Ubika Energy 20

February 13, 2017

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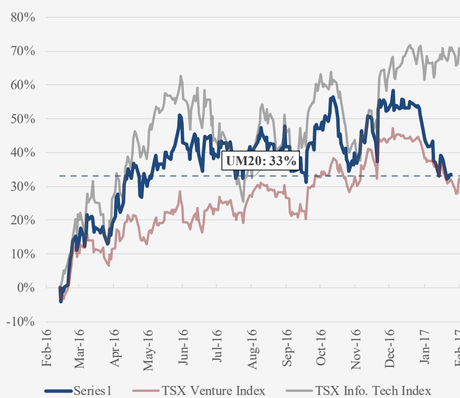
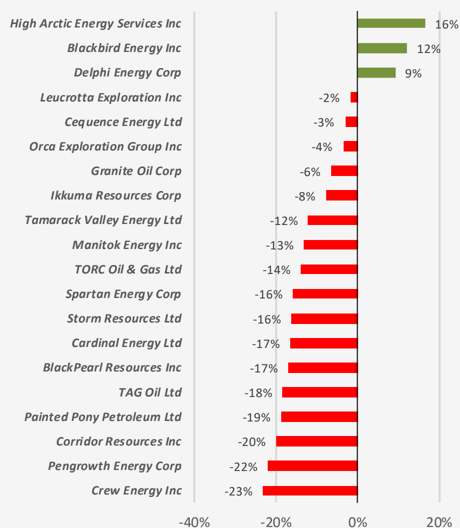
Dec. 19, 2016 - Feb. 13, 2017

UE20:	-13.6% (+33% Y/Y)
TSX Capped Energy:	-8.9% (+32% Y/Y)
Oil (WTI):	+3.7% (+71% Y/Y)

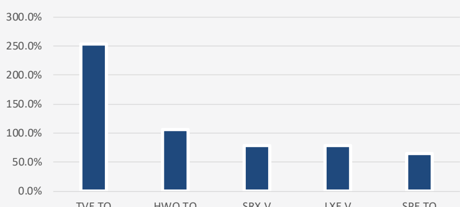
Dollar amounts in CAD unless otherwise stated.



UE20: Performance Distribution



Top Volume Gainers (m/m)



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Canadian Energy Explorers, Producers Continue to Face Headwinds

OPEC's agreement to cut production and Trump's pro-pipeline sentiments were not enough to lift our Ubika Energy 20 (UE20) Index, as it shed 13.6%. The UE20 index underperformed both its benchmarks, as oil saw a modest gain of 3.7% while the TSX Capped Energy Index dropped 8.9%. However, it appears to be 'business-as-usual' for our oil and gas producers, as High Arctic Energy Services closed strategic acquisitions and Crew Energy announced a $200mm capital budget. All this and more, in this edition of the UE20!

Industry Highlights

- A survey by the research firm S&P Global Platts showed that OPEC achieved 91% of their required production cuts in January, as production fell 1.14 million barrels per day (b/d) from October levels. OPEC had agreed in November to cut production for the first time in 8 years to 1.2 million b/d from its October output, however there was uncertainty in the market regarding the plan's fruition.
- Canada posted a positive trade balance for the second straight month in December, marking the first back-to-back surplus in more than two years. The recovery in oil prices at the end of last year coupled with the fading impact of wildfires earlier in 2016, helped produce the country's best trade balance since the oil collapse of 2014. According to Statistics Canada, Canada recorded a surplus of $923mm in December, with energy product exports jumping 16%, offsetting a decline in non-energy exports.
- On January 26, TransCanada Corp. re-filed a permit application after U.S. President Donald Trump had revived the Keystone XL by signing an executive order. In 2015, the Obama administration had rejected the Keystone XL on grounds of not being in its national interest. In response, TransCanada had filed a court challenge seeking $15B in compensation under the North American Free Trade Agreement. The U.S. federal regulatory agencies now have 60 days to respond to the application, and if accepted, will be subject to renegotiations of terms. The pipeline will connect Alberta oil with the Gulf Coast network, and cost savings from rail transport are expected to increase netback by $4-6 per barrel of oil for producers.

Upcoming Events

- Big Data, IoT & Machine Learning in Oil and Gas Canada: February 14th-15th, hosted by the Energy Conference Network and IoT Events at the Hotel Arts Calgary, Alberta, Canada.
- CERI 2017 Oil and Gas Symposium: March 6th-7th, hosted by the Canadian Energy Research Institute at the Calgary Telus Convention Centre, Alberta, Canada.
- 17th Annual Arctic Oil and Gas Symposium 2017: March 15th-16th

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Notable Performers

High Arctic Energy Services (TSX: HWO)

High Arctic Energy Services ("High Arctic") is focused on providing specialized well completion services, drilling, equipment rental, and other oilfield services to the oil and gas industry in Canada as well as Papua New Guinea (PNG). Since our last report, High Arctic has rallied over 16% as investors were delighted by contract renewals, an increase in dividends, and the closing of the Tervita Production Services acquisition.

High Arctic acquired the production services division of Tervita Corporation for a $42.8mm in cash. The strategy aims to diversify High Arctic's revenue base within the Canadian well-servicing industry, as High Arctic is the leading drilling provider in PNG. The deal includes 68 marketed service rigs and related support equipment, a surface equipment rental division, and an engineering services division, which provides solutions to assist in the management of abandonment and compliance programs. Additionally, High Arctic acquired seven operation bases located in key basins in Alberta, five of which are owned. Now, High Arctic has the strongest western Canadian service rig and snubbing presence, with a platform to expand (Figure 1).

Figure 1: High Arctic's Canadian Operations Equipment

	Total	In Use
Service Rigs	85	54
Snubbing	18	9
Nitrogen Pumpers	12	7
Nitrogen Bulkers	5	3

Source: Company Filings

Furthermore, High Arctic used a third-party appraiser to assess the NAV of the deal and recognized a net gain on the acquisition in the amount of $12.7mm (Figure 2). High Arctic bought the division below book value, and at a P/NAV multiple of 0.77x, which is a steal compared to the average acquisition multiples of 0.8-1.2x paid for within the oil services industry in 2016.

As oil prices recover, an onslaught of production activity emerged as rigs and drilling have been brought back to service, increasing the need for oilfield services. As of February 3rd, Baker Hughes reported an increase of 101 oil and gas rigs Y/Y in Canada as producers

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Figure 2: High Arctic Energy Service's Gain on Acquisition

Cash and cash equivalents	2.8
Cash received upon issuance of long-term debt	40.0
Consideration	**42.8**
Property and equipment	64.0
Unfavourable lease liability – current portion	(0.4)
Unfavourable lease liability – long-term portion	(3.4)
Deferred tax liability	(4.7)
Fair value of net assets acquired	**55.5**
Gain on acquisition	**12.7**

Source: Company Filings

increase capital expenditures for exploration and development initiatives. Currently trading at a forward EV/EBITDA of 4.8x, High Arctic appears undervalued compared to its peer average of 8.9x. Additionally, its leading presence in PNG gives High Arctic one of the highest operating margins at 29.7% compared to its Canadian peers. With its latest acquisition, High Arctic has the potential and capability to further expand its foothold in North America and benefit from the turnaround in the oil and gas sector.

Blackbird Energy Inc. (TSXV:BBI)

Blackbird Energy Inc. ("Blackbird") is an oil condensate and gas exploration, development, and production company with a focus on the Montney region of the Western Canada Sedimentary Basin. For the third issue in a row, Blackbird finds itself near the top of our UE20, gaining 12% over this reporting period. Blackbird's latest positive momentum stems from an increase in its Montney footprint from land acquisitions as well as positive operational updates for its accelerated production plan.

On February 2nd, Blackbird announced that it had entered into a purchase and sale agreement with Paramount Resources Ltd. (TSX: POU) for the acquisition of 8 gross sections of Montney rights for total consideration of 5.0 million Blackbird common shares. Additionally, Blackbird also acquired 3 gross sections of Montney rights through a crown land sale. These lands are adjacent to Blackbird's existing lands, increasing Blackbird Montney rights at Elmworth/ Pipestone to 102 gross section (Figure 3).

Significant cost savings for exploration and development are expected as the acquired lands are on strike geologically with Blackbird's existing lands, located just south of the Wapiti River, and are in close proximity to the Company's existing infrastructure. The land acquisitions are estimated to add between 88 and 264 drilling locations to Blackbird's drilling inventory, which

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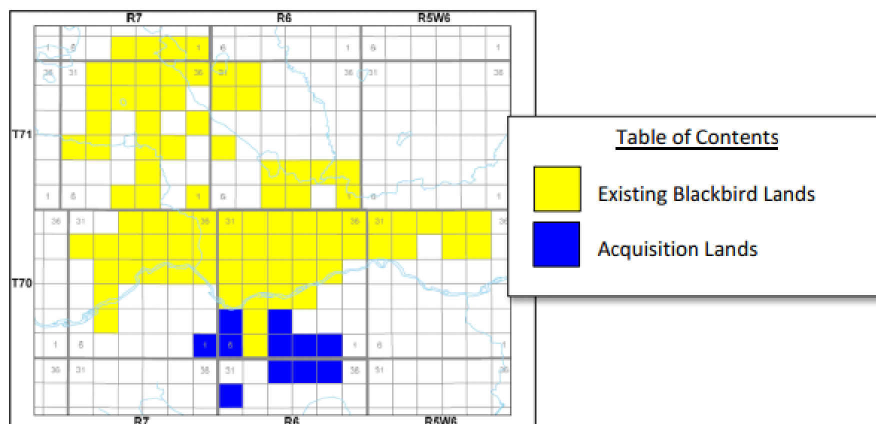
should increase the Company's reserves and production potential. Furthermore, combined with Blackbird's current production, the additional drilling inventory will contribute to Blackbird's current and future processing and take-away commitments once the construction of an eastern pipeline system is completed.

Figure 3: Blackbird's Current Montney Lands and Acquisition Lands



Source: Company Filings

Blackbird completed the construction of its Elmworth facility and gathering system on time and near the budget of $16.1mm. Currently, the facility has an initial capacity of 10 mmcf/d of natural gas plus associated liquids of 1,500 b/d, with expansion capabilities as production increases. On January 30th, Blackbird achieved initial Montney production at Elmworth/Pipestone. Blackbird is currently phasing 4 wells into production with 2 additional wells to be added in March 2017.

The completion of the infrastructure construction marks an important milestone in the transition of Blackbird from an exploration stage company to a Canadian oil and gas producer. This turning point presents another significant growth catalyst in 2017 and beyond, as Blackbird focuses on increasing its gas processing throughput, reducing operational costs, and developing its Elmworth/Pipestone asset.

As of October 31st, Blackbird had a $32.8mm cash position. With analysts estimating $21mm in revenues over the next 12 months, Blackbird will be generating sufficient cash flow to grow and develop its Elmworth/Pipestone asset in a responsible, scalable manner, which over time will reduce all-in well costs. Currently, Blackbird is trading at a forward EV/Sales multiple of 5.8x, compared to the median of 3.1x for its junior producer peers. Blackbird appears slightly overvalued, however the accelerated business plan, strategic acquisitions, expansion capabilities, coupled with management's ability to meet deadlines and complete projects under budget may be the reason behind the premium.

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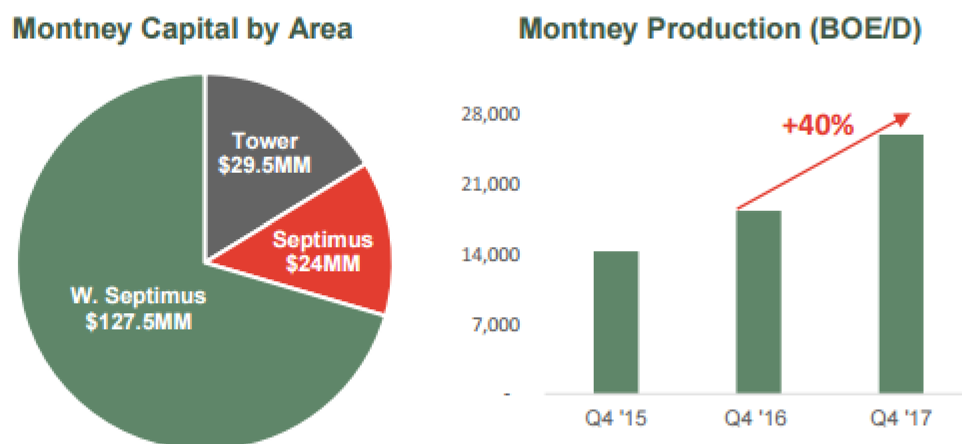
Crew Energy Inc. (TSX: CR)

Crew Energy Inc. ("Crew") is an oil and gas exploration, development, and production company with operations in Western Canada. Crew is focused primarily on liquids-rich natural gas and light oil production in the Montney region. The end of 2016 proved to be a challenging quarter for Crew as production was put to an immediate halt as the Alliance Pipeline required a full system shut down for 8 days due to maintenance issues. The pipeline, in addition to other maintenance backlogs, limited Crew's annual production to the low end of their guidance, which saw the stock tumble over 23%.

Recently, Crew Energy announced a 2017 capital budget of $200mm to grow its Montney production by 40% by Q4/2017 (Figure 4). The project is to be funded through a combination of internally generated funds from operations and draws from its credit facility. The investment seeks to achieve production of over 60,000 boe/d by the end of 2019 through a combination of exploration and infrastructure development.

Crew will invest $140mm for the planned drilling of 28 and completion of 39 Montney wells through the year. The Company plans to tie-in 11 previously-drilled wells to further contribute to production volume growth. Another $40mm will be directed into key infrastructure projects to expand Crew's West Septimus gas processing facility as well as construct a pipeline to provide physical access to the Trans-Canada Pipeline. The upgraded West Septimus facility will be able to process 120 mmcf/d, which, combined with the Tower facility, will provide Crew with 45,000 boe/d of processing capacity of Montney gas and liquids. Altogether, the investment aims to further diversify Crew's marketing strategy and to supports its three-year production growth strategy.

Figure 3. Actual and Forecasted Production Increases for PPY



Source: Company Filings

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Crew seems to have all the pieces of the puzzle together for the success of this project as the Company has already identified and secured the staged processing and takeaway requirements needed to achieve this growth. By 2020, Crew is targeting free cash flow generation at current commodity prices and plans to direct excess funds towards long-term Montney development projects. Currently, Crew trades at a forward EV/Sales multiple of 7.5x compared to its industry peers trading at 3.1x. It appears the market has already priced in a premium for its high-growth production profile.

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