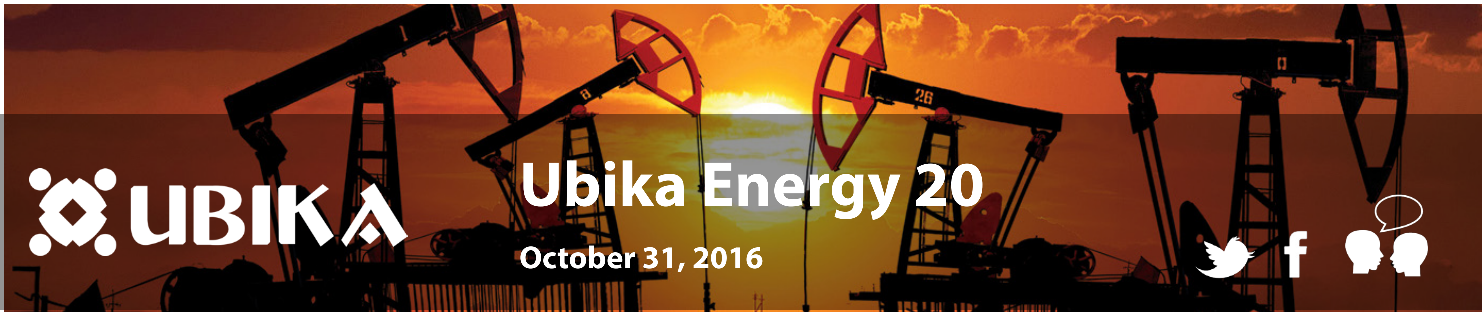
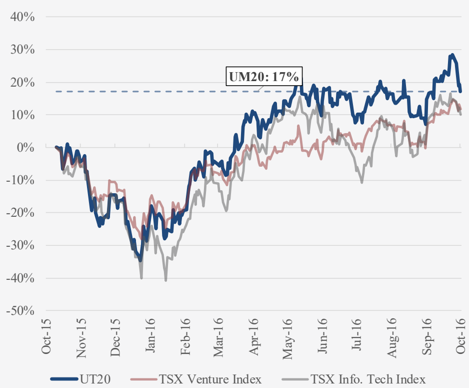


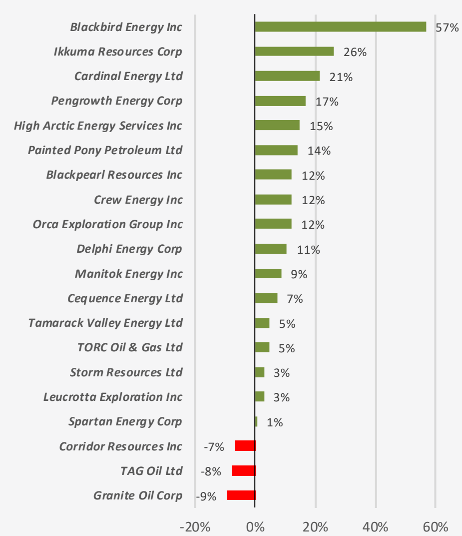
Ubika Energy 20
Sept. 26, 2016 - Oct. 31, 2016

UE20:	+7.4% (+17% Y/Y)
TSX Capped Energy:	+9.8% (+12% Y/Y)
Oil (WTI):	+9.5% (+10% Y/Y)

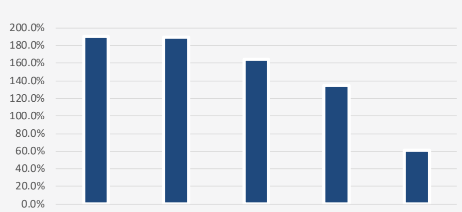
Dollar amounts in CAD unless otherwise stated.



UE20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
David Bar | Analyst | Gravitas Financial Inc. | dbar@gravitasfinancial.com | 1 (647) 284-8485

Oil is on a Rebound, Hopefully it Can be Sustained Past OPEC's Meeting in November

It has been a strong period (September 26th –October 28th) for oil and it shows on the Ubika Energy 20 Index (UE20), as it climbed 7.4% with 17/20 companies on the index up over the period. Both the TSX Capped Energy Index and West Texas Intermediate have shown strength, powering up 9.8% and 9.5% respectively. We also welcome a new stock to the UE20 this week: High Arctic Energy Services (TSX:HWO).

Industry Highlights

- The energy community will be foxed on November 30th, as OPEC meets in Austria to discuss the impending output cap/reduction to stabilize the market. Of the countries that threaten a deal from being made, Iran and Iraq are both fighting back against any potential cuts. Iran wants to bring levels up to 4 million barrels a day to grab back market share after sanctions were lifted on the country in January. Iraq opposes any reduction because of its need for the revenues to fund its fight against ISIL as it bears down on the extremist groups' last stronghold in Iraq, Mosul.
- The National Energy Board has downgraded oil's long-term outlook and price as of October 26th, forecasting US$68 barrel in 2020, and US$90 barrel in 2040, which represents reductions of $12 and $17, respectively. Its reasoning for the downgrade comes from a reduction in global industry costs and stricter environmental regulations.
- The Canadian Federal Government under Justin Trudeau has approved its first mega-energy project, giving the green light for the Petronas and Pacific NorthWest Liquefied Natural Gas (LNG) project and pipeline. Estimated to be worth about $11 billion, the project has 190 binding conditions attached. That being said, it still hasn't satisfied all parties involved as Aboriginal and environmental groups are getting ready to sue the government over the decision.
- US Rig Count is on a 5-week incline, hitting 553 on Friday, October 21st, representing an 8% increase in the total rigs active from a month prior, and the highest rig count seen in the U.S since February 5th, 2016.

Upcoming Events

- OPEC 171st Ordinary Meeting: November 30th, 2016 in Vienna, Austria
- Petrochem Canada 2016: November 1st - 2nd, 2016 at the Shaw Conference Centre, Edmonton
- 2017 Canadian Drilling Activity Forecast and Industry Outlook: November 2nd, 2016 at the Calgary TELUS Convention Center
- International Gas Summit 2016 - Intergas: November 28th - 29th, 2016 in Nice, France

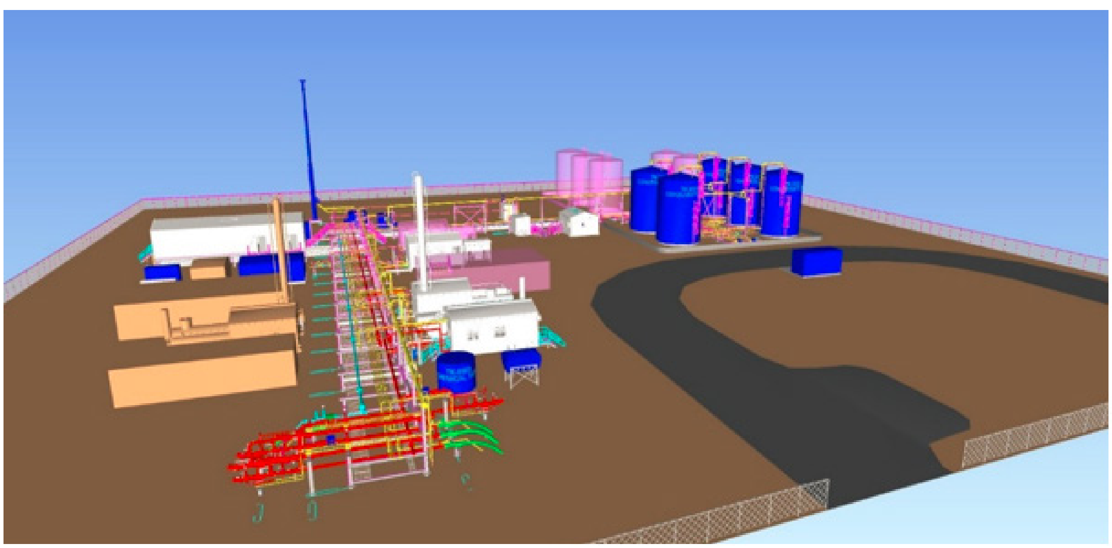
Notable Performers

Blackbird Energy Inc. (CVE:BBI)

Blackbird Energy Inc. ("Blackbird") is an innovative oil and gas exploration and development company that is engaged in projects in the liquid-rich Montney fairway near Grande Prairie Alberta, holding 100% interest in 87.3 sections, or 55,840 acres. Through gaining regulatory approval, seeing positive sentiment in the industry and posting positive earnings for fiscal 2015, Blackbird has powered up its stock value by 57% during the past month, taking the top spot on the Ubika Energy 20 Index.

A major contributor to the Company's performance was that on September 26th Blackbird announced it had received approval from the Alberta Energy Regulator, for its infrastructure pipeline gathering system (Figure 1 below) to extract liquefied natural gas and oil. Not only is the system designed to allow for future production expansion, it will use existing cut lines (property survey markings) and underground borrowing to mitigate environmental disruption. This milestone is a large step as it propels Blackbird from a pre-production exploration company into a cash-generating producer, pumping approximately 3,150 barrels of oil equivalent (boe) per day, producing over US$57mm in revenue if oil is $50/barrel. This values Blackbird at an Enterprise Value to forward Revenue multiple of 3.1x, which appears slightly below the 3.9x multiple exhibited by Canadian O&G producers. Construction is expected to be completed by December 2016.

Figure 1. Blackbird's approved facility (buildings, piping and tanks in blue, and potential production expansion in pink)



Source: Company Presentation

Positive sentiment produced from results posted by other major players in the area has also boosted value for Blackbird. Encana Corporation updated its Montney sections from being "Super Condensate" Areas (100bbls of condensate per million cubic feet [MMcf] of natural gas) to "Volatile Oil" area (+250bbls of condensate per MMcf of natural gas). In addition, two wells in this area tested at 2,800 barrels of oil equivalent per day, per well (including 1900 barrels of condensate per day, per well), which Encana called the best results in the area. With these results occurring in close proximity to the properties that Blackbird owns, it increases the possibility of Blackbird having similar results on its properties. This could greatly increase the profitability of the well by increasing output and decreasing the cost per barrel of condensate produced per MMcf of natural gas.

For its year end back in June, Blackbird posted positive net earnings of $69,000, due in part to an impairment reversal of $4mm on its properties due to an expansion of reserves. Although the net earnings were delivered through non-cash events, this reflects well on the future earnings potential of the Company. Blackbird also had a healthy cash balance of over $29mm, with only $2.5mm in liabilities. Considering that it used only $19mm between its operating and investing activities (raising $27mm this past fiscal), and that further development of the Elmworth facility is only $17.6 million as of year-end, it had a strong position heading into the final development before production. The Company has increased its cash burn over the start of its 2017 fiscal, and raised approximately $21mm using flow-through common shares in October. However this is for the acceleration of its business plan. With it being close to production, and new drilling programs and development pushed ahead of schedule you can expect Blackbird's value to climb as it releases updates on its progress, and starts generating substantial revenue.

Pengrowth Energy Corp. (TSX:PGF)

Pengrowth Energy Corp ("Pengrowth") is a Canada-based oil and gas company that is engaged in the acquisition, exploration, development and production of oil and natural gas resources. Its assets are focused in the Western Canadian Sedimentary Basin and owns 42.5 sections, or 27,200 acres of land. Over the period Pengrowth increased its share value by 17% with the help of an announcement of a 63% boost in the value of its reserves.

On October 6th, Pengrowth announced that it had increased its proved and probable (2P) reserves by 63% at its 100% owned Lindbergh asset. This increases the net present value (NPV) of the reserves, before tax, with a 10% discount rate, from $1.6 billion to $2.6 billion ($4.66/share). The additional bitumen effectively adds 55.7 million barrels of oil to its reserves, increasing its 2P reserves by 21%. This update reflects the recent approval of its expansion to increase production to 30,000 barrels per day (bbl per day), as well as the addition of reserves associated with infill wells. By using the infill wells, Pengrowth will be able to more efficiently recover the oil from its wells, which will further decrease its price per barrel of oil, while also decreasing price through increased production.

Although depressed oil prices and reduced activity level led to an almost $100mm decrease in revenue from $223mm in Q2/2015, to $129mm the same quarter in 2016, there are a number of operational highlights that Pengrowth can leverage as prices begin to climb. Operationally Pengrowth has been able to keep down its cost per barrel of oil, and was actually able to reduce its 2016 cost guidance by $65mm to between $13.50-14.25/barrel. Even more impressive was that for Q2 2016, Pengrowth produced its barrels for $12.65 (Figure 2, below), which ultimately saved the Company an additional $5.5 million for the quarter, which was below its guidance. If Pengrowth was able to keep its costs down into Q3, you should see more favourable results released in its Q3 performance after market close on November 2nd. Pengrowth is currently trading at a 3.1x enterprise value to revenue multiple (also below the 3.9x O&G producers' average) and the company has a 0.94 debt to equity ratio.

Figure 2. Pengrowth Q2 Operating Performance and 2016 Guidance

	Actual Year to date Jun 30, 2016	Full year 2016 Guidance (1) (2)
Production (boe/d)	59,396	56,000 - 58,000
Capital expenditures ($ millions)	20.7	60 - 70
Royalty expenses (% of sales)	6.3	7 - 8
Operating expenses ($/boe)	12.65	13.50 - 14.25 (3)
Total cash G&A expenses ($/boe)	3.50	2.75 - 3.25

(1) Per boe estimates based on high and low ends of production Guidance.
(2) Based on WTI price of U.S.$30/bbl, AECO natural gas price of Cdn$2.40/Mcf and an exchange rate of Cdn$1 = U.S.$0.70.
(3) Revised from the original 2016 Guidance of $15.25/boe - $16.25/boe.

Source: Company Filings

New Addition

High Arctic Energy Services (TSE:HWO)

Blackbird Ertunately, over the last month, we lost Twin Butte Energy from our Ubika Energy 20, as it failed to meet out criteria and was delisted from the Toronto Stock Exchange on October 6th. In our last issue we had highlighted some of the struggles that the company was having and how its future was in question. However, we now welcome High Arctic Energy Services to the Ubika Energy 20 Index.

High Arctic Energy Services ("HWO") is a Canada-based company that partakes in contract drilling, completion services, equipment rentals and other oilfield related services. The Company operates in two geographic locations, with a focus on snubbing operations in Canada and contract drilling and equipment rental in Papa New Guinea (PNG). HWO currently exhibits an enterprise value to sales ratio of 0.9x, which is slightly below the 1.4x multiple exhibited by O&G service related Canadian companies. Having been profitable for the past 6 fiscals through the up and down cycle of the industry, compared to many others who have struggled recently, we have determined that High Arctic Energy will be added to the Ubika Energy 20 Index and could help provide value to a balanced portfolio.

A major factor contributing to the value of HWO is the fact that the Company is not geographically barred to Canada. Junior producers tend to have operations in just one country and although Canada is a country with low political risk, it is a high cost producer that can eat into margins when prices and activity are low, which in turn creates risk. HWO has been able to mitigate much of its revenue risk by having operations in PNG and is one of the major factors to its continued profitability even in the downturn that the market is recently recovering from. PNG is not only a low-cost producer, but is still in the early stages of developing its mass resource base. Lately PNG has attracted large investment from the largest oil and gas companies, as shown by ExxonMobil's recent $2.5 billion bid to buy out InterOil, which is a strong sign for the continued development and activity in the area.

Another strong value add for HWO is that is in Q2 of 2016 they received the award from the International Association of Drilling Contractors for the Australasia Onshore region for its PNG operations having the best safety statistics in 2015. This demonstrates the Company's commitment to being socially responsible, which decreases the chance of it running into problems down the road, by minimizing the risk of a disruption in operations due to a serious injure or fatality, which would result in an investigation.

Figure 3. HWO's Income Statement from Q2 (numbers are expressed in CAD millions)

	Notes	Three Months Ended June 30 (see Note 3)	
		2016	**2015**
Revenue	20	43.5	48.7
Expenses			
Oilfield services	14	25.4	31.1
General and administration	14	3.0	3.5
Amortization	6	5.4	3.5
Share-based compensation	13	0.3	0.4
		34.1	38.5
Operating earnings for the period		**9.4**	**10.2**
Foreign exchange loss		0.1	-
(Gain) loss on sale of property and equipment		-	0.3
Interest and finance expense		0.1	0.1
Net earnings before income taxes		**9.2**	**9.8**
Current income tax expense		1.6	3.5
Deferred income tax expense (recovery)		1.3	(0.9)
Net earnings for the period		**6.3**	**7.2**

Source: Company Filings

Although revenue decreased for Q2/2016 to $43.5mm from $48.7mm over the same quarter 2015, adjusted EBITDA increased 7% between the two periods because of new drilling rigs and cost management initiatives. This is a good indicator of management as even though the market was depressed, HWO was able to find ways to increase efficiencies, which translated to an almost identical net profit margin of 15% (Figure 3). Management also returned a total of $6.7mm to the shareholders through share repurchases and dividends. As the Company has no outstanding amount on its credit loan facility, it repurchased shares using its cash, which not only increasing the value for the remaining shareholders, but could also be a signal from management that they feel the shares are undervalued.

Important Disclosure

Smallcappower.com is owned and operated by Ubika Corporation whose divisions include Ubika Research and Ubika Communications. Ubika Corp. is a wholly owned subsidiary of Gravitas Financial Inc. The following terms and conditions ("Terms of Use") govern the use of this website ("site") www.SmallCapPower.com. By accessing this site, you agree to comply with and be legally bound by the Terms of Use as set out herein. Ubika reserves the right to seek all remedies available at law and in equity for violations of these Terms of Use, including the right to block access from a particular internet address to our site.

Disclaimer

Ubika Corporation and its affiliates or partners will seek to provide services to companies mentioned on the smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities. Ubika Corporation and its related companies (including its directors, employees and representatives) or a connected person may have ownership/stock positions in, or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts in certain underlying companies mentioned in this site and which may also be clients of Ubika's affiliates. In such instances, Ubika and/or its affiliates and/or their respective officers, directors or employees will use all reasonable efforts to avoid engaging in activities that would lead to conflicts of interest and Ubika and/or its affiliates will use all reasonable efforts to comply with conflicts of interest disclosures and regulations to minimize the conflict.

Specifically all companies mentioned or listed as "Analyst Covered Companies" at smallcappower.com and which are shown under the heading "Analyst Covered Companies" on the page: http://www.smallcappower.com/companies have entered into a commercial relationship with Ubika Corporation or our affiliates for capital market services and have paid fees and/or shares or stock options or warrants for being featured and mentioned in smallcappower.com. Hence these "Analyst Covered Companies" at smallcappower.com are shown at the website as an advertisement only and any mention of these companies does not and will not constitute an offer to buy or sell securities in the featured companies. Ubika Corporation, its affiliates or partners will seek to provide services to companies mentioned in smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities.

Ubika Corporation and its divisions Ubika Communication and Ubika Research (collectively, "Ubika") are not registered with any financial or securities regulatory authority in Ontario or Canada, and do not provide nor claims to provide investment advice or recommendations to any visitor of this site or readers of any content on this site.

The information on this site is for informational purposes only. This site, including the data, information, research reports, press releases, findings, comments, views and opinions of Ubika's analysts, columnists, speakers or commentators, and other contents contained in it, is not intended to be: investment, tax, banking, accounting, legal, financial or other professional or expert advice of Ubika or its affiliates, or a recommendation, solicitation or offer by Ubika or its affiliates to buy or sell any securities, futures, options or other financial instruments, and such information should not be relied upon for such advice. Every user of this site is advised to seek professional advice before acting or omitting to act on any information contained in the site.

Research reports and newsletters have been prepared without reference to any particular user's investment requirements or financial situation. Where reference is made to estimate of value or relative value of a specific company, there is no guarantee that these estimates are reliable or will materialize. Readers of these reports and newsletters are advised to conduct their own due diligence before making any investment decisions. Ubika does not make independent investigation or inquiry as to the accuracy and completeness of any information provided by the Analyst Covered companies. Although the content has been obtained from sources believed to be reliable, this website could include technical or other inaccuracies or typographical errors and it is provided to you on an "as is" basis without warranties or representations of any kind. Ubika and its affiliates make no representation and disclaim all express and implied warranties and conditions of any kind, including without limitation, representations, warranties or conditions regarding accuracy, timeliness, completeness, non-infringement, satisfactory quality, merchantability, merchantable quality or fitness for any particular purpose or those arising by law, statute, usage of trade, or course of dealing. Ubika and its affiliates assume no responsibility to you or any third party for the consequences of any errors or omissions.

Information in this site is subject to change without notice. Ubika assumes no liability for any inaccurate, delayed or incomplete information, nor for any actions taken in reliance thereon.

Ubika, its affiliates and their respective directors, officers, employees, or agents expressly disclaim any liability for losses or damages, whether direct, indirect, special, or consequential, or other consequences, howsoever caused, arising out of any use or reproduction of this site or any decision made or action taken in reliance upon the content of this site, whether authorized or not. By accessing this site, each user of this site releases Ubika, its affiliates and their respective officers, directors, agents and employees from all claims and proceedings for such losses, damages or consequences.

Ubika and its affiliates do not endorse or recommend any securities issued by any companies identified on, or linked through, this site. Please seek professional advice to evaluate specific securities or other content on this site. Links, if any, to third party sites are for informational purposes only and not for trading purposes. Ubika and its affiliates have not prepared, reviewed or updated any content on third party sites and assume no responsibility for the information posted on them.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts mentioned in this site.

This site may include forward-looking statements about objectives, strategies and expected financial results of companies featured in this site or where research reports are available on companies displayed and/or featured on this site. Such forward-looking statements are inherently subject to uncertainties beyond the control of such companies. The users of this site are cautioned that the company's actual performance could differ materially from such forward-looking statements.

World Wide Web sites accessed by hypertext links ("hyperlinks") appearing in this site have been independently developed by parties other than Ubika and Ubika has no control over information in any hyperlinked site. Ubika is providing hyperlinks to users of this site only as a convenience. Ubika makes no representation and is not responsible for the quality, content or reliability of any information in any hyperlinked site. The inclusion of any hyperlink in this site should not be construed as an endorsement by Ubika of the information in such hyperlinked site and does not imply that Ubika has investigated, verified or monitored the information in any such hyperlinked site. Should you wish to inquire about creating a link from your World Wide Web site to this site, contact SCP marketing via e-mail at: info@ smallcappower.com. for written authorization.

See our full disclaimer here.