Ubika Energy 20

April 24, 2017

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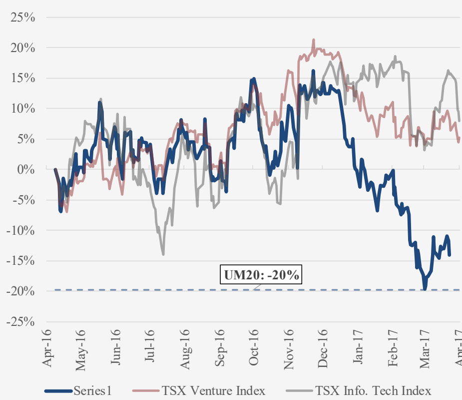
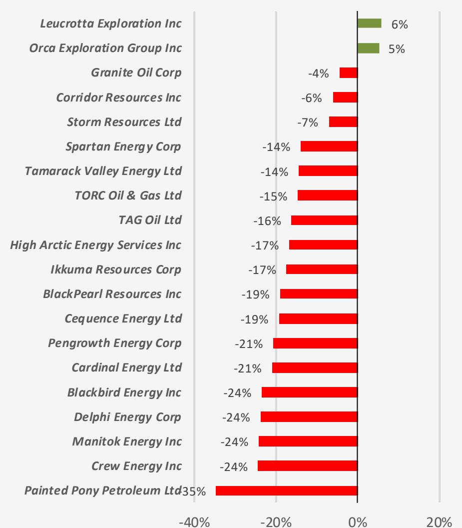
Feb. 13, 2017 - Apr. 24, 2017

UE20:	-17.6% (-20% Y/Y)
TSX Capped Energy:	-3.5% (+5% Y/Y)
Oil (WTI):	-7.9% (+8% Y/Y)

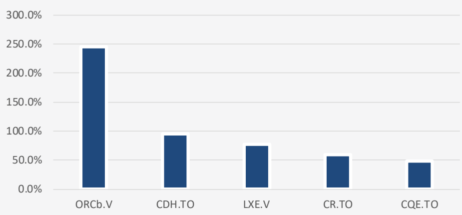
Dollar amounts in CAD unless otherwise stated.



UE20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Senior Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
Jassie Bhathal | Analyst | Gravitas Financial Inc. | jassie@gravitasfinancial.com | 1 (647) 409-6308

Ubika Energy 20 Producers Look Forward to Stabilizing Oil Prices as Supply-Demand Continues to Tighten

It has been a challenging period for the Ubika Energy 20 (UE20) Index, as it declined 17.6% since February 13th, with 18/20 constituents trending downwards. The UE20 underperformed both the price of WTI oil and its benchmark TSX Capped Energy Index, which shed 7.9% and 3.5%, respectively. Nonetheless, there was a flurry of activity in the Montney region of British Columbia as numerous UE20 constituents made strategic acquisitions in the area. Painted Pony Petroleum announced the acquisition of UBR Blair Creek Ltd, which is expected to double the Company's natural gas production within two years. Blackbird Energy, on the other hand, is looking to boost its reserves with the acquisition of the Elmworth and Pipestone lands from Paramount Resources (TSX: POU), increasing its Montney land holdings to 116 gross sections.

Industry Highlights

- Crude oil (WTI) rose past the psychological US$50/barrel mark again as OPEC cuts are expected to outdo the U.S. production boom. Futures closed at six-week highs, to more than US$53/barrel, as investors increased bullish bets after Saudi Arabia made comments supporting a prolonged OPEC output cut. Ministers are scheduled to gather in Vienna on May 25 to discuss whether the group will extend the 1.2 million barrels a day production cut—which began in January 2017—for another six months.

- In its Short Term Energy and Summer Fuels Outlook, the International Energy Agency (IEA) forecasts WTI crude oil prices of US$52.24 and US$55.10 for 2017 and 2018, respectively. According to the April 7th inventory report, crude oil inventories have begun their seasonal trend of declining after building record U.S. crude inventories of 535.5 million barrels. Nonetheless, gasoline inventories have fallen for eight consecutive weeks, the longest stretch of declines in three years. Crude oil is expected to further tighten over the summer as refiners boost processing to meet seasonal driving demand for gasoline.

- A report by ATB Financial forecasts Alberta's GDP to grow by 2.2% this year, fueled by agriculture, agri-food and tourism—not the oil and gas sector. After the worst downturn in three decades, Alberta's petroleum industry is recovering and stabilizing with improvements in oil prices. Additionally, the federal government has recently approved two major pipelines—Kinder Morgan's Trans Mountain Pipeline and Enbridge's Line 3—that will move nearly a million more barrels of oil a day from Alberta's oil sands to market. However, it will take some time before the Province will begin to reap the

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benefits of the pipeline infrastructure, which is also dependent on ongoing oil-price stability as well as Trump's economic policies.

- Oil field services firm Baker Hughes reported 847 active rigs in the U.S. for the week ended April 13th, marking the 13th consecutive increase in the U.S. weekly rig count, with the highest number of oil rigs in two years at 683. In contrast, total rigs in Canada dropped over last week by 14 to 118, with gas rigs declining by 12.

Upcoming Events

- Argus Canadian Crude Summit 2017: May 1st -May 2nd, hosted by Argus Media at the Calgary Marriott Downtown, Alberta, Canada.
- Canada LNG Conference and Exhibition 2017: May 16th - May 18th, hosted by DMG Events at the Vancouver Convention Centre, British Columbia, Canada.
- 2017 Petrochemical Conference: June 4th – June 6th, hosted by the Canadian Energy Research Institute (CERI) at the Delta Lodge at Kananaskis, Alberta, Canada.

Notable Performers

Painted Pony Petroleum (TSX: PPY)

Painted Pony Petroleum Ltd. ("Painted Pony") is an exploration, development and production company that focuses on natural gas and natural gas liquids from the Montney formation in northeast British Columbia. After delivering strong Q4 and FY/2016 results, Painted Pony has declined over 30% following a reduction to its capital expenditure program as well as its acquisition of UGR Blair Creek Ltd.

Sitting on a decline in forward strip natural gas prices, Painted Pony decided to reduce the level of capital spending for the next two years and hedged 75% of its 2017 production to ensure financial flexibility. The Company reduced its 2017 capital spending by 10% to $288mm, and although it will increase average 2017 daily production per share by 85%, this is a 25% decline from the previous guidance. Additionally, Painted Pony dramatically reduced its 2018 capital spending by 44% to $216mm, increasing its 2018 daily production per share by 28% compared to its previous plan of 66%. Investors did not appear to agree with the Company's more conservative, organic growth plan and the stock saw a sell-off.

On March 15th, Painted Pony announced a strategic acquisition of UGR Blair Creek Ltd. in an all-stock deal, implying a total share consideration of $229.6mm (41mm shares at $5.60) in addition to $47mm of net debt. The UGR's assets are adjacent to Painted Pony's and not only make it a good geographic fit (Figure 1), but also include under-utilized processing capacity and transportation service, which support Painted Pony's prudent growth plans. UGR increases Painted Pony's 2017 and 2018 annual average production by 12% and 41%, respectively; that's more production than the previous capital plan before the cuts (Figure 2). Additionally, the acquisition significantly increases Painted Pony's reserve base, increasing 2P reserves by 39% and 1P reserves by 29%, making Painted Pony Canada's third-largest natural gas producer by reserves.

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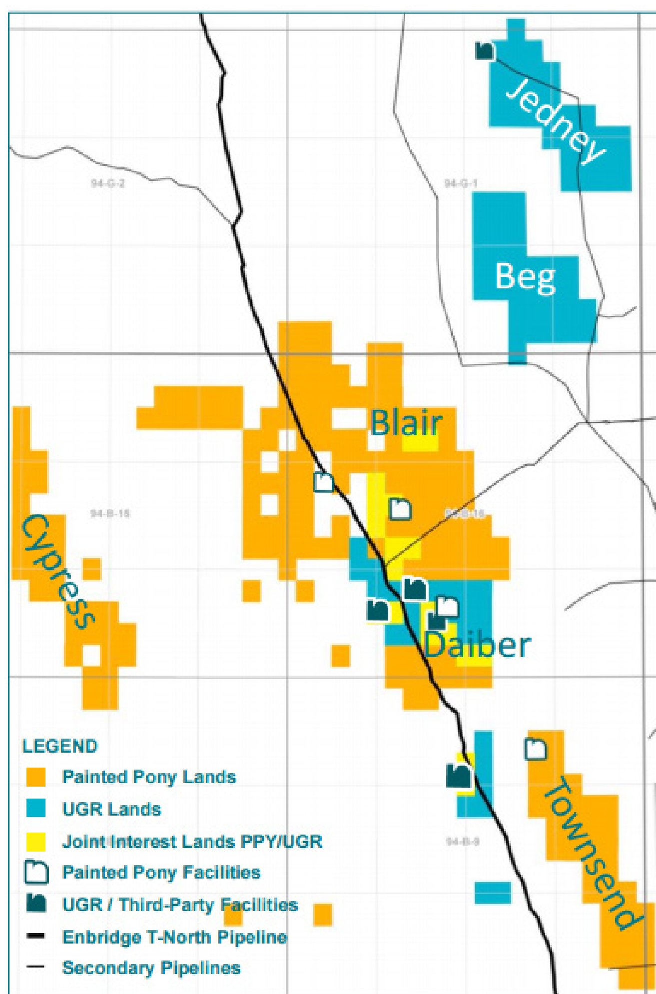
Figure 1: Location of UGR and Painted Pony Assets



Source: Company Presentation

Figure 2: Preliminary 2017 Growth Plan (before cuts) vs. UGR Acquisition Growth Plan

	Old Growth Plan	New UGR Growth Plan	Change
2017 Average Daily Production (MMcfe/d)	288	290	0.6%
2018 Average Daily Production (MMcfe/d)	432	509	17.8%
Capital Cost (million)	$704	$784 (including debt)	11.4%

Source: Company News Release

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The acquisition appears more in the favour of UGR, as the deal entails a significant premium with a forward 2017 EV/CF multiple of 9.1x, which is substantially higher than junior Montney gas-weighted producers trading at 5.5-7.5x. The acquisition will not only be dilutive to Painted Pony's metrics, but the all-share structure has a substantial dilution effect on Painted Pony shareholders. With a shareholder vote scheduled for May 11 on the UGR acquisition, a rejection of the deal would be very turbulent for the Company.

Painted Pony has recently closed a $111mm private placement that not only strengthens its balance sheet but will help fund its drilling campaign to increase its resource base. Although the UGR acquisition seems to be a very good strategic fit for the Company long-term, the immediate dilutive impact on the Company has hurt the stock. Currently trading at a forward 2017 EV/sales multiple of 3.0x, Painted Pony appears to be trading undervalued compared to its gas-weighted industry peer average of 4.4x. The market seems to have punished the stock for over paying for UGR and factoring in risk with management's ability to exercise synergies

Spartan Energy Corp. (TSX: SPE)

Spartan Energy Corp. ("Spartan") is a Canadian oil-focused exploration and production company with assets in Southeast and West Central Saskatchewan. Recently, the Company has provided an update on drilling and operations, which indicates further upside to its previously-announced 2017 production growth guidance of 11%. Since our last report, shares of Spartan have corrected just over 10% and appears to be a very attractive entry position for a solid long-term investment.

In its operational update, Spartan announced that it is on track to exceed its budgeted production target for the quarter because of better-than-expected base production levels and strong drilling results from the quarter—all of this despite some weather-related downtime. Spartan reiterated that its Q1 drilling program is in line with its budget and included 13 (12.0 net) open-hole wells and 3 (3.0 net) frac Midale wells, which were brought online with 30 days of production history. Initial 30-day production rates (IP30) for the open-hole and frac Midale wells averaged 62% and 38% above internal type curves. In addition, two additional wells—9.0 net Viking well and 3.0 net frac Midale well—are scheduled to be completed and brought online in Q2. March average production was approximately 500 boe/d ahead of budget, and these additional two wells are expected to boost production further. As a result, Spartan's first-quarter drilling program puts it in a strong position to exceed its 2017 guidance, and will be funded entirely by cash flows as long as WTI prices remain at US$45/barrel. It is worth noting, that for every US$5 increase in WTI oil, management expects an increase of $40mm in excess cash flows (Figure 3).

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Figure 3: Spartan's Growth and Cash Flow Model

WTI Price (USD)	$45	$50	$55	$60
Capex (MM)[2]				
2017	$145	$145	$145	$160
2018	$153	$153	$153	$169
Cash Flow (MM)				
2017	$148	$187	$227	$266
2018	$162	$207	$252	$296
Annual Production (boe/d)				
2017	21,080	21,080	21,080	21,080
2018	23,290	23,290	23,290	23,290
Annual Production Per Share Growth				
2017	11%	11%	11%	11%
2018	10%	10%	10%	10%
Excess Cash Flow (MM)				
2017	$3	$42	$82	$106
2018	$9	$54	$99	$127
Implied Free Cash Flow Yield[3]				
2017	0%	3%	6%	7%
2018	1%	4%	7%	8%
YE Net Debt (Surplus) (MM)				
2017	$222	$183	$143	$118
2018	$219	$134	$49	$(5)
YE Debt to Cash Flow Ratio[4]				
2017	1.5	1.0	0.6	0.4
2018	1.3	0.6	0.2	0.0

Source: Corporate Presentation

Figure 4: Spartan Drilling Locations and Count (as of Q1/2017)

CORE AREA	FORMATION	WI	LOCATIONS	
		(%)	(Gross)	(Net)
SE SASKATCHEWAN				
Conventional Mississippian (Open Hole)	Frobisher/Alida Midale Ratcliffe Tilson/Souris Valley	82%	1,469	1,206
Unconventional tight oil (Frac)	Midale, Bakken	94%	236	219
TOTAL ALL SE SASK		**84%**	**1,697**	**1,418**
WEST CENTRAL SASK	Viking (Frac)	75%	303	227
TOTAL SASK		**82%**	**2,000**	**1,645**

Source: Corporate Presentation

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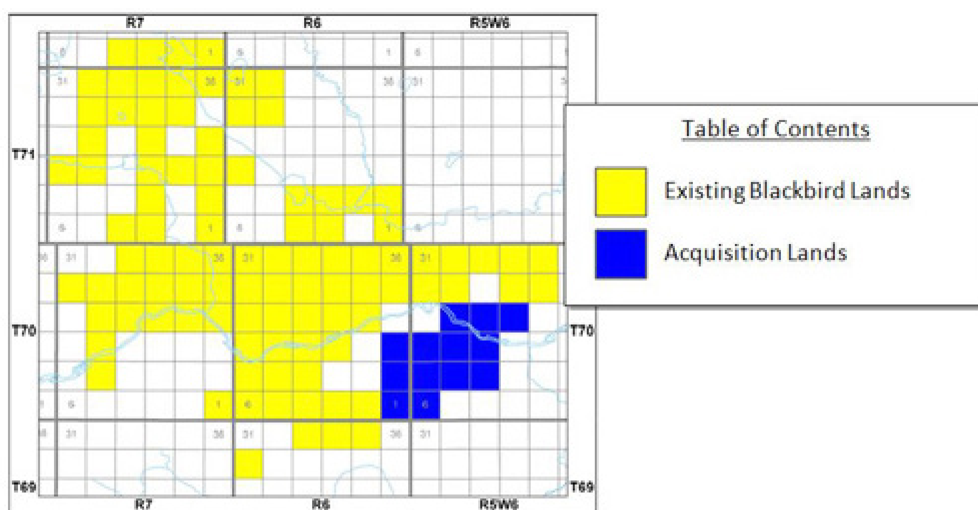
Looking forward, the Company appears to be a solid long-term investment with management continuously executing low-cost operations with a 10-15% annual organic production growth plan funded entirely by cash flows. Its Q1 program and recent acquisitions have significantly increased their drilling inventory to 1,645, enough to keep them busy for approximately 12 years (Figure 4). Currently trading at a forward EV/sales multiple of 3.4x, Spartan appears to be undervalued as it is trading below its oil-weighted peer average of 4.0x. Taking into consideration that Spartan Energy is looking increasingly likely to beat its production guidance for 2017, Spartan appears all-the-more attractive.

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. Recently, the Company has boosted its reserves and production potential with the acquisition of 13 gross sections of Montney rights for the Elmworth/Pipestone lands from Paramount Resources (TSX: POU), as well as closed a massive public offering to fund future drilling programs.

The acquired lands fit like a puzzle to Blackbird's existing Elmworth/Pipestone lands—now standing at 116 gross sections—and are in close proximity to Blackbird's existing infrastructure (Figure 5). Management estimates that the acquisition adds between 104-312 gross drilling locations to Blackbird's drilling inventory, allowing the Company to achieve the scale required to execute large-scale processing and take-away agreements. The acquisition was structured in an all-stock deal. whereby Blackbird issued 5,000,000 common shares to Paramount with a hold period expiring July 7, 2017. Implying a value of $223k/section, Blackbird's deal with Paramount is well-below its other recent acquisition of 2 gross sections from Knowledge Energy Inc. at $1.1mm/acre within the Elmworth/Pipestone lands.

Figure 5: Blackbird's Current and Acquired Land



Source: Corporate Presentation

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On March 14th, Blackbird announced the closing of its upsized and over-subscribed public offering of $84.8mm, including over $22mm of FT common shares, to fund its drilling and completion operations of approximately 12 Elmworth/Pipestone wells. The raise has a four-month holding period, after which nearly 40mm common shares may come online, which may trigger a dramatic sell-off. Nonetheless, with this financing, Blackbird has substantially boosted its balance sheet, which had $18.4mm of cash as of January 31, 2017.

Having said that, Blackbird has a strong track record of executing efficient, low-cost drilling operations and expanding its resource base. For example, its recent 02/2-20 Upper Montney well cost just $2.6mm to drill, which is 54% cheaper than the first, and amongst the best in the entire Montney region. Since 2013, the Company has begun assembling its Montney acreage at Pipestone/Elmworth through a cost-effective land acquisition strategy to a total of 116 gross sections. On March 27th, Blackbird announced results from an independent reserves evaluator after its most recent drilling program, which saw a 1,002% increase proven and probable (2P) reserves with a before tax 10% NPV of $455mm (Figure 6). This reserve update validates Blackbird's resource potential and drilling to date. It is worth noting that Blackbird has only booked 11.9% of its net Pipestone/Elmworth acreage on a 2P basis, leaving significant room for future resource expansion.

Figure 6: Updated Gross Reserves and Evaluation

	Natural Gas	Natural Gas Liquids [1]	Total Oil Equivalent	NPV 10%	NPV 10%
Reserves Category	**Mmcf**	**Mbbls**	**MBOE**	**$000s**	**$/BOE**
Proved Developed Producing	5,215	848	1,717	33,002	19.22
Proved Non Producing	2,012	278	613	10,718	17.48
Proved Undeveloped [2] [3]	92,539	12,773	28,196	160,375	5.69
Total Proved	**99,766**	**13,898**	**30,526**	**204,095**	**6.69**
Probable Developed Producing	1,785	294	592	10,598	17.93
Probable Non Producing	594	89	188	2,973	15.82
Probable Undeveloped [3]	89,834	12,892	27,864	237,353	8.52
Total Probable	**92,213**	**13,274**	**28,643**	**250,924**	**8.76**
Total Proved Plus Probable [4] [5] [6] [7]	**191,979**	**27,172**	**59,169**	**455,018**	**7.69**

Source: Corporate Presentation

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Since the beginning of this year, Blackbird has commenced production from four Montney wells that it drilled last year—a fifth currently being tied in. Blackbird's aforementioned financing is going to help fund a 12-well development and delineation program over the next 12 months with the addition of construction of an eastern pipeline gathering system. Taking into account these near-term positive catalysts, Blackbird is shaping up to be one of the fastest growing oil and gas production companies in the Montney region. Currently, the Company is trading at a forward EV/sales multiple of 16.8x versus its Montney oil and gas peer average of 5.0x. It appears the market has awarded the Company a significant premium for its accelerated business plan, high-growth profile, and prospect of future well-testing results.

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