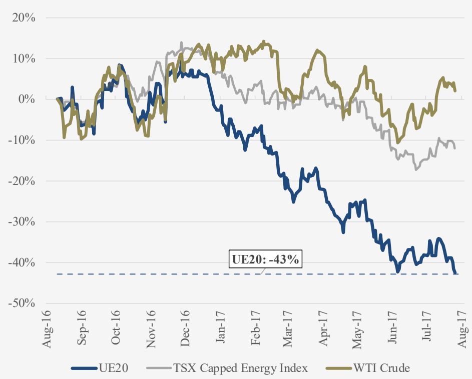
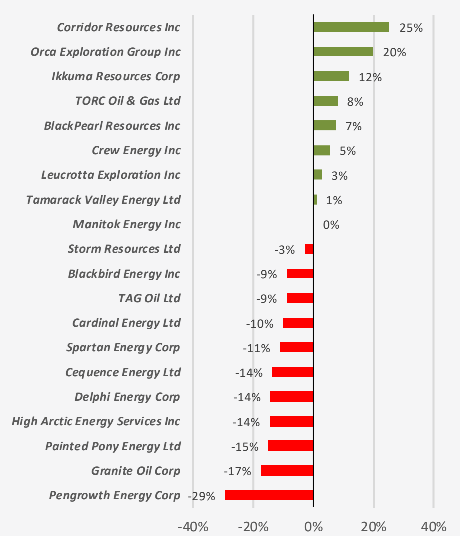
Ubika Energy 20
Jul. 10, 2017 - Aug. 21, 2017

UE20:	-4.8% (-42.8% Y/Y)
TSX Capped Energy:	1.5% (-14.8% Y/Y)
Oil (WTI):	5.7% (-2.7% Y/Y)

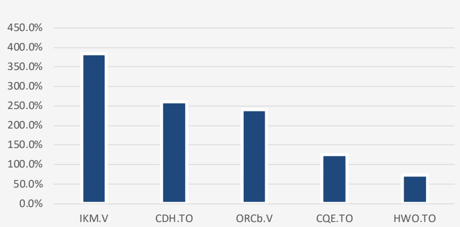
Dollar amounts in CAD unless otherwise stated.



UE20: Performance Distribution



Top Volume Gainers (m/m)



Chris Thompson | Head of Research | Gravitas Financial Inc. | chris@smallcappower.com | 1 (416) 574-0469
Thomas Chapman | Analyst | Gravitas Financial Inc. | thomas@gravitasfinancial.com | 1 (647) 802-4556

Ubika Energy 20 Continues to Slip as Oil Prices Reach a Three-Week Low

The Ubika Energy 20 (UE20) Index declined 4.8% since our last report dated July 10th, 2017, lagging both of its benchmarks, the TSX Capped Energy Index and the West Texas Intermediate (WTI) crude oil price. The TSX Capped Energy Index gained 1.5% and the WTI crude price gained 5.7% over the same period. Given the increase in both the TSX Capped Energy index and the WTI crude price, it is strange to see the UE20 decline. In this report, we will discuss the bearish investor sentiment toward the WTI crude price, which provides an insight into the decline in the UE20. Furthermore, we will discuss the biggest price movers since our last report.

Industry Highlights

- **U.S. President Donald Trump signed an executive order on August 16th aimed at speeding up the approval process for major infrastructure projects, including oil & gas pipelines.** The primary concept of the order is the One Federal Decision policy, in which all relevant agencies work with a single lead federal agency to review the necessary environmental permits and then would sign a joint Record of Decision. The resulting federal permits would be issued no later than 90 days following the Record of Decision. The One Federal Decision policy replaces previous legislation requiring a string of approvals from several relevant federal agencies.

- **Analysts from JP Morgan believe OPEC's compliance with output cuts will continue to slip in the second half of this year.** At the beginning of last week, OPEC held a meeting with some producers and called out Iraq, the UAE, and other non-OPEC signatories (Kazakhstan and Malaysia) as countries which have fallen behind in compliance. JP Morgan believes that Saudi Arabia and other cartel members appear to have little appetite for deeper production cuts, despite strong efforts from OPEC. JP Morgan slashed 2018 WTI crude oil price forecast from US$53.50 to US$42.

- **The WTI crude oil price fell to a three-week low on Tuesday, August 15th, due to a stronger U.S. dollar, concerns over a growing supply from non-OPEC producers, and signs of slower oil demand growth in China.** WTI crude oil closed at US$46.78 on Tuesday, declining 7% since its one-month high of US$50.17 on July 31. In July, Chinese crude oil refineries saw their lowest daily throughput rate since September with 10.71mm barrels per day, due to the oversupply of fuels on the domestic market. China's lowest refinery run in 10 months coming during peak demand season is concerning and has created skepticism around Chinese oil demand growth. Aiding to global oversupply concerns, Shell Petroleum development company of Nigeria lifted a force majeure declaration on exports of Bonny Light crude oil exports that has been in place since the middle of July.

Notable Performers

Corridor Resources Inc. (TSX: CDH)

Corridor is a Canadian junior resource company engaged in the exploration & development, and production of petroleum and natural gas onshore in New Brunswick and off shore in the Gulf of St. Lawrence. Corridor currently has natural gas production and reserves in the MuCully Field near Sussex, New Brunswick. In addition, Corridor has a shale gas prospect in New Brunswick and an offshore conventional hydrocarbon project in the Gulf of St. Lawrence. The Company's stock price has increased 25% since our last report due to a $19.5mm payment from the Quebec government in regards to the Anticosti Island joint venture (JV).

In 2014, the Company entered a JV with the government of Quebec (through its affiliate Resources Quebec) and Saint-Aubain E&P Quebec and formed Hydrocarbons LP to pursue hydrocarbon exploration and development on Anticosti island. Corridor owned a 21.7% interest in the LP.

Shortly after the JV was formed, the Quebec government clouded the project with uncertainty. The government began to distance itself from the project, despite its 35% interest in the JV and a contractual obligation to help fund the drilling of three wells.

Negotiations finally ended on July 28th, 2017, when Corridor announced a settlement agreement had been reached with the Quebec government. The agreement facilitated an end to exploration activities on Anticosti Island.

In consideration for the misfortune suffered by Corridor in connection with its interests in the JV, the Quebec government agreed to pay $19.5mm to Corridor. The Quebec government has also agreed to reimburse Corridor for any further amounts expended prior to its departure from the island, and to assume all abandonment and reclamation obligations of Corridor related to the three wells the government promised to help fund.

Corridor Resources has a strong balance sheet with $30mm in cash, a 76x current ratio, and no long-term debt. The Company is trading at 11x cash flow, which is higher than the Canadian small cap oil & gas industry median multiple of 4.6x.

Ikkuma Resources Corp (TSX-V: IKM)

Ikkuma is a diversified junior oil and gas company with holdings in both conventional and unconventional projects in Western Canada. The Company is engaged primarily in the exploration and production of crude oil and natural gas. The Company's technical team has worked for over a decade in the Foothills region of Western Canada. Ikkuma recently announced the acquisition of assets located in the Alberta Foothills and the BC Basin, as well as the $20mm sale of assets in the Alberta Foothills. The Company's stock price has increased 12% since our last report.

On August 15th, Ikkuma announced it has entered into a purchase and sale agreement to acquire assets located in the Alberta Foothills as well as in the British Columbia Basin for $34mm. In conjunction with the acquisition, the Company entered a separate purchase and sale agreement to sell 51% of its trunk line and associated facilities in its existing northern Alberta Foothills properties for a total cash consideration of $20mm.

The acquisition will be financed by cash and a $15mm loan. The acquired assets will make Ikkuma an oil and natural gas company focused in the Western Canada Foothills, with a pro forma production base of ~20,800 BOE/d (98% natural gas), with significant growth potential. Furthermore, the acquisition is highly accretive, has a low decline rate, and provides increased cash flow.

Figure 1: Acquisition Highlights

Acquisition Highlights (also see tables):

- *Pro forma* diluted cash flow per share increases 130%.
- Significant growth potential as the Assets provide an extensive, risk-balanced, low cost oil and gas prospect portfolio that nearly doubles the Corporation's present drilling inventory.
- 33.6 MMBOE of proved developed producing ("**PDP**") reserve additions (246% increase).
- Production additions (220% increase) of 14,300 BOE/d (60% operated), from low decline assets providing sustainable cash flow to exploit the Narraway light oil and other discovered resources.
- *Pro forma* leverage improves approximately 32%.
- *Pro forma* Licensee Liability Rating ("LLR") rating of 7.62 (65% improvement).
- The Central Alberta Foothills Assets, representing most of the production included in the Acquisition, have an annual decline rate of 8% resulting in a *pro forma* annual decline of approximately 11%.
- Significant field operational cost savings have been identified and are expected to be 10-30%.
- Ikkuma's technical team has significant experience with the Assets including the Stolberg Oil Pool.
- The Assets include additional lands within Ikkuma's northern Alberta Foothills light oil pool located at Narraway.
- 398,037 of net developed and undeveloped acres added.
- Adds significant underutilized infrastructure (working interest in 1,327 km of pipelines, 5 major facilities and 10 minor facilities), which can be utilized to exploit bypassed oil and gas zones.
- Majority of the production will flow to a midstream operated plant. Ikkuma has negotiated favourable fees and agreed conditionally to dedicate reserves for a 10 year period.
- The Assets include two additional light oil pools, Cordel and Brown Creek, with infill drilling and secondary oil recovery opportunities.
- The Assets also include 5,100 kilometre lines of 2D and 143 square kilometres of 3D seismic data.

Source: Corporate Filings

Ikkuma has a poor balance sheet with a ~0.5x current ratio, which will likely result in the Company dipping into their $40mm credit facility. Furthermore, they have ~$1mm in cash and a debt to equity ratio of 23%. The Company is trading at 2.3x cash flow, representing a discount to the Canadian small cap oil & gas industry median multiple.

Pengrowth Energy Corp. (TSX: PGF)

Pengrowth Energy Corporation is a Canadian intermediate energy company focused on the sustainable development and production of oil and natural gas in Western Canada, at its Lindbergh thermal oil property, and at its Groundbirch Montney gas property. The Company reported earnings on August 14th highlighted by additional asset sales, and further reduction of debt. The Company's stock has decreased 29% since our last report.

Q2/2017 highlights include:

- Decreased average daily production from 56,753 barrels of oil (boe) per day in Q2/2016 to 49,349 boe per day in Q2/2017, due to the absence of volumes related to sold properties, natural declines, and lower volumes due to maintenance activities on existing properties.
- Decreased funds flow from operations from $0.16 per share in Q2/2016 to $0.05 per share in Q2/2017. The decrease was due primarily to lower realized commodity risk management gains.
- Decreased operating costs, cash G&A costs, and interest expense from Q2/2016 by $3.7mm, $2.9mm, and $9mm, respectively. The decreased costs were due primarily to cost cutting programs and debt reduction.

During the quarter Pengrowth Energy eased their liquidity problem, led by asset dispositions generating total cash proceeds of $485mm. The Company used this cash to repay US$100mm in debt maturing this year. Pengrowth Energy now has $1.06b in debt compared to $1.68b as at December 31, 2016.

Due to the sales of certain assets, the Company revised their 2017 guidance, reducing production guidance from 50,000 – 52,000 boe per day to 41,500 – 43,500 boe per day, and funds flow from operations guidance from $190mm to $90mm.

.

Figure 2: 2017 Revised Guidance

	Current full year 2017 Guidance	H1/2017 Actual Results
Average daily production (boe per day)	41,500 to 43,500	51,143
Total capital expenditures ($ millions)	125	56.1
Funds Flow from operations[1] ($ millions)	90	56.2
Royalties[2] (% of sales)	9.0	10.1
Operating costs[3] ($ per boe)	13.00 to 13.50	13.35
Cash G & A[3] ($ per boe)	3.50 to 4.00	3.54
1. Based on WTI price of U.S.$50/bbl, AECO natural gas price of Cdn$2.82/Mcf and an exchange rate of Cdn$1 = U.S.$0.74.		
2. Royalties are before impacts of commodity risk management activities		
3. Per boe estimates based on high and low ends of production guidance		

Source: Corporate Filings

Pengrowth Energy has a highly-levered balance sheet with a 134% debt to equity ratio. However, with $287mm in cash and a 2.2 current ratio the Company is not at risk to default on any short-term liabilities. Pengrowth Energy is trading at 1.2x cash flow, representing a discount to the Canadian small cap oil & gas industry median.

Conclusion

Although the WTI crude price has increase 5.7% since our last report, investor sentiment has turned bearish towards the commodity. JP Morgan slashed their WTI crude price estimate from US$53.50 to US$42.00 amidst concerns over OPEC members meeting supply cuts. Furthermore, the WTI crude price reached a three-week low on August 15th amidst global oversupply concerns and a strengthening U.S. dollar. On top of crude supply-demand factors, deteriorating fundamentals amidst some of the largest companies in the UE20 index, highlighted by a 29% decline in Pengrowth's stock price, shed light into the relatively poor performance of the Index.

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.