Ubika Energy 20

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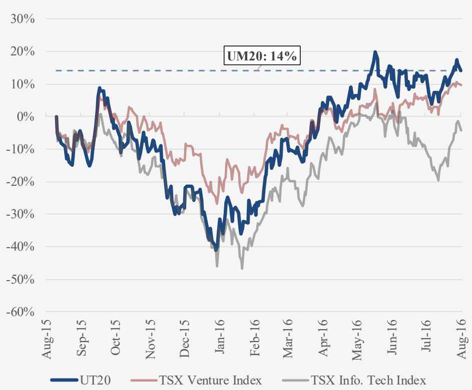
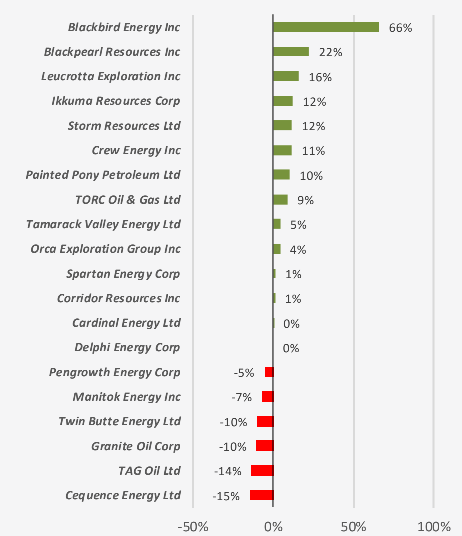
Jul. 11, 2016 - Aug. 23, 2016

UE20:	+3.7% (+14% Y/Y)
TSX Capped Energy:	+5.8% (+10% Y/Y)
Oil (WTI):	+5.1% (-4% Y/Y)

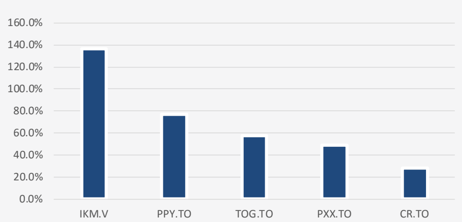
Dollar amounts in CAD unless otherwise stated.



UE20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
Juri Zguri | Analyst | Gravitas Financial Inc. | juri@gravitasfinancial.com | 1 (647) 712-7838

UE20 – Stalemate, Yes, But Better Times Ahead?

The Ubika Energy 20 (UE20) index posted modest gains in the period July 11, 2016 to August 22, 2016: 3.7%. During the same time period, the price of oil (WTI) and TSX Capped Energy Index appreciated in price by 5.1% and 5.8%, respectively.

After a few months of steady decline, it seems as though the bull market in oil has fired up again. This has been the result of a prospective output freeze by major producer - OPEC, as well as energy data outlining a weekly fall in U.S. crude supplies. From its seasonal lows on August 2, in which prices fell below the $40 mark, it has since surged almost 20% to the higher $40 levels.

Industry Highlights

- The 14-member coalition – OPEC – has announced an informal meeting in Algeria to discuss ways to stabilize the oil market prices. The meeting is scheduled for Sept. 26 to Sept. 28, and non-OPEC producing giant Russia may participate.
- This informal meeting could very well yield little in the way of results, seeing as Iran has reiterated plans to raise its production back up to pre-sanction levels. In fact, a similar OPEC meeting last spring failed after Iran refused to join the output freeze.
- Adding to the bull story is the U.S. National Oceanic and Atmospheric Administration, which recently raised its expectations for the Atlantic hurricane season. This signifies an increased chance of oil disruptions across the region and higher prices as a result.
- The EIA, with its International Energy Outlook 2016, estimates that China is on a path to produce over 20 bn cubic feet of shale gas per day by 2040. The country has been working on developing its shale resources, however difficult geology has curbed that growth. Now, with new technology, the nation has quickly risen to the 500 mm cubic feet of shale gas daily.

Outlook for Upcoming Months:

It is difficult to provide an accurate forecast for the oil market. While we do see bullish aspects in the short-term horizon with the falling crude inventories, we tend to question the unification of OPEC and its agreement capabilities. We pose the question: if Iran has openly defied a freeze before, and it continues to do so, what could possibly change its mind? However, there remains a chance that the Saudis and OPEC at large may move forward without Iran. At that point, we would further question the long-term unity of the energy cartel.

Investors in this space would be wise to follow the news of the September 26th meeting.

Notable Winners

BlackPearl Resources Inc. (TSE:PXX)

BlackPearl's primary focus is on heavy oil and oil sands projects in Western Canada. Its core properties include: Onion Lake, Saskatchewan (conventional heavy oil property), Mooney, Alberta (another conventional heavy oil area) and Blackrod, Alberta (primarily a bitumen property located in Athabasca oil sands).

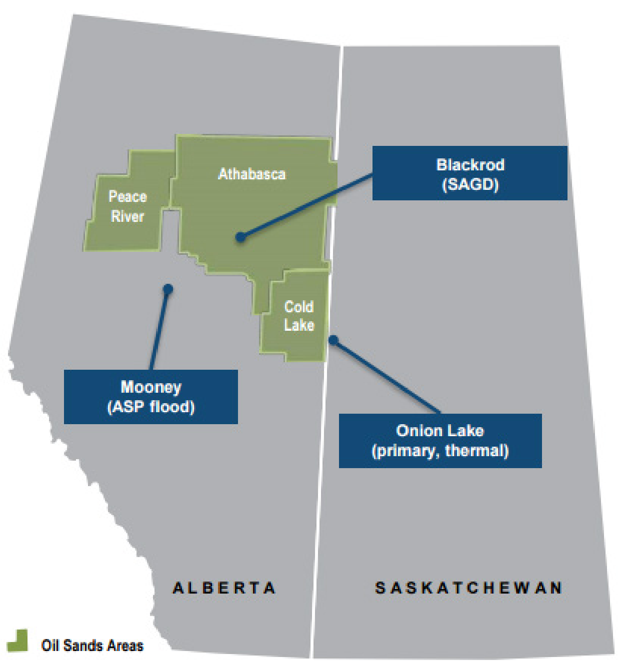
The Company topped the Ubika Energy 20 Index with an outstanding 22.2% return, during the time period July 11, 2016, to August 22, 2016. We think BlackPearl is one of our safer plays, which continues to outperform its peers. Notable shareowners include Burgundy Asset Management (18%), Franklin Templeton (15%), the Lundin Family (12%) and management (9%).

Operationally, its current production is estimated to be 9,500 (boe/day). According to management, there is a potential to increase production ten-fold from its core three properties.

Onion Lake is the Company's most significant asset:

- Currently producing 2,000 b/d from 37 wells, >1200 b/d shut-in due to lower oil prices
- 114 future drilling locations, if WTI crude prices remain above $45/bbl
- Total of 15,000 b/d potential in the long-term
- Operating costs of $4-6/bbl

Figure 1. Oil Price Needed for Fiscal Budgets to Breakeven



Source: Ubika Research, Company Filings

TORC Oil and Gas Ltd. (TSE:TOG)

TORC focuses on high quality, tight light oil resource plays. Its exposure into the light oil plays utilize a three-phased strategy of Resource Capture, Delineation, and Production Growth. Of importance is CPPIB's 25% stake in the company, signifying a long-term growth horizon.

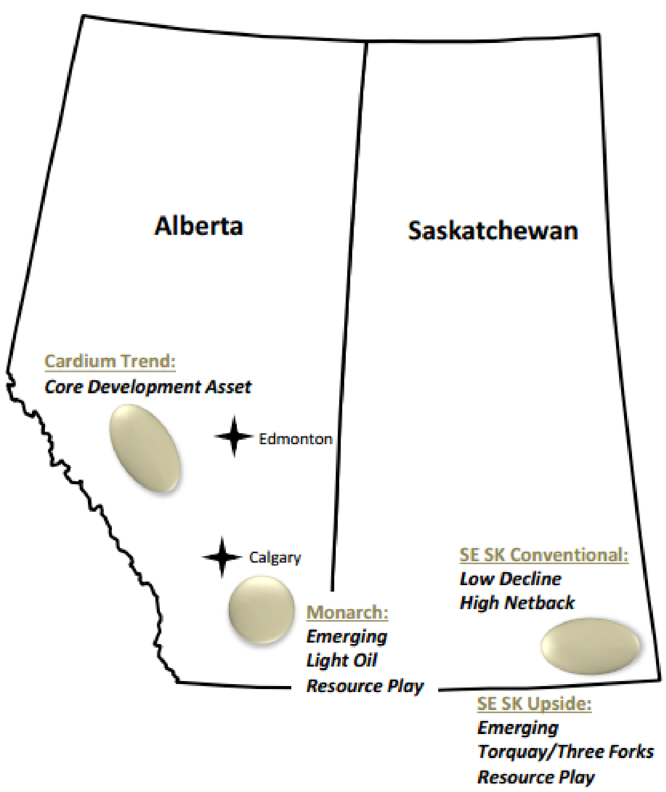
Shares of the Company have risen 9.1% since July 11, 2016.

It currently has 96 mmboe of 2P reserves, with production guidance for 2016E of 18,500 boe/d, on average. In terms of debt, it has a Q2 exit net debt figure of $299 million, with $241 million being a part of its line of credit.

TORC's Southeast Saskatchewan asset is its most stable and free-cash flow generating play. It is a light oil asset with low decline and high netback. The potential is great since there are 400 undrilled locations, with greater than 94% being liquids (TORC's preference play due to management expertise).

The Torquay/Three Forks as well as the Monarch play are its longer-term opportunities. The Torquay/Three Forks has robust industry activity and is currently focused on conducting initial development projects.

Figure 2. TORC's Asset Locations



Source: Ubika Research, Company Filings

Incoming Change to the UE20

EXIT: Long Run Exploration Finalizes Takeover

Common shares and convertible debentures have recently been delisted from the Toronto Stock Exchange following the Chinese Sinoenergy Investment Corp. takeover of Long Run Exploration. A series of acquisitions undertaken just before the current commodity price crash caused a very swift ascent to unsafe levels of leverage.

The deal entailed a cash consideration of $0.52 per common share and $750 per $1000 principal amount of convertible debentures plus accrued and unpaid interested. The Beijing-based company, which has a history of buying Canadian junior producers (i.e. New Star Energy Ltd last year for $215 million), takes on $679 million in debt with just $100 million in common shares.

ENTER: Pengrowth Energy Corp. (TSE:PGF)

The Company is a 60%-40% liquids-gas production play with average daily production (as of 1Q16) of 62,056 boe/d. 2P reserves as of YE 2015 come out at 569.1 mmboe, with a life index life of 25.2 years. Additionally, the Company has undeveloped land of more than 500,000 acres.

Figure 3. Pengrowth's Asset Locations

Source: Ubika Research, Company Filings

Financially, the Company is sound. Although its operating income is far into the red, the majority of it can be attributable to non-cash depreciation expenses, seeing as EBITDA is at the top of its peer group. In addition, the Company is not over leveraged, a component we find extremely important in the current oil and gas environment: debt to equity is at a standoff 1-1.

Finally, we were very impressed by the Company's cash flow. In a peer group screening of over 100 companies, they ranked first by magnitude of FCF, in the past 12 months. Additionally, its cash flow return on investment (CFROI) is almost top of the line at 10.4%. Note that FCF was used as a metric for this figure.

In terms of valuation, the Company is currently trading at a discount on revenue and EBITDA with 3.05x and 5.84x, respectively. This is compared to a larger peer group median of 3.17x revenue and 12.28x EBITDA.

ENTER: Blackbird Energy Inc. (CVE:BBI)

In addition, we have acknowledged the acquisition of Mart Resources (CVE:MMT) by Midwestern Oil & Gas, a Nigeria-based player. The takeover occurred earlier in the year for an aggregate consideration of approximately $89 million for all of Mart's shares.

To replace Mart Resources, we have chosen Blackbird Energy Inc. (CVE:BBI). The Company is a play on the Montney resource that continues to prove extremely resourceful for explorers in liquids. Blackbird owns the Elmworth Montney project with 83.75 sections (53.6 thousand acres) of 100% owned rights. Its stock has performed with significant upside lately, up 110% year-to-date and 66% since the last UE20.

In addition, Blackbird is on the safe side, financially speaking. The company has no debt on its books and has a healthy $31 million working capital balance. Blackbird has also noted that additional development costs on its projects will not be costing significant amount of capex dollars. Drilling costs are estimated at $2.8-$3.0 million, with completion at $2.7-$3.0 million. We note that Blackbird has no revenues at the moment.

By maintaining balance sheet strength as well as adding acreage and performing developments in the Elmworth Montney project, we believe Blackbird has great potential to become the next winner in our UE20 index.

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