The Ubika Research **Energy 20** Monthly

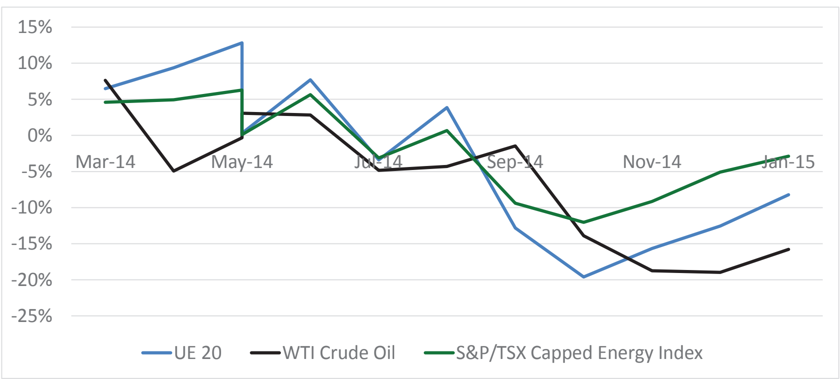
January 26, 2015
Issue #3

Market Commentary

The UE20 (-9.4%) outperformed the WTI Crude price, which dropped 17.6%, ending the month at $47.13 a barrel, and underperformed the S&P/TSX Capped Energy Index as it declined by only 6.6% in the month. The UE20 fell 33.3% over the last year, compared to a 50.8% and a 20.9% drop from Crude Oil and Capped Energy Index, respectively.

The price of Crude Oil continues to slide to a 5½ year low, mainly due to the oversupply of the commodity combined with reduced global demand. Globally, the decline in prices has an immense effect on rig managers, as production facilities with higher costs will operate at a loss. In turn, this has led to 135 Canadian oilrigs shutting down, 10,700 employee cutbacks, and an increased unemployment rate in key areas such as Alberta and Saskatchewan. BP's Chief Executive, Bob Dudley, is expecting prices to remain low for the next 2-3 years, which will largely affect his North Sea projects with an already put down $8 billion investment. On the other hand, the low cost of oil and gas is beneficial for economies relying on importing the commodity, as economic expansion will get a lot cheaper for nations such as China.

12-Month Performance



Source: Thompson Reuters

Key Findings for the Month

- TAG Oil Ltd. was the only company to make positive gains this month from the UE20 index, as it was given a 5-year extension for its Canterbury Basin exploration permit
- Ikkuma Resources Corp. was the biggest decliner, with a 43.5% drop in price as slumping oil prices and a capital budget reduction were all factors for investors' sentiment
- Apart from Tamarack, the other four TSX-V listed stocks have lost 35.7% in value over the last month

What to Watch For

Western Canadian oil output will increase this year by 150,000 barrels per day (b/d) to 3.6 million, and another 150,000 b/d increase in 2016. CAPP forecasts a 19% cut in industry spending this year to C$46 billion from C$69 billion in 2014. The spending cuts are expected to cut 65,000 b/d off a previously more bullish CAPP production growth forecast for 2015 and 120,000 b/d off expectations for 2016.

The U.S. has internally supplied 89% of its energy needs this past year, up 2% since 2013. This energy independence has decreased its needs for imported oil and gas, which ends up hurting the Canadian energy exports to its leading customer. Canada has been in the process of building more infrastructure, specifically pipelines such as the Keystone XL, in order to diversify their clientele and deliver their products to new foreign markets. In the coming years, the U.S. imports of Canadian crude are projected to flatten at around 3.2 million b/d.

Index Overview

Number of Companies	20
Market Cap (M)	$6,867
Monthly % Change	-8%
Dividend Yield	3%

Monthly Price Gainers

Company	Symbol	% Change
DeeThree Exploration Ltd	DTX.TO	9%
Tamarack Valley Energy Ltd	TVE.V	8%
Spartan Energy Corp	SPE.TO	3%
TORC Oil & Gas Ltd	TOG.TO	3%
TAG Oil Ltd	TAO.TO	1%

Monthly Volume Gainers

Company	Symbol	% Change
Storm Resources Ltd	SRX.V	187%
Ikkuma Resources Corp	IKM.V	66%
Legacy Oil + Gas Inc	LEG.TO	54%
TORC Oil & Gas Ltd	TOG.TO	19%
Tamarack Valley Energy Ltd	TVE.V	-11%

Crude Oil (WTI) Performance

Current price, $/barrel	$45.59
Monthly Change	-15%
Year Change	-52%

Natural Gas Performance

Current price, $/mmbtu	$2.99
Monthly Change	-6%
Year Change	-38%

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Ubika Energy 20 Weekly Performances (week ending January 23, 2015)

Company	Symbol	Last Price	Marketcap (M)	% Change Monthly
Blackpearl Resources Inc	PXX.TO	$0.89	$300	-15%
Cardinal Energy Ltd	CJ.TO	$13.32	$759	-8%
Cequence Energy Ltd	CQE.TO	$0.90	$191	-20%
Crew Energy Inc	CR.TO	$5.80	$716	-7%
DeeThree Exploration Ltd	DTX.TO	$5.38	$479	9%
Delphi Energy Corp	DEE.TO	$1.20	$187	-22%
Ikkuma Resources Corp	IKM.V	$0.63	$51	-48%
Legacy Oil + Gas Inc	LEG.TO	$1.66	$333	-26%
Leucrotta Exploration Inc	LXE.V	$0.92	$152	-40%
Long Run Exploration Ltd	LRE.TO	$1.26	$245	-18%
Manitok Energy Inc	MEI.V	$0.67	$44	-51%
Mart Resources Inc	MMT.TO	$0.52	$186	-25%
Painted Pony Petroleum Ltd	PPY.TO	$7.54	$752	-23%
Spartan Energy Corp	SPE.TO	$2.62	$692	3%
Spyglass Resources Corp	SGL.TO	$0.29	$37	-31%
Storm Resources Ltd	SRX.V	$3.45	$384	-20%
TAG Oil Ltd	TAO.TO	$1.42	$89	1%
Tamarack Valley Energy Ltd	TVE.V	$3.37	$259	8%
TORC Oil & Gas Ltd	TOG.TO	$7.94	$767	3%
Twin Butte Energy Ltd	TBE.TO	$0.70	$245	-30%
UE20				-8%
Crude Oil (WTI)		**$45.59**		-15%
S&P/TSX Capped Energy Index		**$216.39**		-3%

Source: Thompson Reuters

About the Index:
Since the selloff started in Q3 2014, many energy stocks have lost between 25% and 50% of their market value. This selloff has indiscriminately affected the entire sector, resulting in potential opportunities for the astute investor. Companies with good assets and strong balance sheets can be bought at attractive valuations. From a macro standpoint, we still need energy. While global energy demand has not kept pace with the added supply out of North America, market elasticity is low and marginal production will come offline, bringing the market into equilibrium. New production can only come from Iraq, Venezuela, Russia and North America. In this situation, having exposure to North American energy stocks for the long term is prudent. If you believe oil will be over $80 per barrel in the next two years, this pull back could be a buying opportunity. That being said, there are a lot of marginal producers; look for companies with low debt levels and long life assets of light oil or high liquid content in their gas. The Ubika Energy 20 was created based on the above thesis to take advantage of these attractive valuations in the energy market.

In the News

January 6, 2015: Crew Energy Inc. shut 1,000 b/d of heavy oil and natural gas production; only profitable at US $80/barrel; 2015 capital budget of $185 million, down 39%

January 9, 2015: Mart Resources, Inc. announces initial flow test rate of 13,309 b/d indicates that Mart and its co-venturers have a very successful well

January 13, 2015: Blackpearl cuts 2015 capex budget by 61%, focusing on the completion of the Onion Lake thermal project in Saskatchewan

January 13, 2015: Cequence Energy decided to eliminate three wells, resulting in a 50% Q1 capex budget cut; production estimate to average between 12,500 to 13,000 b/d

January 14, 2015: Deethree BoD has approved a 2015 capital budget of up to $160MM; targets average 2015 production of 13,300 b/d, which represents 18% Y/Y growth

January 21, 2015: Legacy Oil + Gas Inc. announces appointment of James Bertram as lead director