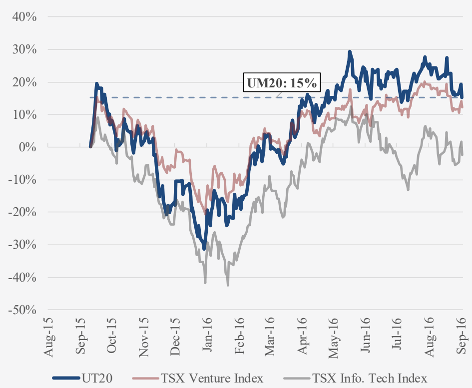
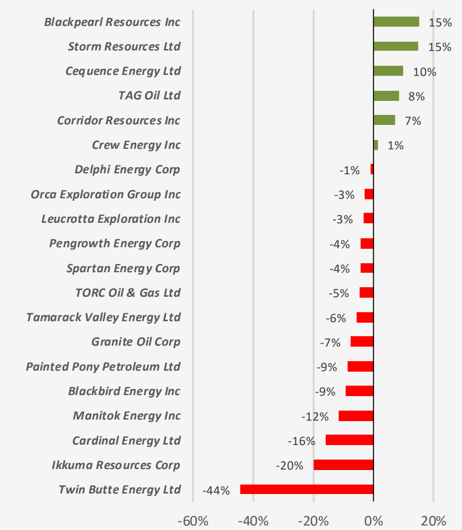

**Ubika Energy 20**
Aug. 23, 2016 - Sept. 26, 2016

| | |
|---|---|
| UE20: | -8.2% (+15% Y/Y) |
| TSX Capped Energy: | -5.9% (+12% Y/Y) |
| Oil (WTI): | -7.5% (-2% Y/Y) |

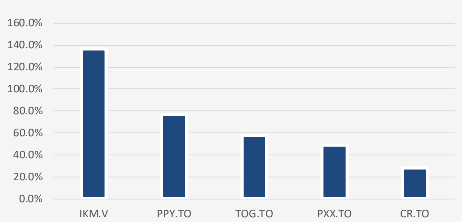
*Dollar amounts in CAD unless otherwise stated.*




## UE20: Performance Distribution




## Top Volume Gainers (m/m)

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# Energy Stocks Follow the Price of Oil … and That Direction is Down

Over the past month, August 23rd- September 22nd, 2016, the Ubika Energy 20 (UE20) index is down by 8.2%, which seemed to follow the price of oil (WTI) as it has fallen 7.5% as well to $44.48, and it pulled the TSX Capped Energy down 5.9% with it.

It was a rough first half of 2016 for the energy sector, but oil is up 20% year to date. With the Fed holding its current rate, and oil companies going back to the markets to raise capital, the bullish signs of life that were mentioned in our last issue appear to be persisting.

## Industry Highlights

- With the OPEC meeting from September 26 to 28 nearing, sentiments are negative about the success that it will bring. At the beginning of September both Russia and Saudi Arabia said that they were willing to cooperate but wouldn't commit to immediate action. This may seem promising, but if you remember back in April when OPEC had a similar meeting, negotiations fell through because Iran wouldn't agree to the terms. Iran has already said it will increase production to over 4 million barrels a day from 3.8 million currently.
- Analysts from Citigroup Inc. and the Gunvor Group think the price could jump 35% as the possibility of a shortage is priced in for the off chance that there is a jump in demand for oil, resulting in a shortage because of the shrinking number of producers that have followed along with the $1 trillion cut of global investment in the industry.
- Brazilian state-led Petrobras has unveiled its investment plan for 2017-21 and is planning to increase divestments and joint partnerships to $19.5 billion from the $15.1 billion stated before, as it exits segments such as; biofuels, liquefied petroleum gas (LPG) distribution, and fertilizers to refocus the business on oil and gas exploration and production. The recent impeachment of ex-President Dilma Rousseff does create uncertainty and risk in the country, however there will be holes to fill in the Brazilian market.
- One of Canada's largest producers of oil and natural gas, Encana Corp (TSX:ECA), is expected to raise more than $1 billion from its sale of 107 million shares, with a potential to sell an additional 16.7 million. Crescent Point Energy (TSX:CPG)(NYSE:CPG) also raised $650 million from the market in September to fund drilling for the next two years and accelerate growth before year end.
- Companies and individuals alike can all rest easier after the U.S Federal Reserve ("the Fed") chose not to raise interest rates this time, but did mention we can expect to see it moved up before the calendar year's end. One area of concern from the meeting was the dispersion in forecasts. Some members don't expect the rate to change much from the 0.65% up to 2019, while others were forecasting a rate hike to 3.75% by that time, which creates more uncertainty at the Fed.

# Notable Performers

## Storm Resources Ltd. (TSXV:SRX)

Storm Resources Ltd. (Storm) is a Canada-based oil, natural gas and liquid natural gas exploration, development and production company whose properties reside in Alberta and British Columbia, Canada. Although overall a tough month for our energy stocks, Storm Resources has topped our list, increasing shareholder value by 17% on a three-week string of continual gains.

One recent announcement has definitely been a major catalyst for the stock. On September 7th, 2016, Storm announced a processing arrangement that the Company has entered into with Spectra Energy (NYSE:SE). The deal for the next 5-15 years will use less than 20% of Storm's horizontal wells, and is expected to decrease operating costs by 15-20%. With the new project in place, Storm has increased its capital investment guidance for 2016 by $20 million, with $15 million of it going towards the construction of the third compression facility at its Umbach site, and the rest going towards drilling new horizontal wells to provide for the contract. It is believed that the funds from the deal will support these efforts and accelerate growth.

With depressed natural gas prices plaguing the industry, this revenue is a welcome addition to the pro-forma statements for Storm and will hopefully continue to help the Company grow at a time when many other producers are contracting.

Figure 1. Storm Resources 2016 Guidance Update

| **2016 Guidance** | Previous August 15, 2016 | Updated September 7, 2016 |
|---|---|---|
| Chicago natural gas price | US$2.40/Mmbtu(1) | US$2.40/Mmbtu(1) |
| AECO natural gas price | $1.95/GJ(1) | $1.95/GJ(1) |
| BC STN 2 natural gas price | $1.65/GJ(1) | $1.65/GJ(1) |
| Edmonton light oil price | Cdn$50/Bbl(1) | Cdn$50/Bbl(1) |
| Estimated average operating costs | $7.00/Boe | $7.00/Boe |
| Estimated average royalty rate (% production revenue before hedging) | 5% – 6% | 5% – 6% |
| Estimated operations capital (excluding acquisitions & dispositions) | $36.0 – $50.0 million | $70.0 million |
| Estimated cash G&A net of recoveries | $5.7 million<br>$1.20/Boe | $5.7 million<br>$1.20/Boe |
| Forecast fourth quarter production | 13,000 – 14,000 Boe/d (18% NGL) | 13,000 – 14,000 Boe/d (18% NGL) |
| Forecast annual production | 12,500 – 13,500 Boe/d (18% NGL) | 12,500 – 13,500 Boe/d (18% NGL) |
| Umbach horizontal wells drilled | 10 gross (10.0 net) | 12 gross (12.0 net) |
| Umbach horizontal wells completed | 8 gross (8.0 net) | 10 gross (10.0 net) |
| Umbach horizontal wells connected | 10 gross (10.0 net) | 10 gross (10.0 net) |

Source: Ubika Research, Company Filings

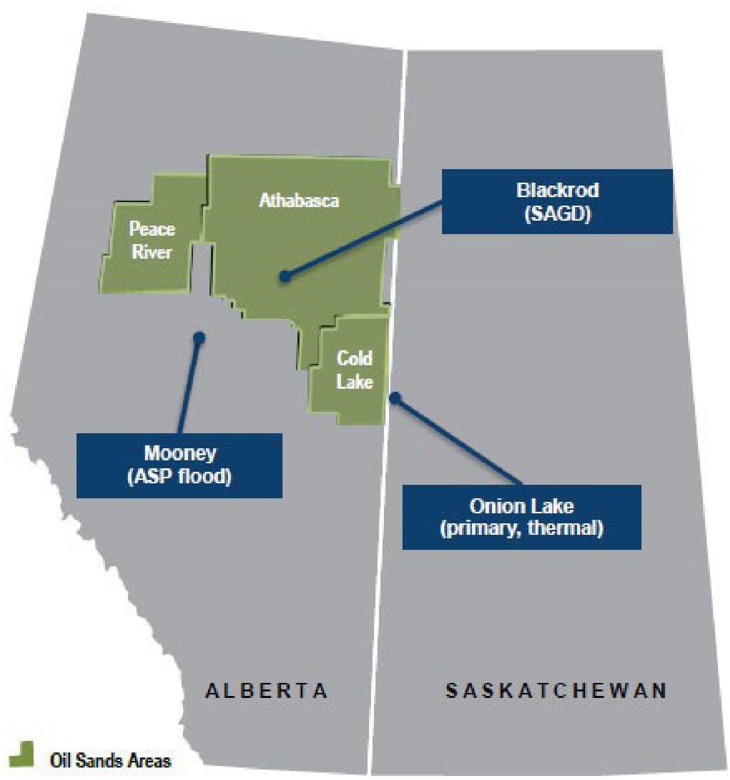
## BlackPearl Resources Inc. (TSE:PXX)

BlackPearl Resources (BlackPearl) is an oil and natural gas producer that focuses on the development of heavy oil and oilsands deposits in Alberta and Saskatchewan, Canada. For the second straight issue, Black Pearl has seen above average returns and grabs second place on the Ubika Energy 20, increasing shareholder value by 13%.

One catalyst driving the stock this period was the regulatory approval that BlackPearl's Blackrod project received. This project will produce 80,000 barrels a day with a producing life of over 20 years. Blackrod's capital expenditures are estimated at $2.8 billion, with sustaining and operations expenditures of $11.2 billion, and $10 billion in royalties and taxes to the government of Alberta over the life of the project. The net present value of the project is $685 million at a 10% discount rate.

This project was one of three that were approved by the Alberta Government, with the others being for Husky Energy (TSE:HSE) and Surmount Energy (a private company). This marks the first approved projects since the 100 megatonne greenhouse gas emissions limit was imposed on the oilsands, with these three taking 2.5 megatonnes of it. This approval is a good sign for the industry that been retracting under the price of oil, and receiving continued public scrutiny. Moving forward you can expect this ruling to reflect positively on sentiments in the oilsands as more companies begin to push new projects forward.

Figure 2. BlackPearl Resources Assets Map




Source: Ubika Research, Company Filings

## Twin Butte Energy (TSE:TBE)

Twin Butte Energy (Twin Butte) is an intermediate oil and natural gas producer in Western Canada. Twin Butte's production is within five regions of Western Canada in Saskatchewan, Alberta and British Columbia. After a string of negative events and debt issues, Twin Butte Energy hit rock bottom on our index, dropping 40% in value as the future of the Company is in doubt.

There were a number of major contributing factors that led to the drop in value for Twin Butte. Firstly, on August 29th, after a vote against a deal to sell the Company to pay the loans Twin Butte has defaulted on, the lenders were given the ability to their exercise rights to appoint a receiver to accelerate the liquidation of assets to pay off outstanding loans. On September 2nd, Twin Butte announced FTI Consulting Canada Inc. as the receiver and manager of assets. The day after, debenture holders rejected a proposed plan of arrangement with its security holder's and has demanded enforcement of repayment of the $205 million owed to its credit facilities. As of June 30th, the Company's tangible book value was $356 million to its total liabilities

Figure 3. Twin Butte Energy's Q2/2016 Balance Sheet

**BALANCE SHEET**

| *(Unaudited - Cdn$ thousands)* | *Note* | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Accounts receivable | | $ 20,300 | $ 28,598 |
| Deposits and prepaid expenses | | 1,860 | 3,696 |
| Derivative assets | 5 | 4,088 | 10,594 |
| | | 26,248 | 42,888 |
| Non-current assets | | | |
| Derivative assets | 5 | 331 | 18 |
| Exploration and evaluation | 7 | 22,582 | 37,090 |
| Property and equipment | 8 | 307,798 | 483,336 |
| | | $ 356,959 | $ 563,332 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | $ 28,438 | $ 34,853 |
| Derivative liabilities | 5 | 1,984 | 2,283 |
| Bank indebtedness | 9 | 203,628 | 85,000 |
| | | 234,050 | 122,136 |
| Non-current liabilities | | | |
| Derivative liabilities | 5 | 707 | 1,183 |
| Bank indebtedness | 9 | – | 120,078 |
| Convertible debentures | 10 | 80,967 | 80,237 |
| Decommissioning provision | 11 | 199,182 | 202,652 |
| | | 514,906 | 526,286 |
| Shareholders' Equity | | | |
| Share capital | 12 | 738,337 | 737,452 |
| Contributed surplus | | 18,970 | 14,556 |
| Equity component of convertible debenture | 10 | 2,879 | 2,879 |
| Deficit | | (918,133) | (717,841) |
| | | (157,947) | 37,046 |
| | | $ 356,959 | $ 563,332 |

Source: Ubika Research, Company Filings

of $514 million. However, $199 million of the liabilities are attributed to a decommissioning provision of Twin Butte's current wells. As most of this is set to be paid after 2030, it can be assumed that if Twin Butte was to sell its wells that this liability would be transferred to the purchasing party, providing Twin Butte with enough assets to cover all liabilities.

Finally, the Company also announced that it had received notice from the Toronto Stock Exchange (TSX) that it may not be eligible for listing on the TSX anymore due to certain listing requirements. Twin Butte was given one month to come back into compliance with the requirements or face being delisted.

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