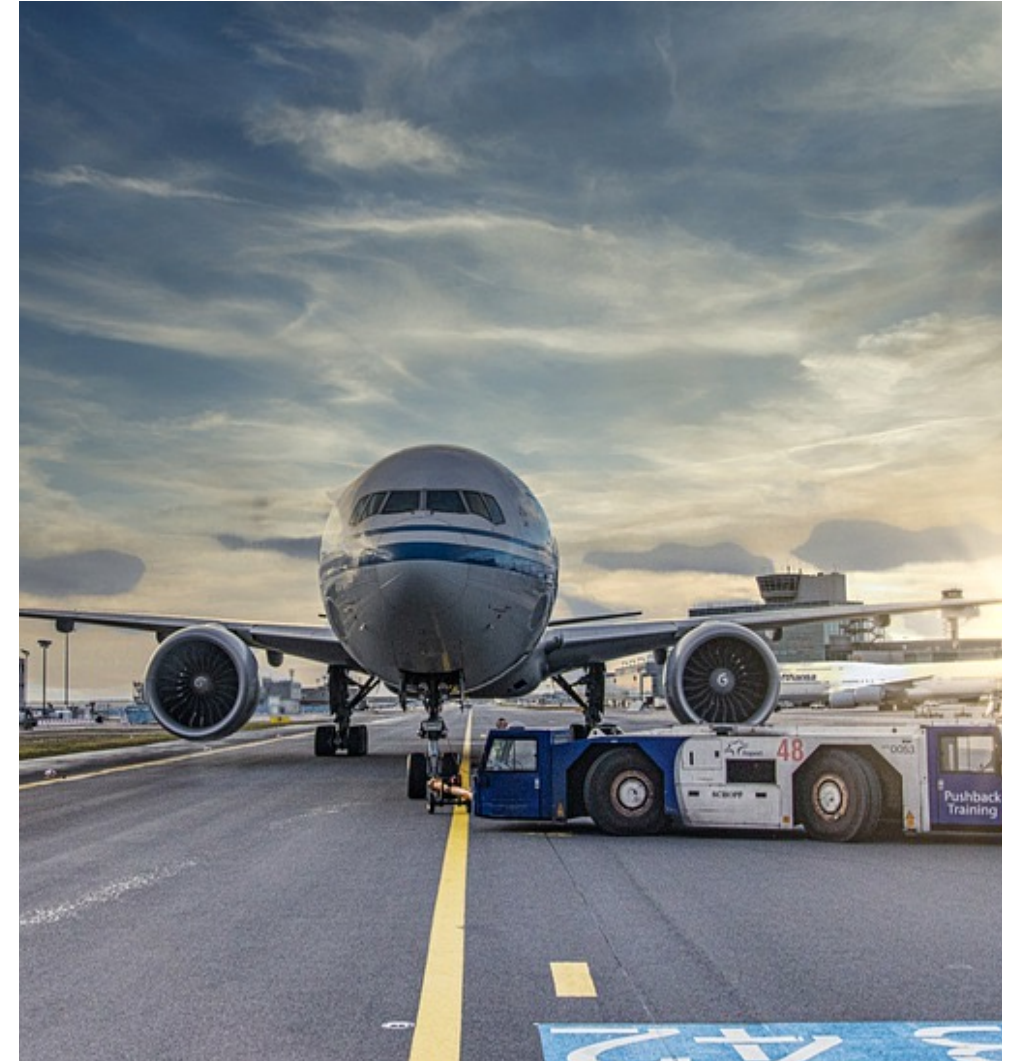
- Push for decarbonization and trend towards earth friendly energy sources project the demand for oil and gas to decline
- The demand for energy is projected to increase, but clean energy is replacing traditional energy in a long run

Rapid Recovery Since COVID-19

- With recovering demand and capped supply from OPEC, oil prices has been rising since 2019
- International Energy Agency urging OPEC countries to boost supplies
- Travel restrictions being lifted contributes to return of O&G demand

Canadian Projects

- 18 Canadian LNG projects are proposed – 13 of them in BC with total proposed export capacity of 29 Bcf/d of natural gas
- Average export license of 25 years



Valuation (Comps)

2022-04-10

Company	Market Data			Trading Multiples		
	Price	Market Cap	Enterprise Value	EV/TTM EBITDA	EV/NTM EBITDA	EV/2P
<i>figures in thousands of \$CAD, except multiples</i>						
Baytex Energy Corp. (TSX:BTE)	\$5.44	3,126.0	5,010.0	2.2x	4.11x	13.10x
Vermilion Energy Inc. (TSX:VET)	\$25.08	4,070.0	6,350.0	2.9x	3.42x	13.20x
Crescent Point Energy Corp. (TSX:CPG)	\$8.74	5,022.0	7,380.0	1.5x	3.13x	10.37x
Cardinal Energy Ltd (TSX: CJ)	\$7.25	1,091.0	1,260.0	3.5x	2.56x	11.41x
Bonterra Energy Corp. (TSX: BNE)	\$11.94	417.9	677.4	2.2x	1.7x	1.22x
Tamarak Valley Energy Ltd (TSX: TVE)	\$5.03	2,179.0	2,610.0	3.1x	2.3x	16.89x
Whitecap Resources Inc. (TSX:WCP)	\$9.62	6,034.0	7,180.0	2.2x	3.1x	14.15x
Birchcliff Energy (TSX:BIR)	\$8.46	1,816.0	2,520.0	3.9x	6.28x	2.47x

Summary Statistics

Mean	\$10.20	2,969.49	4,123.43	2.7x	3.32x	10.35x
Median	\$8.60	2,652.5	3,810.0	2.6x	3.12x	12.26x

Source(s): Birchcliff Energy Ltd., Yahoo Finance

Valuation (Intrinsic)

Valuation Commentary

- We elected to weigh our valuation more heavily (70%) on the NAV Valuation as it better represents the overall value of the company and its assets.

NAV Assumptions & Commentary

- Discount rate used was 10%
- Commodity price assumptions were based off industry guidance and estimates
- Long-term production decline rate of 5% was used
- Proved + Probable reserves were used in NAV valuation

Current: \$8.46		High Estimate: \$12.89		Low Estimate: \$6.61	
EV/EBITDA Trading Multiple		Summary of NAV Valuation		Target Price	
<i>Figures in thousands of \$CAD, except multiples</i>		<i>Figures in thousands of \$CAD</i>		<i>Figures in \$CAD</i>	
EV/EBITDA	3.87x	Implied Net Asset Value	4,347,582	Implied Net Asset Value Price	
EBITDA 2021E	650,495	Less: Debt	597,606	Target	\$12.89
		Add: Cash	63	Weight	70.00%
Implied Enterprise Value	2,520,000	Market Value of Equity	3,749,913	EV/EBITDA Trading Multiple	
Less: Debt	597,606	/Shares Outstanding	290,847	Target	\$6.61
Add: Cash	63			Weight	30.00%
Market Value of Equity	1,922,457	Implied Share Price	\$12.89		
/Shares Outstanding	290,847			Implied Share Price	\$11.01
Implied Share Price	\$6.61				

Source(s): Birchcliff Energy Ltd., MarketBeat, Deloitte, Yahoo Finance

Quality Management

- ~80% of total products is natural gas. Having its own gas plant allows Birchcliff to focus on continuous production of resources
- Having one of the lowest direct emission intensity among its peers support Birchcliff's sustainability with the industry's growing focus on decarbonization

Top and Bottom Line Growth

- Although revenue and net income were negatively impacted during peak COVID times, Birchcliff has now recovered beyond pre-pandemic times.
- Industry outlook mentions that energy prices are likely to increase moving forward in short term, providing positive outlook for Birchcliff's revenue and net income.

FCF Growth

- Since the drop in FCF between 2019-2020, there has been 136% increase in 1 calendar year period.
- Operating cash flow has increased beyond pre-COVID level as of the end of 2021.

Strong Balance Sheet

- Low current assets, particularly cash, compared to its peers
- However, consistent increase in PP&E that brings its total assets increasing
- Jump in retained earnings in the most recent reports