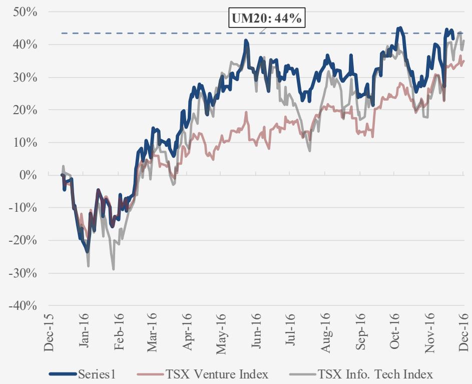
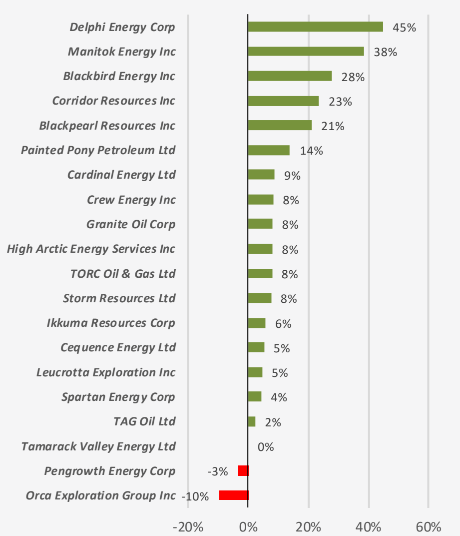
Ubika Energy 20
Oct. 31, 2016 - Dec. 19, 2016

UE20:	+7.9% (+44% Y/Y)
TSX Capped Energy:	+7.8% (+35% Y/Y)
Oil (WTI):	+6.7% (+41% Y/Y)

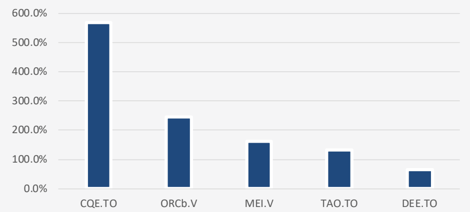
Dollar amounts in CAD unless otherwise stated.



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

Ubika Energy 20 Index Powers Higher!

It's been a period of strong upward movement for the Ubika Energy 20 (UE20) Index, climbing 7.9% and clobbering the rise in the oil price, which is only up 6.7%, and just slightly edging out the TSX Capped Energy Index, which gained 7.8%.

Industry Highlights

- On November 29th,OPEC agreed to a collective production cut for the first time since 2008. The cut, which will see 1.2mm bpd of production brought offline starting January 1st, has renewed optimism for the industry as the WTI price jumped 13% over the next 48 hours. In addition, non-OPEC countries also agreed to cut their oil production collective by 558,000 bpd, effectively wiping 1.7-1.8mm bpd off the market.
- Another big story on the same day as the OPEC production cut was that Justin Trudeau and his Liberal Government approved two of three pipelines that were under consideration. Kinder Morgan's Trans Mountain expansion and Enbridge's Line 3 pipeline replacement were given the go ahead, while Enbridge's Northern Gateway Pipeline, which was to travel through the Great Bear Rainforest, was rejected. Although both approvals are expected to be met with heavy protests, it is a positive step for the O&G industry in the Prairies to get their product to the West Coast and U.S. refineries. Kinder Morgan's pipeline will move approximately 890,000 bpd of oil to Vancouver, while Enbridge's Line 3 will move approximately 760,000bpd to refineries in the U.S. Midwest. This will help the profitability of O&G companies as they are currently forced to take a discount in order to sell their land-locked resource.
- Canadian Natural Resource Limited (TSE:CNQ) has announced that it is selling its 15% stake in the Cold Lake pipeline for $527.5mm in cash to Inter Pipeline Ltd (TSE:IPL). Although unusual for CNQ, the pipeline was a non-core asset and they could be using currently higher oil prices to secure a better fee in exchange for their ownership. As they have retained access to the pipeline to transport its 40,000 bpd Kirby North development, and with a $125mm connection to it already planned, the $200mm after-tax gain that CNQ will recognize is well worth it.
- President-Elect Donald Trump's recent announcements for Secretary of State and Head of the Energy Department could bode well for Canadian oil. Rex Tillerson, ex CEO of ExxonMobil and former Texas Governor Rick Perry have been announced for these positions, respectively, and are both big supporters of the oil industry, having previously expressed support for the Canadian Oil Sands, which could help a region that has been hit so hard in recent years.

Upcoming Events

- European Gas Conference 2017: January 23rd- 25th, 2017 in Vienna, Austria
- SPE Hydraulic Fracturing Technology Conference: January 24th-26th, 2017 in Woodlands, Texas

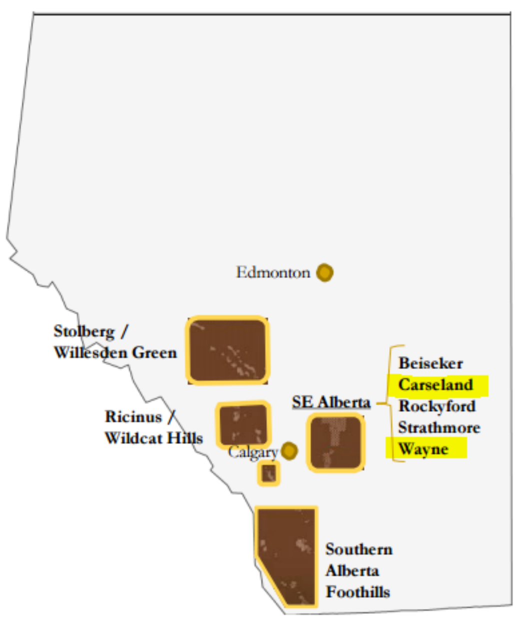
Notable Performers

Manitok Energy Inc. (TSXV:MEI)

Manitok Energy Inc. ("Manitok") is a junior exploration, development and production company with a focus in the Western Canadian Sedimentary Basin in Alberta. It owns conventional oil and gas reservoirs in the Canadian Foothills and crude oil in southeast Alberta. Over this reporting period Manitok was burning hot, with its stock price surging 38%.

Powering up its production, Manitok announced on December 8th, that it has achieved another milestone as production is exceeding 7,100 boe/d. The increased production was attributed to the commencement of operations at three of four recently-drilled oil wells, and the recent acquisition of approximately 1,750 boe/d. More so, Manitok's production is not stopping there, as since November 2nd, it has released the test results of four wells (three in the Carseland area and one in the Wayne area, whose geographical location is found in Figure 1 below), which combined to add an additional 1,836 boe/d when in full production. Not only does Manitok have the ability to increase production significantly, they have done so economically as the combined cost of the four wells drilled was $6.58mm, or an average of $1.65mm. This is well below the average cost of $2.8mm for drilling a horizontal, light oil well published by the Alberta Energy Sector for 2015. With another two wells expected to be drilled by year end and placed into production in 2017, Manitok will see more positive movement on its operational announcements.

Figure 1. Location of Manitok Operations with Carseland and Wayne Highlighted



Source: Company Presentation

Manitok also completed a successful raise with total proceeds of just over $5.0mm from common shares and flow through shares. The offering consisted of the issue of 7.5mm common shares at a price of $0.13 per share, 28.2mm FT shares at $0.14 per share. This means that Manitok received $1.0mm in hard cash, and $4.0mm for development and exploration activities on its properties. The Company intends to use the hard dollars to pay down its borrowings, which will help strengthen its balance sheet and reduce interest payments.

Although Manitok's average daily production is down 9% YTD compared to the same period last year, this can be attributed to the depletion of wells after they have run their natural course with no new wells having been drilled since 2014. Albeit, new wells are supposedly coming on line in Q4/2016 and early 2017. Important contracts also have been made with floor prices set for both its oil at US$42.90/ barrel and natural gas at CAD$2.40/Gj, which do have upside participation clauses for 61% and 70%, respectively. These contracts will help to maintain revenue streams if oil drops again like it did in H1, and with the current price of oil resting on the OPEC production deal being maintained, there is a level of uncertainty surrounding its stability.

In addition, Manitok has been able to consistently bring down its debt, reducing bank debt by 38% year over year from $66mm in September 2015, to $41.2mm. With oil prices going up, and more production coming online, you can expect Manitok to continue to make significant improvements to its balance sheet by deleveraging the Company, which will enable it to continue to funnel more of its capital into exploration and drilling activities. Having an EV/Rev multiple of 3.2x, compared to a median of 5.7x for junior producers, could be a signal that the market is currently undervaluing the stock, however large amounts of debt with no hard cash on the balance sheet may be raising concerns that are keeping its price depressed.

Blackbird Energy Inc. (TSXV:BBI)

Blackbird Energy Inc. ("Blackbird") is an oil condensate and gas exploration, development and production company with a focus in the Montney region in the Western Canada Sedimentary Basin. For the second issue in a row, Blackbird finds itself near the top of our Ubika Energy 20, gaining 28% over this reporting period. Blackbird has seen a huge swing in its price over the last two reports driven by successful raises, huge cost reductions and the fact that it is nearing production.

Towards the end of the last reporting period, on October 25th Blackbird had announced a $13mm non-brokered private placement of FT common shares, to fund its accelerated strategic business plan and H1 drill program. The raise has a four-month holding period so be aware of an additional 27.4mm coming online, which could trigger a sell off.

Blackbird has reduced costs significantly, with the recent 02/2-20 Upper Montney well cost just $2.6mm to drill, which is 54% ($3mm) cheaper than its first well, and represents a cost savings of 41% ($1.8mm) compared to the average of the first three. Not only that, but the entire drilling and completion (D&C) costs for the well are supposed to amount to $5.5mm compared to $9.7mm for the average of its first three wells. This places Blackbird's costs comparable to the industry leaders in the entire Montney corridor. This will result in huge cost savings and increased profitability for Blackbird's operations down the road, as its fixed costs associated with D&C/boe will be cut in half. With the planned H1 drilling program including at least two more wells, Blackbird will be able to save itself approximately $8mm in H1/2017 alone.

In addition, Blackbird closed its previously-announced indirect 10% minority interest acquisition of Stage Completions Inc., an O&G service provider of state of the art fracturing equipment. After all financial and operation conditions were met, which included the receipt of an independent valuation report of Stage and the successful deployment of its SC Bowhead

Figure 2. Highlighted Benefits from Stage's SC Bowhead II Fracturing System

Based on 4.5-in (114.3-mm) Casing	SC Bowhead II	Plug & Perf (five clusters/stage)	Sliding Sleeve (Coil Tubing)	Ball-Drop
Unlimited stages	Yes	Yes	Yes	No
Reduced pumping friction pressure	Yes	Yes	No	No
Can use high fluid rates and sand concentration	Yes	Yes	No	No*
Individual frac Isolation	Yes	No	Yes	Yes
Wellbore unrestricted by ball seats or coil tubing while fracturing	Yes	Yes	No	No
Reduces pumping time on surface	Yes	No	No	Yes
Water and chemicals conservation	Yes	No	No	Yes
Re-closable sleeve for re-fracturing or shutoff	Yes	No	Yes	No
Extended reach capability	Yes	Yes	No	No
Production-ready wellbore	Yes	No	Yes	Yes
Constant ID heel to toe	Yes	Yes	Yes	No
Open hole or Cased hole application	Yes	No	Yes	No
Cemented annulus	Yes	Yes	Yes	No
Completed without coiled tubing	Yes	No	No	Yes

Source: Company Filings

II fracturing system, whose benefits are highlighted in Figure 2 below, Blackbird paid a cash price of $3mm. The acquisition is already paying off as on November 29th, the two companies announced a drilling record for Blackbird's 02/2-20 well, which represents the highest tonnage and rate fracture stimulation (63 barrels per minute) ever completed in a 4.5" monobore Montney well without coil tubing. This means that the well was stimulated without the use of chemicals or other liquids that needed to be pumped into the well, via the coil tubing, to activate it. This reduces operational and environmental costs of the well, as the team was able to stimulate the well with a proppant (sand, or ceramic powder). It was because of this system that Blackbird was able to realize the savings mentioned above.

As we had stated in our last issue, Blackbird has a very healthy balance sheet and no shortage of cash. Having raised money to help with the acceleration of its business plan should reinforce the fact that Blackbird is in a strong position financially. As stated last issue, Blackbird had a $29mm cash position at the end of fiscal 2016 (July 31st) and even though cash burn will increase in investing activities ($17.8mm for fiscal 2016), with analyst estimates at $21mm in revenue over the next 12 months it should be generating cash flow now. With the completion of its infrastructure pipeline gathering system (mentioned in the last report) having supposed to be completed on December 10th , we should be hearing news shortly about the first batch of condensate and natural gas being produced. Currently an EV/Fwd Rev multiple of 5.6x, compared to the median of 3.1x of other junior producers, Blackbird may be slightly overvalued, however the accelerated business plan, recent minority acquisition and the prospect of future well testing results may be propping up the valuation.

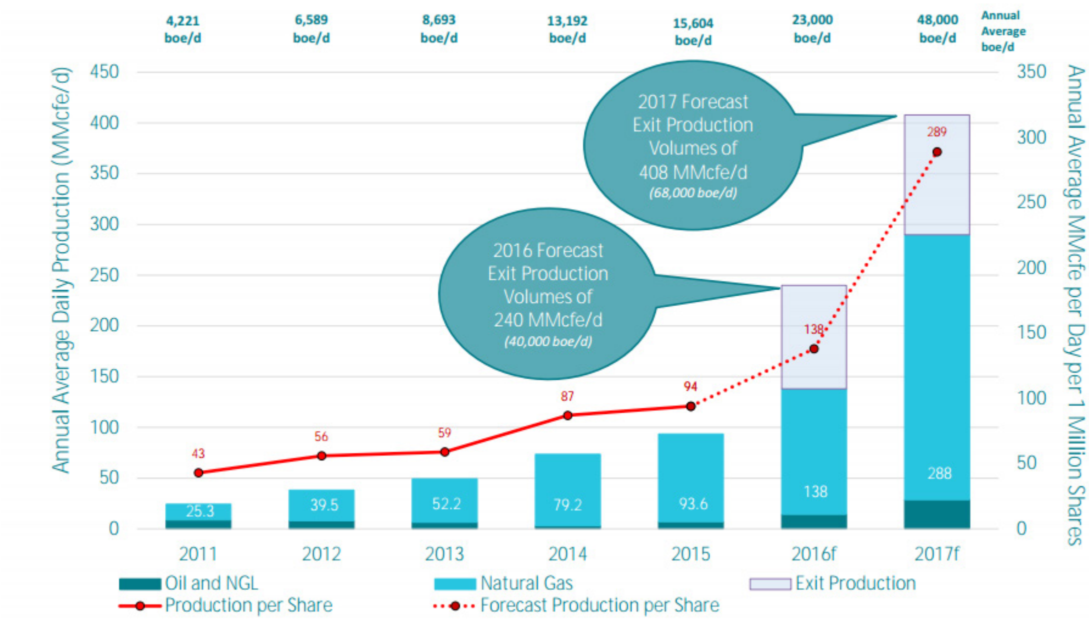
Painted Pony Petroleum (TSE:PPY)

Painted Pony Petroleum ("PPY") is an exploration, development and production company that focuses on petroleum and natural gas in Western Canada. Riding on the back of strong Q3 results, hitting production milestones and the expansion of its 2017 capital budget and production forecast, PPY climbs 14% over this period.

At the beginning of November, PPY announced spectacular production results that saw the average daily production volume for the week prior to November 9th, rise 76% over Q3 average daily production volumes. Total volume increased to 240 MMcfe/d (40,000 boe/d). This comes on top of the fact that Q3 average daily volumes were 46% higher compared to Q3 2015, and 37% higher compared to Q2, 2016. These vast volume increases were driven by the ramping up in production over the quarter as well as the start of commercial production for PPY at the AltaGas Ltd. (TSE:ALA) Townsend natural gas processing facility. The 198MMcf/d facility constructed and operated by AltaGas was finished ahead of schedule. With the new facility completed and connected directly to PPY's Blair Creek area, it provides PPY with an easily-accessible plant to refine its products to be sent to market. In addition, PPY production volumes of 240MMcfe/d was the target that management had set for 2016 and in doing so, provides strong reassurance in management's ability to deliver on promises and drive value to its shareholders.

Prospects are also looking bright for PPY for 2017, as the Company has expanded its 2017 capital budget to $319mm, a 9% increase, to accelerate 2017 production by drilling and completing 61 net new wells. This increase came as a response to AltaGas planned expansion of its Townsend Facility to increase capacity by 100MMcf/d. This will help PPY reduce its lease fee per Mcfe by more than 30%. The planned drilling plan for 2017 is expected to enable PPY to produce 408MMcfe/d (68,000boe) by the end of 2017, as shown in Figure 3, below. These massive gains in production and the resulting decreases in fixed costs will continue to help support the financial position of the Company.

Figure 3. Actual and Forecasted Production Increases for PPY



Source: Company Filings

Strong Q3 results, which saw field cash costs reduced by 34% to $0.90/Mcfe compared to $1.37 for Q3 2015, were achieved due to the increase in production that reduced the fixed cost per MMcfe and have positioned PPY to continue to capitalize on its momentum. As a net new six wells are drilled and five are completed in Q4 2016, you can continue to expect fixed cost to decrease as more production comes online, continually pushing the Company to sustained profitability. The current balance sheet does shed some doubt as there is a working capital deficiency of over $36mm, but PPY does still have approximately $150mm of its $325mm credit facility which it can draw from. With a current debt to equity value of 1.0x compared to a peer average of junior producers of 0.4x, PPY is over levered, which could cause problems down the road. Considering that it's trading at a EV/Fwd Rev multiple of 5.2x compared to its peer group median of 3.1x, it may be a signal the market is placing a premium on its growth opportunities.

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