Maison
Placements
Canada

# Maison Energy Monthly
# June 15, 2016

## COMMODITY PRICE TARGETS

**Oil**


**Target**
**US$30-$34/b**
**By Oct/16**

## *Next Crude Price And Energy Stock Price Plunge Has Commenced*

## *Expect Crude Oil And Energy Stocks To Decline 30-40% Over The Next Four Months*

**What's Inside:**

1. We See Six Reasons For The Current Energy Decline
2. Maison Universe High Impact Drilling Watch List
3. Research Updates:
   - Birchcliff Energy Ltd. (BIR)
   - Delphi Energy Corp. (DEE)
   - Surge Energy Inc. (SGY)
4. *Commodity Price Forecast 2017 and Update 2016*
5. *Top Picks: No Picks This Month – Stock Price Plunge Expected*
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SCHACHTER
ASSET MANAGEMENT INC.


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# 1. We See Six Reasons For The Current Energy Decline:

The fires at Fort Murray, Nigeria insurgent attacks on facilities and war in Libya all aided in lifting crude oil from US$26.05/b in mid-February of this year to the recent high of US$51.67/b in the second week of June. During the latter stages of this robust move, the conventional wisdom and commentary in the media was that the crude price bottom was in place and that the price of crude would lift to US$70-$80 by late 2016. This euphoric phase lifted energy stocks to lofty heights, and in our opinion, excess valuation. Many stocks at the top last week were discounting $US70/b. The S&P/TSX Energy Index rose from 126 in mid-January to over 200 last week. It has now retreated and commenced another corrective phase as markets and investors overplayed the rise in crude and with the recent breakdown in crude prices have seen a start of a new down leg.

So why are we back in the bear camp? We see six issues that collectively will drive crude prices down to the low US$30's over the next 4 months. The issues are highlighted below with further explanation of each issue.

1. US production has stopped falling and has rebounded with a rise in production last week as prices rose above US$50/b.
2. The US rig count has risen for the last 2 weeks on the strength in crude and the savage cost cutting that has made projects economic again.
3. The US$ has begun to lift again, negatively impacting oil prices as it has in the past.
4. Demand for crude has continued to decline in the US, Europe and Japan.
5. The S&P Bullish Percentage Index has lifted from low single digits in early 2016 to the 90's recently and has started its current decline which should take the Index back to single digits some time this year.
6. OPEC production has not declined as much as had been feared due to disruptions in Nigeria, Venezuela and Libya.

## 1) US Production Has Stopped Falling:

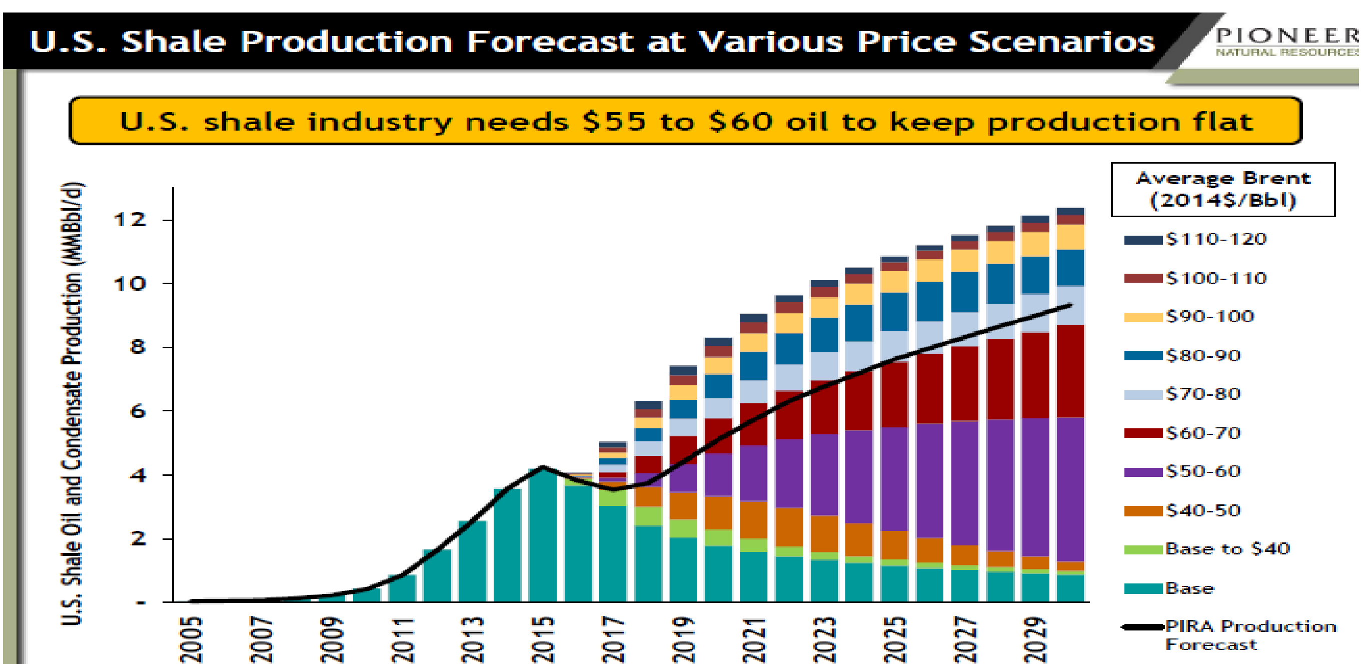
The crude oil price rise to the low US$50's/b has energized low cost energy producers in the Permian, Eagle Ford and even the Bakken to get back in the field and add to production, moving some of the estimated 3,900 wells drilled but not completed (DUC's) into production. The investment community has rewarded companies that have sold assets and cleaned up their balance sheets and as well are rewarding companies that are showing volume growth.

# EIA Weekly Production Report

| Petroleum Supply (Thousand Barrels per Day) | Current Week | Week Ago | | Year Ago | | Four-Week Averages Week Ending | | | Cumulative Daily Average | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6/3/16 | 5/27/16 | Difference | 6/5/15 | Difference | 6/3/16 | 6/5/15 | Percent Change | 6/3/16 | 6/5/15 | Percent Change |
| | | | +70Kb/d | **Crude Oil Supply** | | | | | | | |
| (1) **Domestic Production**[5] | 8,745 | 8,735 | 10 | 9,610 | -865 | 8,760 | 9,506 | -7.9 | 9,007 | 9,352 | -3.7 |
| (2) Alaska | 528 | 510 | 18 | 509 | 19 | 512 | 474 | 8.0 | 510 | 500 | 2.0 |
| (3) Lower 48 | 8,217 | 8,225 | -8 | 9,101 | -884 | 8,248 | 9,032 | -8.7 | 8,497 | 8,852 | -4.0 |
| (4) **Net Imports (Including SPR)** | 7,216 | 7,350 | -134 | 6,182 | 1,034 | 7,195 | 6,525 | 10.3 | 7,398 | 6,774 | 9.2 |
| (5) Imports | 7,705 | 7,839 | -134 | 6,623 | 1,082 | 7,634 | 6,973 | 9.5 | 7,801 | 7,246 | 7.7 |
| (6) Commercial Crude Oil | 7,705 | 7,839 | -134 | 6,623 | 1,082 | 7,634 | 6,973 | 9.5 | 7,801 | 7,246 | 7.7 |
| (7) Imports by SPR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 | 0 | – |
| (8) Imports into SPR by Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 | 0 | – |
| (9) Exports | 489 | 489 | 0 | 441 | 48 | 440 | 448 | -1.8 | 403 | 472 | -14.6 |
| (10) **Stock Change (+/build; -/draw)** | -461 | -195 | -266 | -973 | 512 | -268 | -458 | -- | 326 | 575 | -- |
| (11) Commercial Stock Change | -461 | -195 | -266 | -973 | 512 | -268 | -508 | -- | 326 | 566 | -- |
| (12) SPR Stock Change | 0 | 0 | 0 | 0 | 0 | 0 | 50 | -- | 0 | 9 | -- |
| (13) **Adjustment**[6] | -5 | -74 | 69 | -189 | 184 | 96 | -78 | -- | -57 | 233 | -- |
| (14) **Crude Oil Input to Refineries** | 16,417 | 16,206 | 211 | 16,576 | -159 | 16,318 | 16,412 | -0.6 | 16,022 | 15,783 | 1.5 |
| | | | | **Other Supply** | | | | | | | |
| (15) **Production** | 5,465 | 5,406 | 60 | 5,338 | 127 | 5,418 | 5,243 | 3.3 | 5,472 | 5,181 | 5.6 |
| (16) Natural Gas Plant Liquids[7] | 3,329 | 3,329 | 0 | 3,181 | 148 | 3,329 | 3,120 | 6.7 | 3,392 | 3,086 | 9.9 |
| (17) Renewable Fuels/Oxygenate Plant | 1,074 | 1,028 | 46 | 1,048 | 26 | 1,033 | 1,021 | 1.2 | 1,049 | 1,018 | 3.0 |
| (18) Fuel Ethanol | 1,006 | 960 | 46 | 992 | 14 | 965 | 973 | -0.8 | 969 | 949 | 2.1 |
| (19) Other[8] | 68 | 68 | 0 | 56 | 12 | 68 | 49 | 40.2 | 80 | 69 | 15.2 |
| (20) Refinery Processing Gain | 1,062 | 1,049 | 14 | 1,109 | -47 | 1,056 | 1,102 | -4.2 | 1,032 | 1,077 | -4.2 |
| (21) **Net Imports**[9] | -1,403 | -1,670 | 267 | -1,449 | 46 | -1,388 | -1,385 | -- | -1,817 | -1,576 | -- |
| (22) Imports[9] | 2,326 | 2,059 | 267 | 1,904 | 422 | 2,281 | 2,009 | 13.5 | 2,092 | 2,049 | 2.1 |
| (23) Exports[9] | 3,729 | 3,729 | 0 | 3,353 | 376 | 3,669 | 3,394 | 8.1 | 3,908 | 3,626 | 7.8 |
| (24) **Stock Change (+/build; -/draw)**[3,10] | 917 | -196 | 1,113 | 886 | 31 | 229 | 752 | -- | 36 | 103 | -- |
| (25) **Adjustment**[11] | 217 | 217 | 0 | 204 | 13 | 217 | 201 | -- | 215 | 210 | -- |

Source: US Petroleum Balance Sheet June 8, 2016

With the price rise to over US$50/b last week the EIA weekly data showed a 70,000 boe/d increase in US supplies. While one could complain about the mix of where the increase came from, the main point is that higher prices are impacting supply – period. The chart below from Pioneer shows their forecast of production levels at various price levels for crude. At prices over US$55 it is expected that US production should remain flat. At the higher levels seen into the end of the decade, a sizeable increase in capacity is likely. The aggressive move to cut costs and utilize new technologies has reinvigorated the industry.



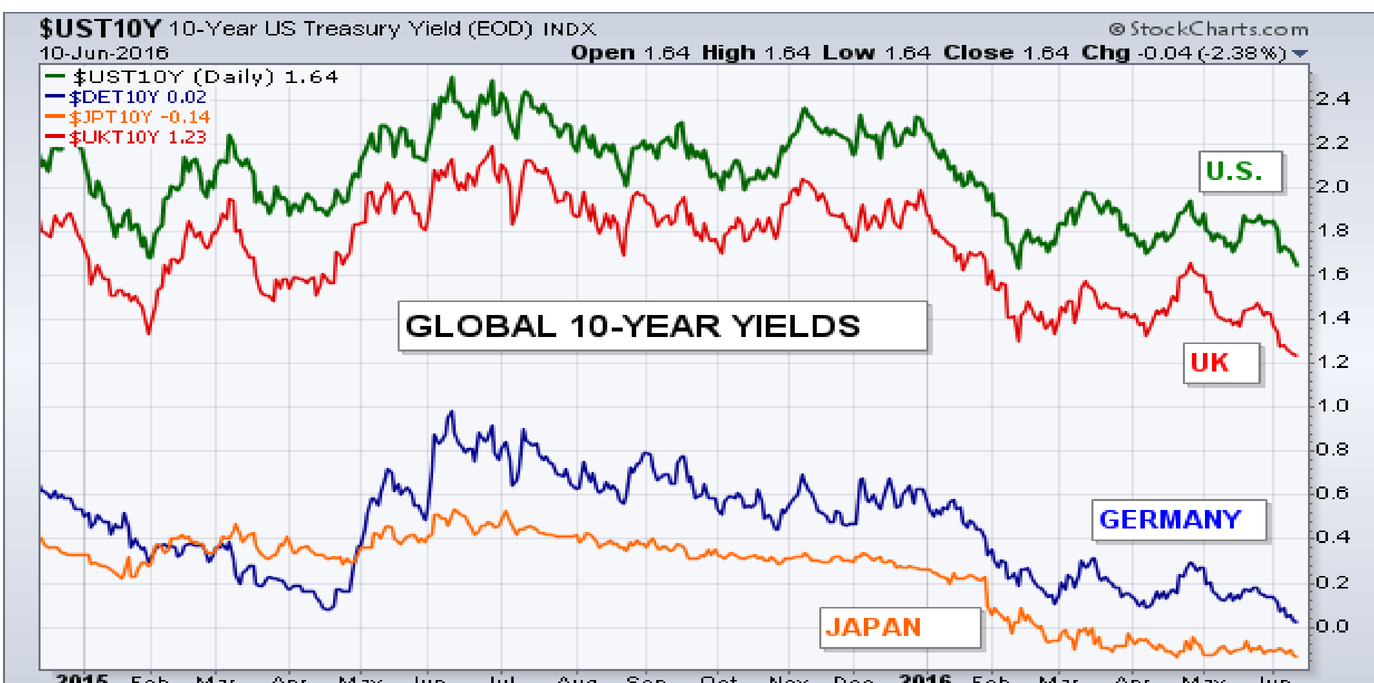

Source: Pioneer Natural Resources June 2016 Investor Presentation

## 2) US Rig Count Has Risen:

The US rig count, after falling regularly during the first five months of 2016, has finally showed signs of life as the price of crude has lifted. Last Friday's release by Baker Hughes showed an increase of 6 rigs (3 for oil and 3 for natural gas). This was the second increase in a row taking the price of oil from above US$50/b to below.

## 3) US Dollar On The Rise:

Central Bank QE and bond buying has lowered interest rates world wide to record low levels. In Europe and Japan there is now over $10 Trillion dollars of debt yielding negative interest rates. The recent start by the ECB to buy corporate debt has lowered interest rates on 10-year corporate paper to below 1% for both good credits and non-investment grade as the insatiable appetite of the ECB buys up all the paper available and provides incentive for companies to borrow even more. As a result US yields appear very attractive and enormous amount of funds from investors wanting to get some yield (versus being required to pay to have their funds held) has destabilized normal market mechanisms. The ECB's Ponzi scheme is harming individual investors, banks and insurance companies and rewarding profligate governments which for the most part are having large deficits and very high debt/GDP levels. Monetary policy has carried all of the load and government leaders have been given a pass from having to face the difficult policy changes and spending issues. US bonds as a result become even more attractive to foreigners who have bought large amounts of US long-dated paper and have driven yields down to 5,000 year lows. Yes – 5,000 years of interest rate data keeping! The near term Brexit vote has added to the rush to safety and added further demand for US higher yielding paper.




Source: StockCharts.com , June 14, 2016


Source: StockCharts.com , June 14, 2016

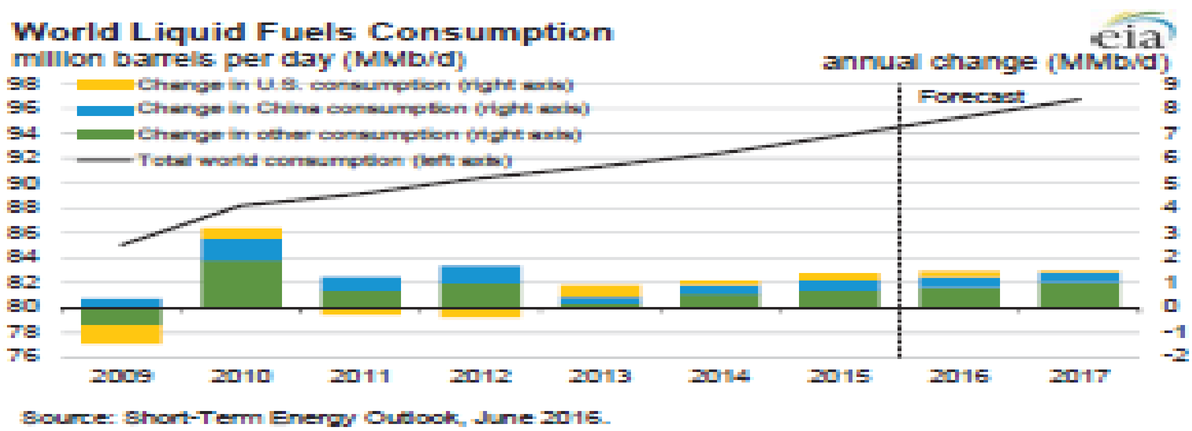
The moves in the US dollar are inversely correlated to the moves in the commodity board and especially to crude oil. We have noted three major moves in the currency over the period of 2000 to the present time. In the first instance, the dollar plunged from 121 to 71 for the dollar index over the period of 2000 to 2008 and the price of crude oil (WTI) rose from US$17/b to over US$147/b. During the second instance, the dollar rose from 71 to over 88 and crude fell sharply, from over US$147 to US$33.55/b. In the third instance (the current situation) the dollar index has risen from 78.93 to over 100 (now 95.04) and the price of crude has fallen from over $107/b to a low so far of just over US$26.05/b. The US dollar has started a new up leg and should exceed the 100 level especially if the Brexit vote is to leave or the banking sector in Europe or Japan has a failure and the rush to a safer currency (the US dollar) ensues. We think a “Lehman” type event is very likely this year and the two areas for the failure and breach are in Europe and Japan where the banks are undercapitalized and the interest spread business has been destroyed by central bank “helicopter money” with their unprecedented manipulation.

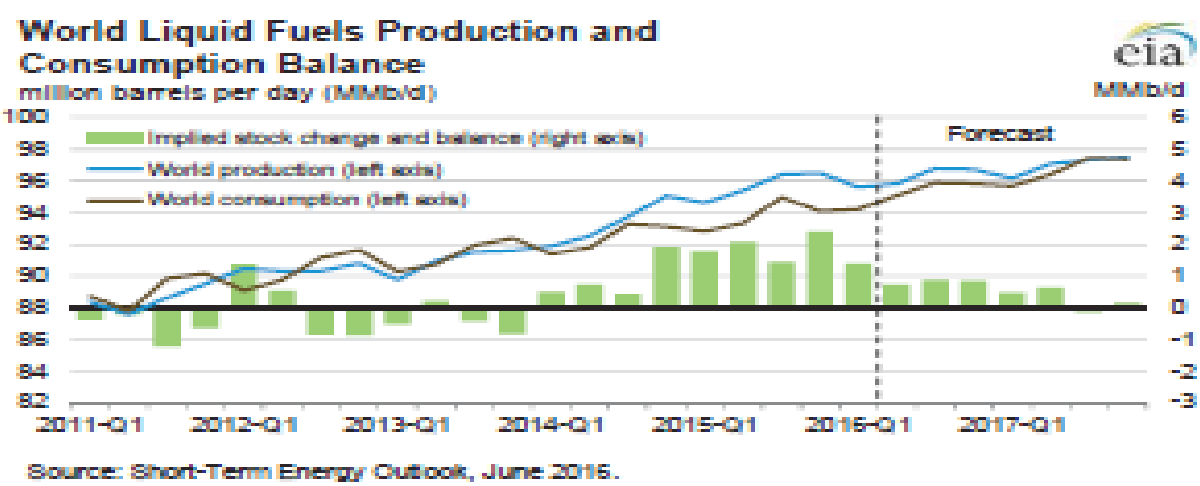

Source: StockCharts.com , June 14, 2016

## 4) Demand For Crude Falling:

While overall demand should grow by 1.2Mb/d in 2016 and nearly the same in 2017, there are pockets where demand is faltering. The 1.2Mb/d forecast is down from the 1.4Mb/d growth assumed just a few months ago and if sluggish economic growth continues to be observed in Japan, the US and Europe, these forecasts for growth will continue to be lowered. Only India is outperforming expectations but its growth and China's more restrained growth are not enough to bolster a bull case for energy demand. If the price of oil retreats over the next few months as we expect, OPEC will continue to gain market share. If Libya, Nigeria and Venezuela continue to have production outages, the other producers – mainly Iran, Iraq and Saudi Arabia will see more demand for their product and at the same time the large glut in crude inventory in storage around the world should start to see meaningful declines in 2017. This is the most optimistic case. If however, Libya and Nigeria are able to resolve their production difficulties and come to revenue sharing deals with the indigenous people in their oil producing areas, then the glut will continue and prices will decline even further.

If the weakness in economic activity in the major OECD countries continues to falter, these energy demand assumptions will prove too optimistic. We see this as being the case near term. Demand in the US has clearly fallen and the recent reports from Europe, Japan and Brazil add to the evidence of lower demand than forecasters had expected. If this persists, then this summer we could see inventories grow again, and the weekly reports profiling this situation would put pressure on prices.



# US Product Consumed

| Petroleum Supply (Thousand Barrels per Day) | Current Week | Week Ago | | Year Ago | | Four-Week Averages Week Ending | | | Cumulative Daily Average | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6/3/16 | 5/27/16 | Difference | 6/5/15 | Difference | 6/3/16 | 6/5/15 | Percent Change | 6/3/16 | 6/5/15 | Percent Change |
| **Products Supplied** | | | | | | | | | | | |
| (26) Total[12] | 19,779 | 20,355 | -576 | 19,783 | -4 | 20,337 | 19,719 | 3.1 | 19,856 | 19,494 | 1.9 |
| (27) Finished Motor Gasoline[13] | 9,568 | 9,716 | -148 | 9,600 | -32 | 9,639 | 9,393 | 2.6 | 9,310 | 8,947 | 4.1 |
| (28) Kerosene-Type Jet Fuel | 1,367 | 1,775 | -408 | 1,535 | -168 | 1,596 | 1,592 | 0.3 | 1,563 | 1,536 | 1.8 |
| (29) Distillate Fuel Oil | 3,576 | 3,827 | -251 | 4,115 | -539 | 3,954 | 3,939 | 0.4 | 3,736 | 4,035 | -7.4 |
| (30) Residual Fuel Oil | 525 | 275 | 249 | 213 | 311 | 393 | 170 | 130.8 | 307 | 204 | 50.6 |
| (31) Propane/Propylene | 930 | 959 | -29 | 1,024 | -94 | 1,013 | 893 | 13.4 | 1,247 | 1,196 | 4.2 |
| (32) Other Oils[14] | 3,813 | 3,802 | 11 | 3,295 | 518 | 3,742 | 3,732 | 0.3 | 3,693 | 3,576 | 3.3 |

Source: US Petroleum Balance Sheet June 8, 2016

US data for the week ending June 3rd showed a decline in demand of 576 Kb/d to 19.8 Mb/d. Finished motor gasoline fell by 148 Kb/d. Overall US demand growth in 2016 is a tepid 1.9%. In Europe, demand has fallen by 198 Kb/d or 2.8% and in Japan demand has faltered by 5.6% or 212 Kb/d as Japan moves into and out of recessionary levels. Fuel oil saw the largest decline as Japan restarts its presumed safe nuclear plants. Brazil, which is gearing up for the Olympics at the same time as their resource based economy is  desperate straits has seen their demand for energy fall by 120 Kb/d or 4.9% year over year for April.

**Table 4.3: Europe Big 4* oil demand, tb/d**

| | Apr 16 | Apr 15 | Change from Apr 15 | Change from Apr 15, % |
|---|---|---|---|---|
| LPG | 430 | 442 | -11 | -2.6 |
| Naphtha | 715 | 717 | -2 | -0.3 |
| Gasoline | 1,095 | 1,137 | -42 | -3.7 |
| Jet/Kerosene | 761 | 757 | 4 | 0.5 |
| Gas/Diesel oil | 3,158 | 3,236 | -78 | -2.4 |
| Fuel oil | 252 | 257 | -5 | -2.0 |
| Other products | 555 | 618 | -64 | -10.3 |
| **Total** | **6,966** | **7,164** | **-198** | **-2.8** |

*Note: * Germany, France, Italy and the UK.*
*Sources: JODI, OPEC Secretariat, UK Department of Energy and Climate Change and Unione Petrolifera.*

**Table 4.4: Japanese domestic sales, tb/d**

| | Apr 16 | Change from Apr 15 | Change from Apr 15, % |
|---|---|---|---|
| LPG | 469 | -15 | -3.0 |
| Gasoline | 882 | -15 | -1.7 |
| Naphtha | 818 | -7 | -0.8 |
| Jet fuel | 88 | -5 | -5.2 |
| Kerosene | 206 | -9 | -4.3 |
| Gasoil | 558 | -17 | -3.0 |
| Fuel oil | 436 | -67 | -13.4 |
| Other products | 56 | 3 | 5.8 |
| Direct crude burning | 66 | -80 | -54.6 |
| **Total** | **3,580** | **-212** | **-5.6** |

*Source: Ministry of Economy Trade and Industry of Japan.*

**Table 4.6: Brazilian inland deliveries, tb/d**

| | Apr 16 | Apr 15 | Change | Change, % |
|---|---|---|---|---|
| LPG | 222 | 229 | -7 | -3.1 |
| Gasoline | 749 | 724 | 25 | 3.4 |
| Jet/Kerosene | 111 | 124 | -13 | -10.3 |
| Diesel | 959 | 994 | -35 | -3.5 |
| Fuel oil | 63 | 82 | -19 | -23.0 |
| Alcohol | 243 | 314 | -71 | -22.7 |
| **Total** | **2,347** | **2,467** | **-120** | **-4.9** |

*Source: Agência Nacional do Petróleo, Gás Natural e Biocombustíveis of Brazil.*

Source: OPEC Monthly Oil Market Report – June 13, 2016

# Drilling Productivity Report

Release Date: June 13, 2016 | Next Release: July 18, 2016 | full report

New-well production per rig by region | Production by region

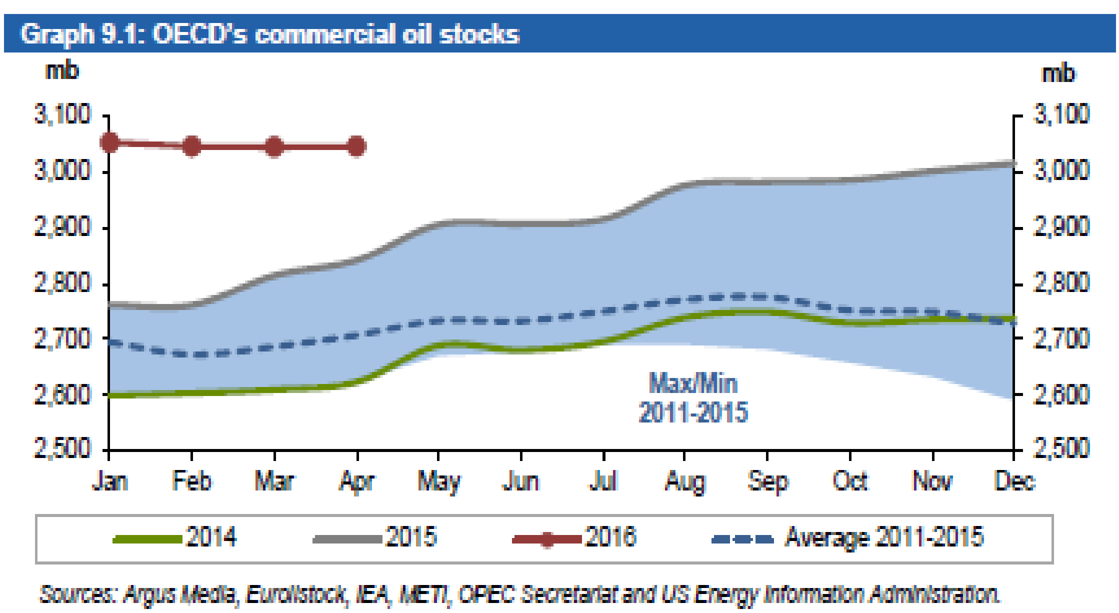
New-well oil production per rig
barrels/day

| Region | June 2016 | July 2016 | change |
|---|---|---|---|
| Bakken | 832 | 850 | 18 |
| Eagle Ford | 1,067 | 1,097 | 30 |
| Haynesville | 30 | 31 | 1 |
| Marcellus | 68 | 69 | 1 |
| Niobrara | 925 | 947 | 22 |
| Permian | 493 | 508 | 15 |
| Utica | 345 | 356 | 11 |
| Rig-weighted average | 564 | 557 | (7) |

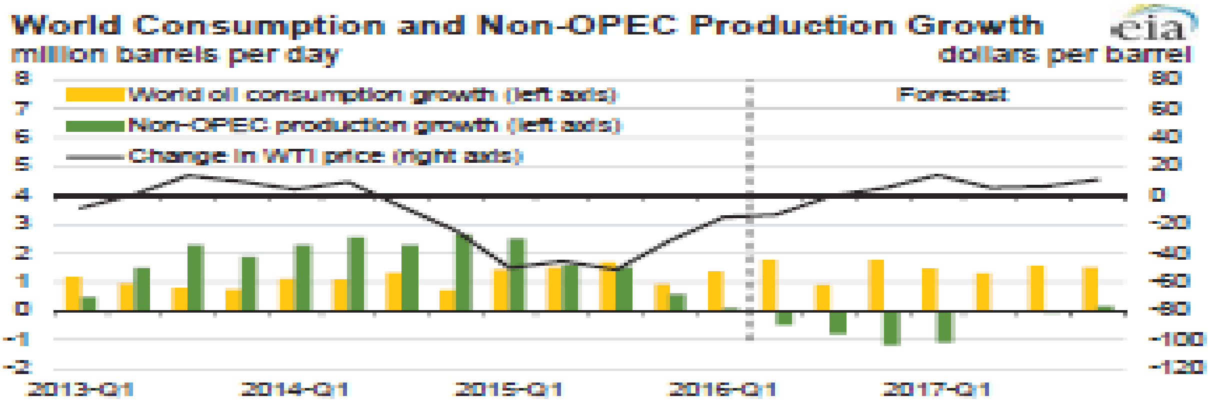
Source: EIA Drilling Productivity Report June 13, 2016

The most prolific basins in the US continue to see rising activity as crude prices have rebounded over the last few months. In July the EIA expects the Eagle Ford to see well productivity rise to a new high of 1,097 boe/d and for the very lucrative Permian to rise to 508 boe/d. Only the legacy conventional assets are seeing declines in productivity and lowering the rig-weighted average for the US in the July EIA forecast.

Overall OECD inventories area 300 Mb over the average from 2011 to 2015 and at some time need to start declining meaningfully for a sustained recovery in oil prices. We expect this to occur in 2H/17.




Source: OPEC Monthly Oil Market Report – June 13, 2016




Source: Short-Term Energy Outlook, June 2016.

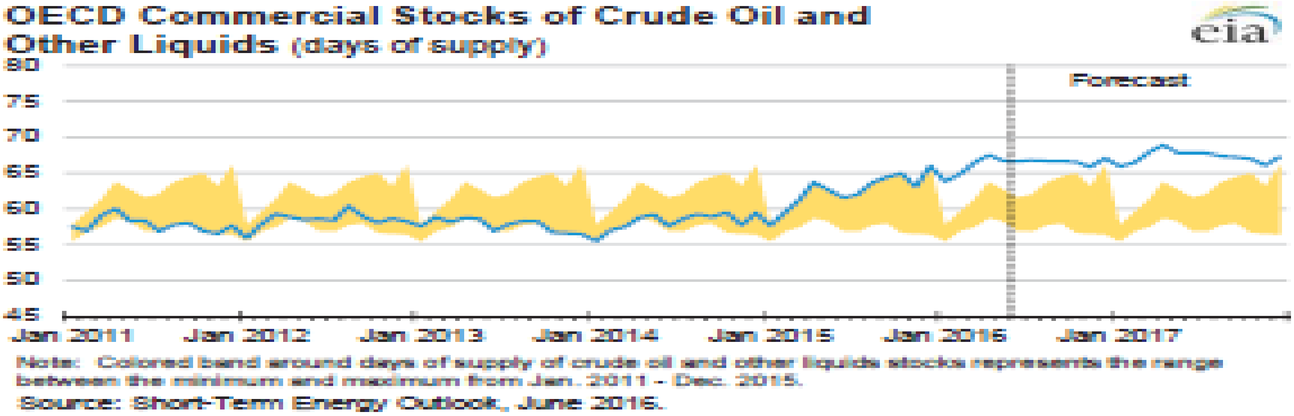
In the EIA forecast non-OPEC production declines should end in Q1/17 and only start a minor growth phase in Q4/17. The growth in 2017 of over 1.0 Mb/d (maybe as high as 1.3 Mb/d) to 95.5 Mb/d of consumption would give room for Iran and Iraq to grow production to their 2017 targets and as well provide room for Nigeria and Libya to bring back currently constrained volumes. This requires an assumption that the economic cycle continues unabated and that no “black swan” event occurs. We are not confident that this optimistic view will prevail. We suspect that demand will be lower in 2017 than forecast due to a banking and economic crisis and that demand for crude will wane as the pace of economic activity slows. Offsetting this and providing a more bullish outlook for crude in 2H/17 is that the economic difficulties we foresee increase the likelihood that more countries have production difficulties lowering OPEC capacity meaningfully. The most likely candidate to provide a significant decline in OPEC production in 2017 would be Venezuela which is currently having desperate financial pressure, runaway inflation and political chaos. If Venezuela were not able to buy diluent, nearly 2.2 Mb/d of OPEC capacity could be removed very quickly. Venezuela has been selling its gold reserves to buy diluent and in Q1/16, sold $1.7B of their $12B position. In 2016 they have US$6B of debt repayments so between paying for diluent, paying for food and medicine imports and repaying their debt, they may run out of gold and reserve funds some time later this year. The country could melt down and crude exports could end if they could not buy diluent to mix with their molasses type oil to transport and meet client specifications.

**Table 4.7: World oil demand in 2016, mb/d**

| | | | | | | | Change 2016/15 | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 | Growth | % |
| Americas | 24.37 | 24.39 | 24.44 | 25.09 | 24.64 | 24.64 | 0.26 | 1.09 |
| *of which US* | *19.71* | *19.82* | *19.81* | *20.29* | *19.91* | *19.96* | *0.25* | *1.25* |
| Europe | 13.71 | 13.50 | 13.58 | 14.14 | 13.67 | 13.72 | 0.01 | 0.08 |
| Asia Pacific | 8.09 | 8.64 | 7.62 | 7.54 | 8.20 | 8.00 | -0.09 | -1.16 |
| **Total OECD** | **46.18** | **46.52** | **45.64** | **46.77** | **46.51** | **46.36** | **0.18** | **0.39** |
| Other Asia | 12.01 | 12.22 | 12.43 | 12.40 | 12.68 | 12.43 | 0.43 | 3.56 |
| *of which India* | *4.05* | *4.41* | *4.15* | *4.11* | *4.44* | *4.28* | *0.23* | *5.67* |
| Latin America | 6.56 | 6.25 | 6.61 | 6.86 | 6.47 | 6.55 | -0.01 | -0.16 |
| Middle East | 8.11 | 8.07 | 8.14 | 8.72 | 8.13 | 8.26 | 0.15 | 1.85 |
| Africa | 3.99 | 4.12 | 4.09 | 4.03 | 4.17 | 4.10 | 0.11 | 2.78 |
| **Total DCs** | **30.67** | **30.67** | **31.27** | **32.01** | **31.44** | **31.35** | **0.68** | **2.21** |
| FSU | 4.62 | 4.49 | 4.37 | 4.73 | 5.04 | 4.66 | 0.04 | 0.81 |
| Other Europe | 0.67 | 0.68 | 0.64 | 0.68 | 0.77 | 0.70 | 0.02 | 3.57 |
| China | 10.83 | 10.71 | 11.33 | 10.97 | 11.41 | 11.11 | 0.28 | 2.54 |
| **Total "Other regions"** | **16.13** | **15.89** | **16.35** | **16.38** | **17.22** | **16.46** | **0.34** | **2.09** |
| **Total world** | **92.98** | **93.08** | **93.26** | **95.16** | **95.17** | **94.18** | **1.20** | **1.29** |
| Previous estimate | 92.98 | 93.08 | 93.26 | 95.16 | 95.17 | 94.18 | 1.20 | 1.29 |
| Revision | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

*Note: Totals may not add up due to independent rounding.*
*Source: OPEC Secretariat.*

Source: OPEC Monthly Oil Market Report – June 13, 2016




OECD commercial crude stocks have historically been between 55 and 65 days of demand and are currently at 67 days at a time of year when inventories should be shrinking because of strong summer demand. The EIA sees a rise in the days of inventory through the end of 1H/17 and only in the later half of 2017 that inventories could fall from 69 days to 66 days.

OPEC and the EIA are making the assumption that US production will fall in 2016 by 420 Kb/d (OPEC) to 830 Kb/d (EIA in their recent short term energy forecast dated June 7, 2016). We suspect that if prices hold up above US$45/b that these forecasts will be off the mark as the industry has lowered costs, has started to increase drilling activity and recent production data has shown an increase in the weekly productive capacity of 70,000 b/d. The next few weeks will be critical to see if US production continues its return to higher levels and if Canada gets its oil sands and thermal oil production back up to their peaks. If so, our expectation of a sharp decline in the price of crude over the next few months would prove correct. Energy Stock prices would of course follow to the downside which we see as over 30% risk in the price of crude and a similar or greater decline for the S&P/TSX Energy Index.

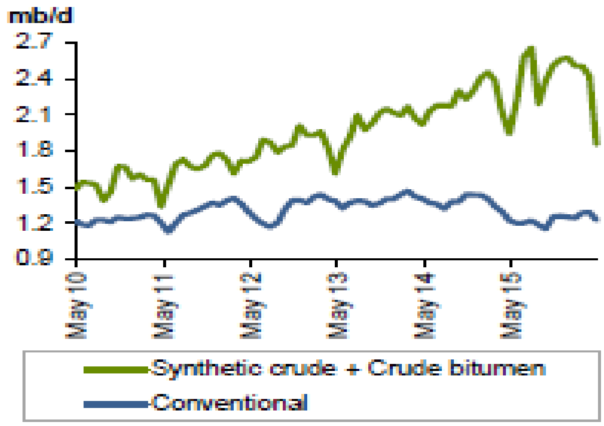
**Table 5.2: Non-OPEC oil supply in 2016, mb/d**

| | 2015 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 | Change 2016/15 Growth | % |
|---|---|---|---|---|---|---|---|---|
| Americas | 21.01 | 20.98 | 20.21 | 20.39 | 20.55 | 20.53 | -0.48 | -2.29 |
| *of which US* | *13.99* | *13.77* | *13.51* | *13.42* | *13.56* | *13.57* | *-0.42* | *-3.00* |
| Europe | 3.76 | 3.86 | 3.70 | 3.57 | 3.71 | 3.71 | -0.05 | -1.32 |
| Asia Pacific | 0.46 | 0.44 | 0.45 | 0.45 | 0.43 | 0.44 | -0.02 | -4.44 |
| **Total OECD** | **25.23** | **25.27** | **24.36** | **24.41** | **24.68** | **24.68** | **-0.55** | **-2.19** |
| Other Asia | 2.70 | 2.73 | 2.67 | 2.72 | 2.74 | 2.72 | 0.01 | 0.46 |
| Latin America | 5.18 | 4.97 | 5.04 | 5.18 | 5.38 | 5.15 | -0.04 | -0.75 |
| Middle East | 1.27 | 1.26 | 1.23 | 1.22 | 1.22 | 1.23 | -0.04 | -2.91 |
| Africa | 2.37 | 2.34 | 2.29 | 2.32 | 2.31 | 2.31 | -0.06 | -2.37 |
| **Total DCs** | **11.53** | **11.30** | **11.24** | **11.44** | **11.65** | **11.41** | **-0.12** | **-1.04** |
| FSU | 13.69 | 13.99 | 13.74 | 13.59 | 13.72 | 13.76 | 0.06 | 0.47 |
| *of which Russia* | *10.85* | *11.11* | *10.97* | *10.88* | *10.95* | *10.98* | *0.13* | *1.19* |
| Other Europe | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.00 | -1.11 |
| China | 4.37 | 4.23 | 4.17 | 4.23 | 4.28 | 4.23 | -0.14 | -3.23 |
| **Total "Other regions"** | **18.20** | **18.34** | **18.04** | **17.96** | **18.13** | **18.12** | **-0.08** | **-0.43** |
| **Total non-OPEC production** | **54.95** | **54.92** | **53.63** | **53.81** | **54.46** | **54.20** | **-0.75** | **-1.36** |
| Processing gains | 2.19 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 0.01 | 0.59 |
| **Total non-OPEC supply** | **57.14** | **57.12** | **55.83** | **56.01** | **56.66** | **56.40** | **-0.74** | **-1.29** |
| Previous estimate | 57.14 | 56.95 | 56.06 | 56.04 | 56.55 | 56.40 | -0.74 | -1.29 |
| Revision | 0.00 | 0.16 | -0.23 | -0.04 | 0.11 | 0.00 | 0.00 | 0.00 |

*Source: OPEC Secretariat.*

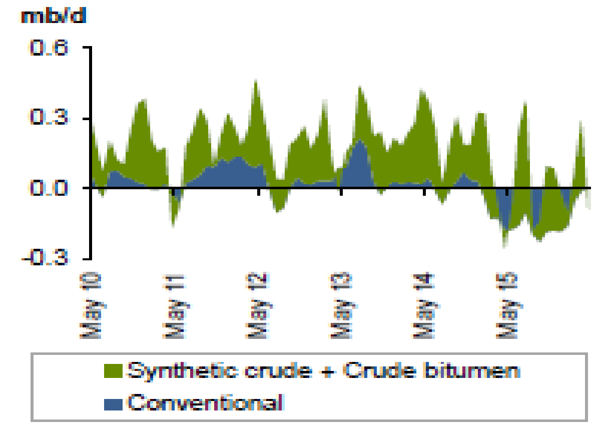
Source: OPEC Monthly Oil Market Report – June 13, 2016

**Graph 5.9: Canada production by crude type**




Source: OPEC Secretariat.

**Graph 5.10: Canada production by crude type, y-o-y change**



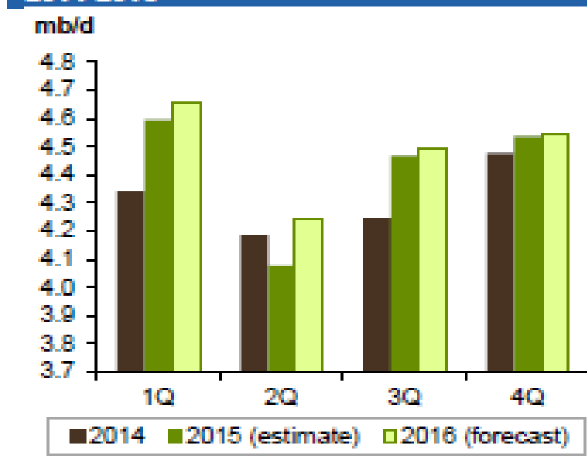

Source: OPEC Secretariat.

Source: OPEC Monthly Oil Market Report – June 13, 2016

OPEC like us is more optimistic that Canada's production will return to full levels by the end of 2016 and rise to new highs in 2017 as new projects by Husky, and Cenovus etc. come on stream. As reports of Canadian production recoveries are announced, we should start to see storage at Hardisty and Cushing begin to reach full levels again and the cost of storage rising, increasing the near term contango.

Below is the most optimistic piece on the demand side and that is India which has seen demand for crude and energy rise by 432 Kb/d or 10.2% (the best individual demand growth area). If world economic growth abates, then the pace of growth in India may not be sustained and if this ensues then a slowdown in demand from India would be one of the reasons used in the future to explain a decline in crude prices just like used in the past when China demand has waned.

**Graph 5.11: Canada quarterly oil supply, 2014-2016**




Source: OPEC Secretariat.

**Table 4.5: Indian oil demand by main products, tb/d**

| | Apr 16 | Apr 15 | Change | Change, % |
|---|---|---|---|---|
| LPG | 643 | 595 | 49 | 8.2 |
| Gasoline | 568 | 508 | 60 | 11.9 |
| Kerosene | 305 | 302 | 3 | 0.9 |
| Diesel oil | 1,687 | 1,614 | 73 | 4.5 |
| Fuel oil | 272 | 211 | 62 | 29.2 |
| Other products | 1,110 | 924 | 185 | 20.1 |
| **Total oil demand** | **4,586** | **4,154** | **432** | **10.4** |

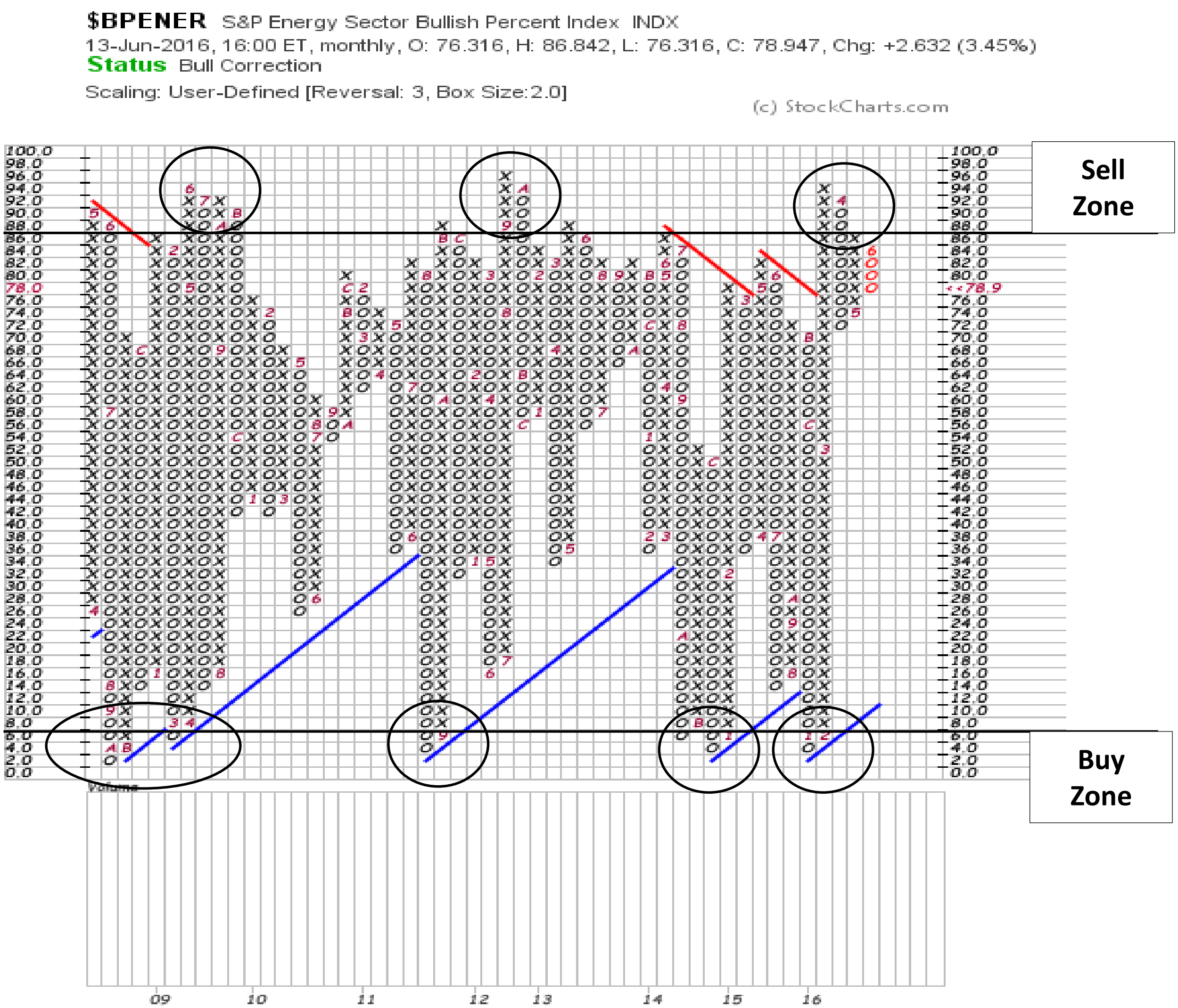
Sources: OPEC Secretariat and Petroleum Planning and Analysis Cell of India.

Source: OPEC Monthly Oil Market Report – June 13, 2016

## 5) Bullish Consensus Reached Excess Levels And Has Reversed:

The move to the top at 94% bullishness in the March to May window of 2016 confirmed another top of significance that has now reversed. Historically once it reached an apex at the top at > 85% or at the bottom at <8% bullishness, a contra major move has ensued. Last year when crude fell from a high of US$62.58/b to US$37.75/b as crude storage failed to decline and demand was weak, the Index fell to 4%. We are back in the same time window of late June when crude started its rapid decline. The most pain was felt in July through late August. Our view is that the election in the US and the faltering economies over the next few quarters could make this plunge in oil last somewhat longer. The political noise especially could lift the US dollar and if there is a banking crisis in Europe or Japan a flight to the US dollar would put further pressure on crude prices.

### S&P Energy Sector Bullish Index




Source: StockCharts.com , June 14, 2016

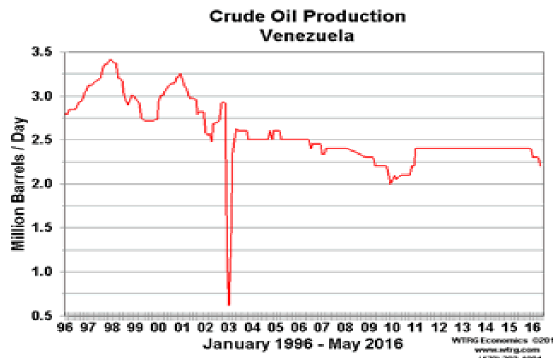
# 6) OPEC Production Has Not Fallen As Much As Originally Feared

**Table 5.5: OPEC crude oil production based on secondary sources, tb/d**

| | 2014 | 2015 | 3Q15 | 4Q15 | 1Q16 | Mar 16 | Apr 16 | May 16 | May/Apr |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 1,123 | 1,106 | 1,110 | 1,110 | 1,093 | 1,092 | 1,087 | 1,080 | -7.1 |
| Angola | 1,654 | 1,754 | 1,763 | 1,780 | 1,760 | 1,797 | 1,790 | 1,773 | -16.8 |
| Ecuador | 544 | 546 | 541 | 545 | 548 | 554 | 546 | 549 | 3.9 |
| Indonesia | 696 | 695 | 696 | 707 | 720 | 726 | 730 | 740 | 10.4 |
| Iran, I.R. | 2,778 | 2,840 | 2,861 | 2,874 | 3,093 | 3,236 | 3,473 | 3,562 | 89.2 |
| Iraq | 3,267 | 3,933 | 4,154 | 4,232 | 4,242 | 4,179 | 4,342 | 4,281 | -60.1 |
| Kuwait | 2,781 | 2,730 | 2,717 | 2,720 | 2,765 | 2,768 | 2,647 | 2,740 | 93.3 |
| Libya | 470 | 405 | 382 | 401 | 370 | 338 | 348 | 296 | -52.0 |
| Nigeria | 1,953 | 1,867 | 1,861 | 1,885 | 1,792 | 1,761 | 1,675 | 1,424 | -251.4 |
| Qatar | 714 | 667 | 655 | 669 | 667 | 672 | 658 | 659 | 1.9 |
| Saudi Arabia | 9,688 | 10,123 | 10,263 | 10,122 | 10,147 | 10,146 | 10,157 | 10,241 | 84.0 |
| UAE | 2,759 | 2,856 | 2,878 | 2,881 | 2,807 | 2,724 | 2,753 | 2,826 | 73.9 |
| Venezuela | 2,361 | 2,357 | 2,357 | 2,354 | 2,309 | 2,286 | 2,257 | 2,188 | -69.0 |
| **Total OPEC** | **30,788** | **31,879** | **32,238** | **32,280** | **32,314** | **32,275** | **32,461** | **32,361** | **-99.8** |

*Note: Totals may not add up due to independent rounding.*
*Source: OPEC Secretariat.*

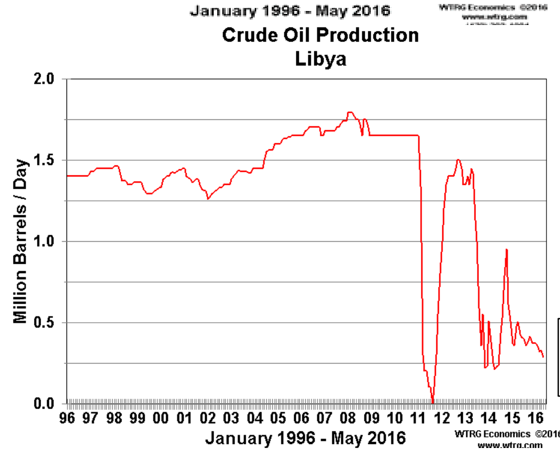
Source: OPEC Monthly Oil Market Report – June 13, 2016




2.19 Mb/d May/16

Overall OPEC production in May 2016 only fell by 99.8 Kb/d much less than the 300-500 Kb/d expected as reports of Nigeria losing 1.0 to 1.3 Mb/d of crude were reported. In fact, Nigeria only lost 251 Kb/d during the month.

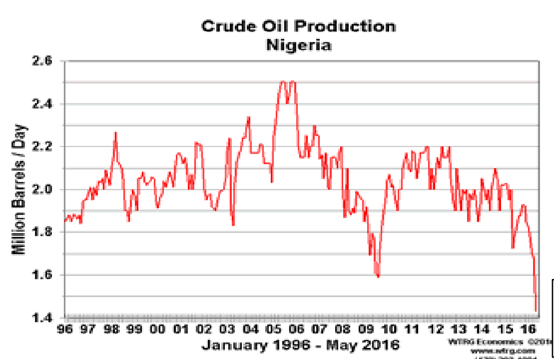
Other meaningful losses in the month were experienced by Iraq (down over 60 Kb/d), Libya (down 52 Kb/d), and Venezuela (down 69 Kb/d).




296 Kb/d May/16

Offsetting this were increases in production of >89 Kb/d from Iran, over 93 Kb/d from Kuwait 84 Kb/d from Saudi Arabia and nearly 74 Kb/d from UAE.

If Nigeria is able to resolve their differences with the indigenous people in the oil producing areas of the coast then a rapid increase in Nigerian production would be very negative for OPEC and crude prices. An increase to the 2.2 Mb/d seen over the last few decades would be painful for crude prices.




1.42 Mb/d May/16

Libya is not a problem for now as it is a failed state fighting a civil war and an additional one against IS. It may be many years before this is resolved, if ever (note the continued lack of stability in Somalia).

Source: WTRG Economics May, 2016

| Table 10.2: Summarized supply/demand balance for 2016, mb/d | 2015 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 |
|---|---|---|---|---|---|---|
| **(a) World oil demand** | 92.98 | 93.08 | 93.26 | 95.16 | 95.17 | 94.18 |
| Non-OPEC supply | 57.14 | 57.12 | 55.83 | 56.01 | 56.66 | 56.40 |
| OPEC NGLs and non-conventionals | 6.13 | 6.24 | 6.27 | 6.29 | 6.34 | 6.29 |
| **(b) Total non-OPEC supply and OPEC NGLs** | 63.27 | 63.36 | 62.10 | 62.30 | 63.00 | 62.69 |
| **Difference (a-b)** | 29.71 | 29.72 | 31.17 | 32.86 | 32.17 | 31.49 |
| OPEC crude oil production | 31.88 | 32.31 | | | | |
| Balance | 2.17 | 2.59 | | | | |

32.36 Mb/d in May 2016 : Excess 1.09 Mb/d

*Totals may not add up due to independent rounding.*
*Source: OPEC Secretariat.*

Source: OPEC Monthly Oil Market Report – June 13, 2016

The main part of our negative near term scenario for crude oil prices is the continued glut of oil by OPEC members as they are forced to raise sufficient funds to meet their government spending requirements and to cover debt payments and in the case of Iran and Iraq – pay for war spending.

For many OPEC countries this means having to sell much more oil given that many of the debt obligations were taken down when oil prices were over Brent US$100/b. China lent money to Angola, Venezuela, Nigeria and Iraq. To show the pain for these countries it is estimated that Venezuela, which must repay China $7B this year for diluent and government loans, in the past had to ship to China 230,000 b/d to meet their obligation. They are now required to ship 800,000 b/d to meet that commitment. Angola owes China US$25B has been forced to ship almost their entire oil output to meet their commitment according to Reuters. China now has a fleet of crude carriers sitting offshore waiting to unload and with a lack of storage, some ships have waited for more than a month to unload.

**Supply and demand** *mb/d*

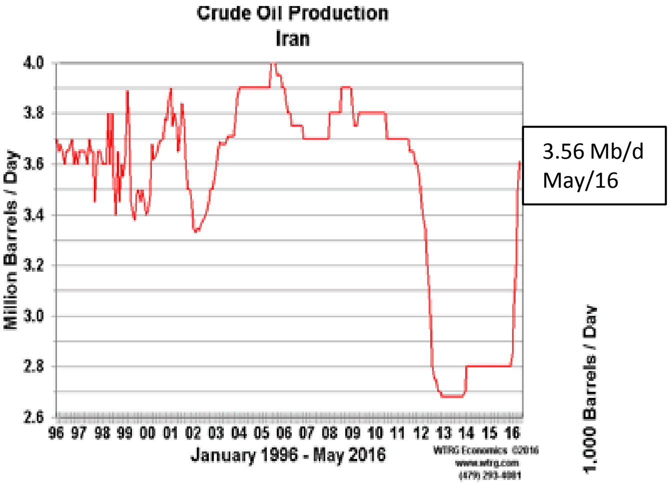
| 2015 | | 15/14 | 2016 | | 16/15 |
|---|---|---|---|---|---|
| World demand | 93.0 | 1.5 | World demand | 94.2 | 1.2 |
| Non-OPEC supply | 57.1 | 1.5 | Non-OPEC supply | 56.4 | –0.7 |
| OPEC NGLs | 6.1 | 0.1 | OPEC NGLs | 6.3 | 0.2 |
| **Difference** | **29.7** | **–0.1** | **Difference** | **31.5** | **1.8** |

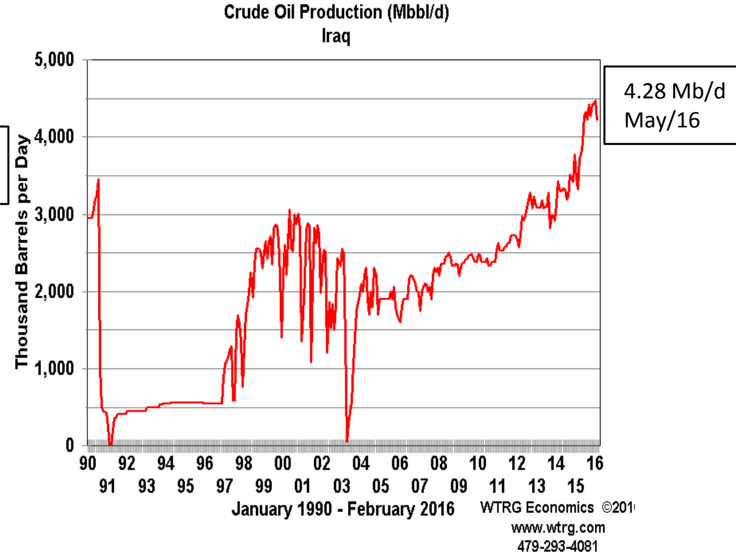
32.36 Mb/d in May 2016 : Excess 860 kb/d for the year

**OECD commercial stocks** *mb*

| | Feb 16 | Mar 16 | Apr 16 | Apr 16/Mar 16 | Apr 15 |
|---|---|---|---|---|---|
| Crude oil | 1,525 | 1,530 | 1,541 | 11.1 | 1,460 |
| Products | 1,520 | 1,514 | 1,505 | –9.8 | 1,382 |
| **Total** | **3,045** | **3,044** | **3,046** | **1.3** | **2,842** |
| Days of forward cover | 66.6 | 66.7 | 66.4 | –0.3 | 62.1 |

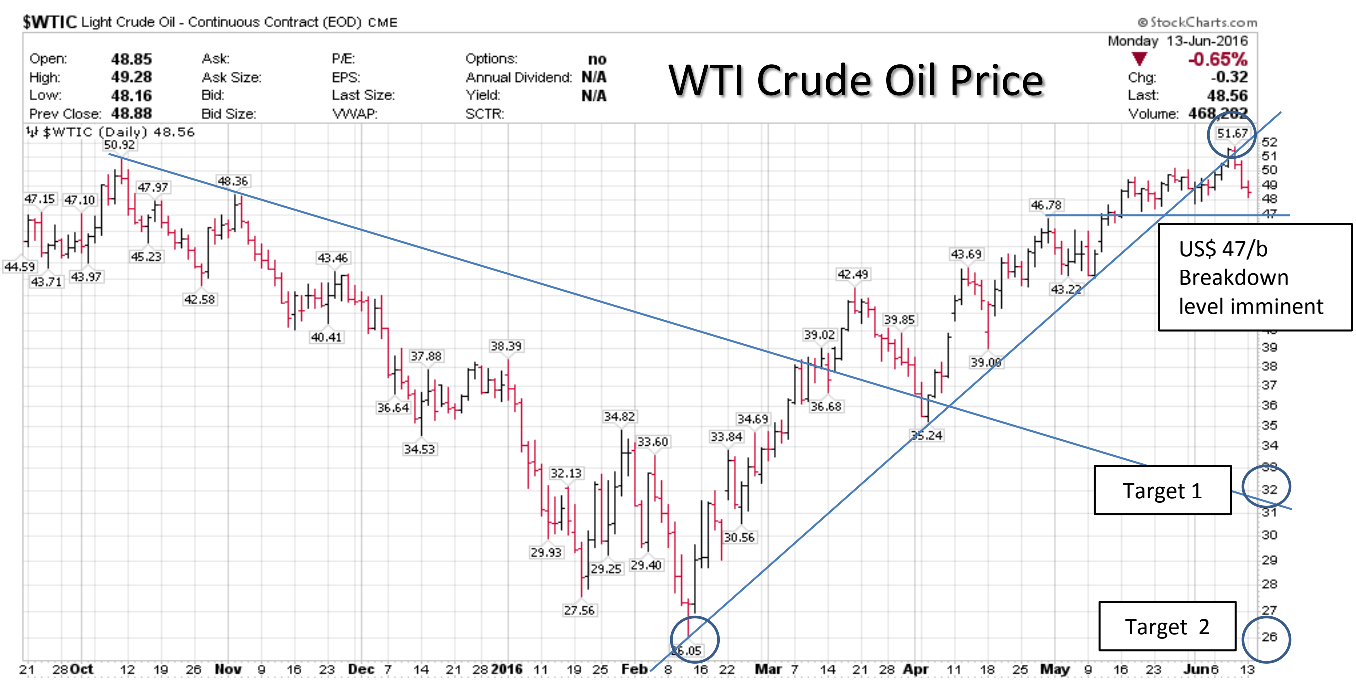
Source: OPEC Monthly Oil Market Report – June 13, 2016



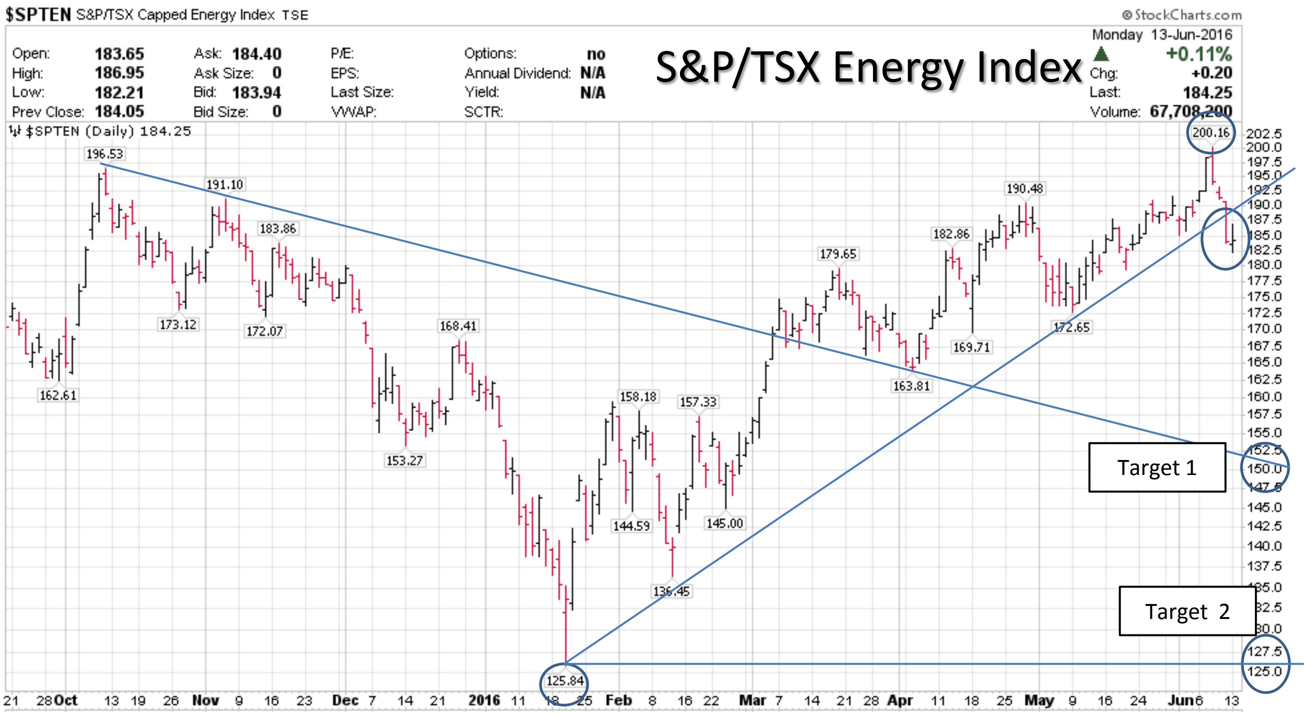




Source: WTRG Economics May, 2016

Crude oil prices have now peaked and the chart below shows the robust nature of the up-leg from mid-February 2016 at US$26.05/b to the peak last Wednesday at US$51.67/b. Our expected target to the downside is the US$31-34/b level based on our current forecast. If we see a meltdown in Europe or Japan as a banking failure epidemic occurs then economic activity world wide would stall as it did in 2008-2009 and our lower Target 2, testing the Feb/16 lows of the mid-US$20's is possible. This lower target will need to see the "Lehman" event or "Black Swan" event shock the world. This is a growing probability given the weak balance sheets and losses at the banks. Europe has chosen to put Band-Aids on versus solving the debt and debtor difficulties. It appears that financial stability has been chosen over the rule of law and common sense.

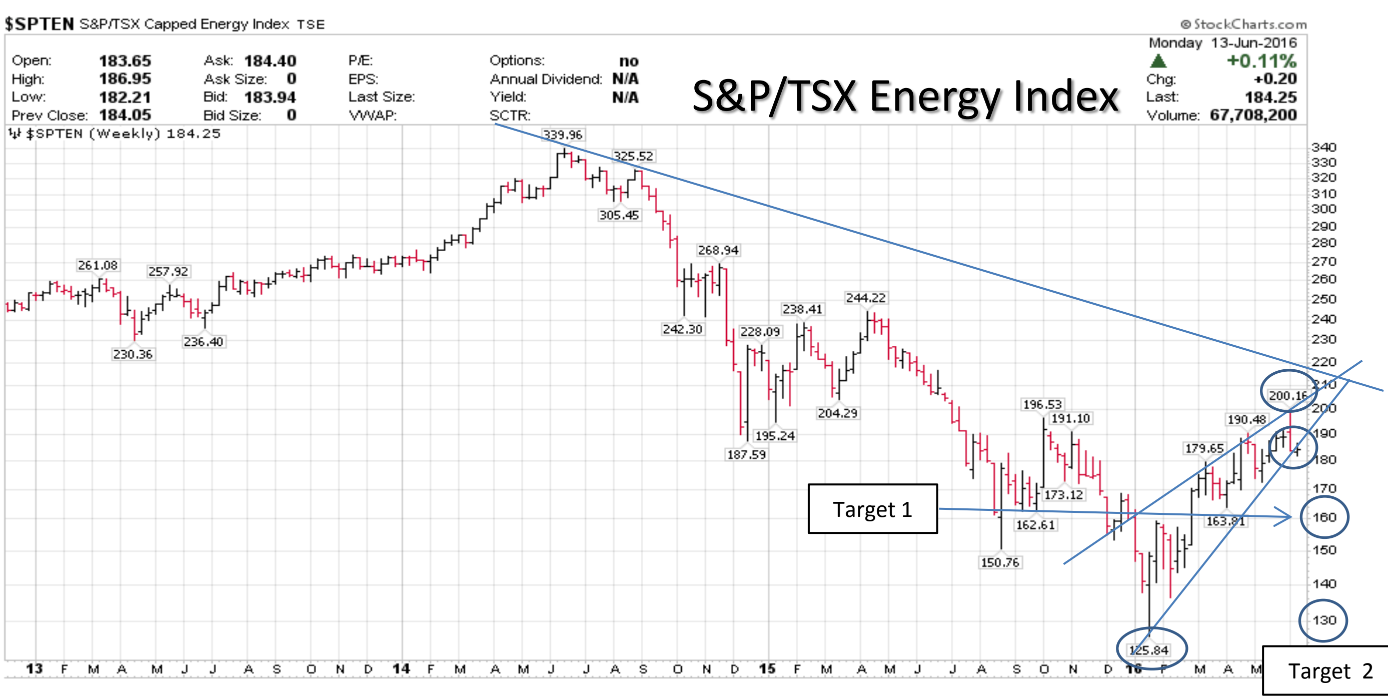



Source: StockCharts.com , June 14, 2016




Source: StockCharts.com, June 14, 2016

Our downside targets for the S&P/TSX Energy Index are to the 150 level in our expected case (down over 30% from the high at 200.16) and more than 37% if the secondary target at 120-130 is reached due to a rupture in the banking system in either Europe or Japan, which would rapidly spread across the world given the inter connectedness of interbank relationships.

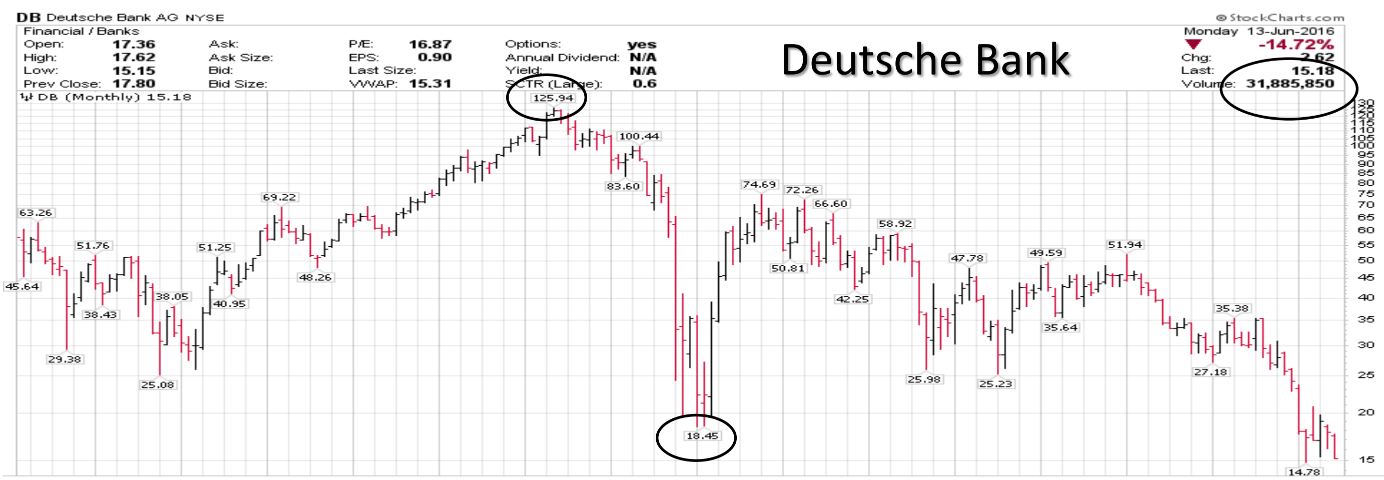


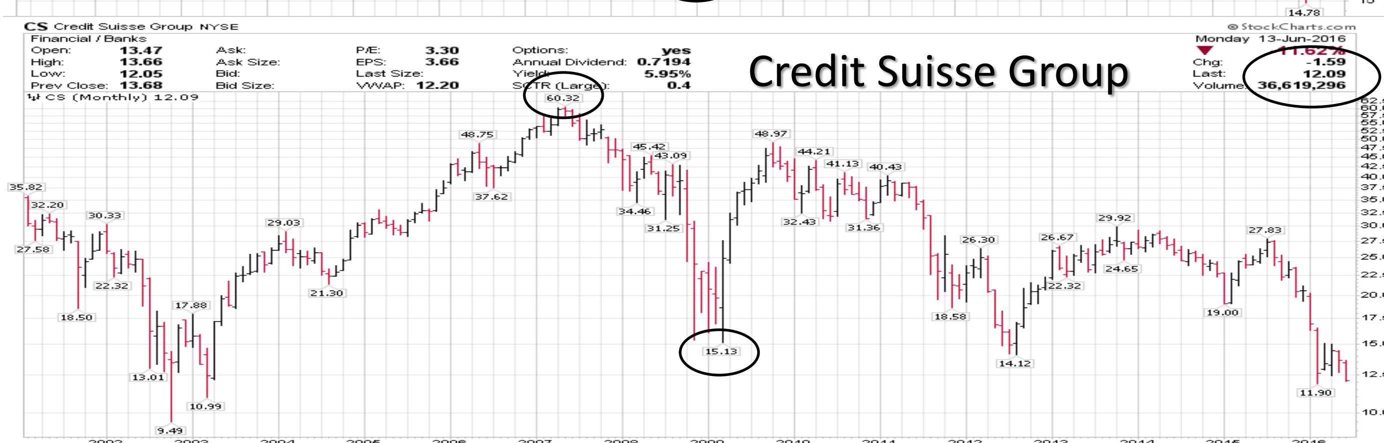

Source: StockCharts.com , June 14, 2016

# A Lehman Type Event Like 2008 Is Becoming More Likely This Year

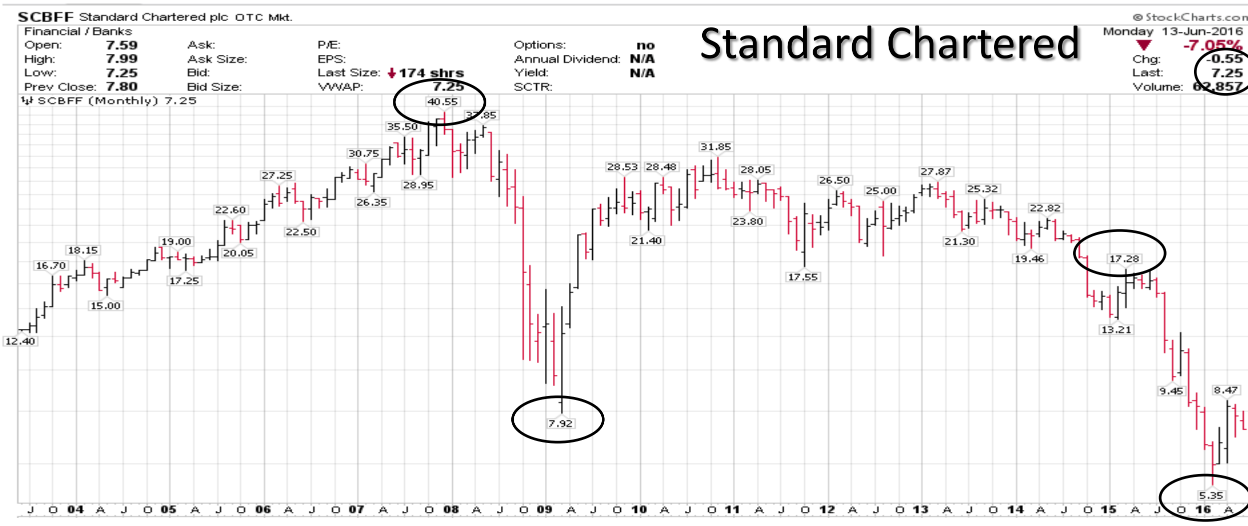
The ability to make adequate net interest margins in the banking sector in Europe and Japan has been destroyed by the QE measures of the central banks. Banks can't profitability lend to their clients as these clients can now sell bonds at interest rates of less than 1% for 10-year paper. The ECB is gobbling up all the paper already issued and is enticing borrowers with even lower rates hoping that the funds raised will be used to expand productive capacity and hire additional workers. Instead, those enticed to borrow are using the funds to pay for stock buybacks and to fund acquisitions. The ECB and Japanese central banks have doubled down on failed policies and added to the dislocations of the financial system. To keep this Ponzi scheme going the ECB is now prepared to allow effectively bankrupt Greek Banks to post collateral of Greek Government debt to gain access to the ECB window for currency. No one expects Greece to repay its debts but the ECB just add more failed policy to kick the can down the road and delay the write-down of the government debt that can never be repaid.

Banks in Europe continue to report losses (i.e. Credit Suisse of US$311M in Q1/16 their largest quarterly loss ever) and the stock has plunged over 50% over the last year. Deutsche Bank is desperate to raise additional capital to survive and is the most vulnerable to the derivative market, as they are the largest player worldwide. They have seen their stock fall nearly 60% over the last year. A Humpty Dumpty scenario is possible and would be catastrophic to the banking and corporate sectors causing a financial meltdown that would be more disastrous than 2008-2009. The saviours in that crisis, the central banks, are now the ones in trouble and the magnitude of the problem is much bigger since nothing was done to solve the problems during that financial plunge and the size of the objections are much larger.




Source: StockCharts.com , June 14, 2016




Source: StockCharts.com , June 14, 2016

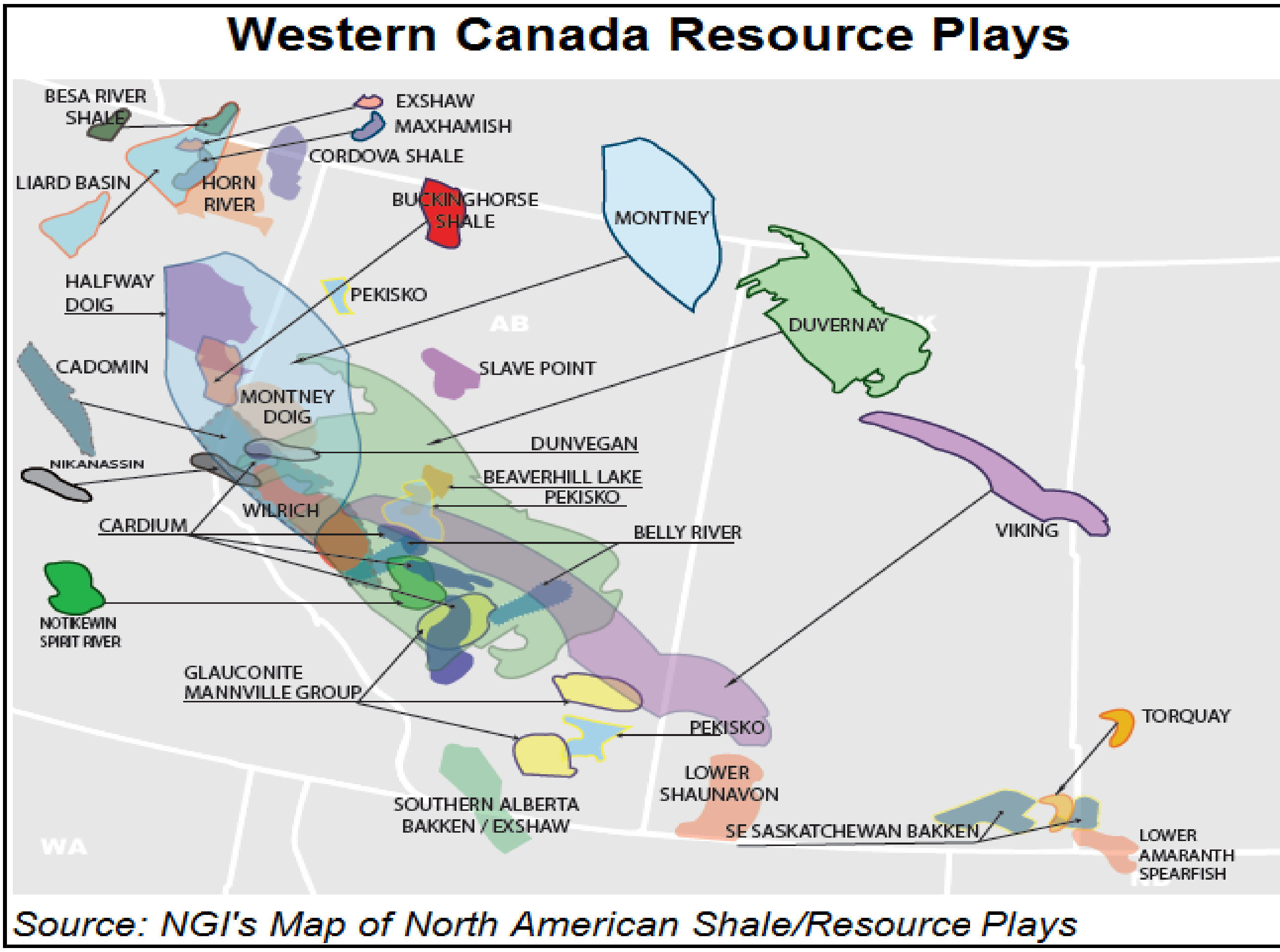
Standard Chartered, another of the large derivative banks, has also followed the implosion seen by the German banks. From its 2015 high of $17.28 (and 2007 high of $40.55) the shares have plunged to a recent price of US$7.25/share, having a catastrophic impact on its shareholders.

Commerzbank, one of the largest German banks is thinking of building bigger vaults so they can handle large amounts of currency. With yields now negative on sovereign bonds, holding cash that yields nothing but costs nothing appears to be an attractive alternative. The ECB has reacted to this view and has talked about ending the printing of the largest bills, the 500 Euro so that this becomes more difficult to do. The ECB stated that they would do this to stop drug dealers from using the larger bills and help in the war on drugs. What B.S.!

Spanish banks have also been under severe pressure. The Banco Popular Espanol SA, the fourth largest bank in Spain, with US$195B of assets has seen it stock plunge from 16 Euros in 2007 to 1.38 Euros recently.

Italian banks are also faltering due to a lack of funding to save failed banks. The bank rescue fund has assets of 4.25B Euros according to the Economist magazine and faces 360B of Euro gross non-performing loans.

# 2. Maison Universe High Impact Drilling Watch List

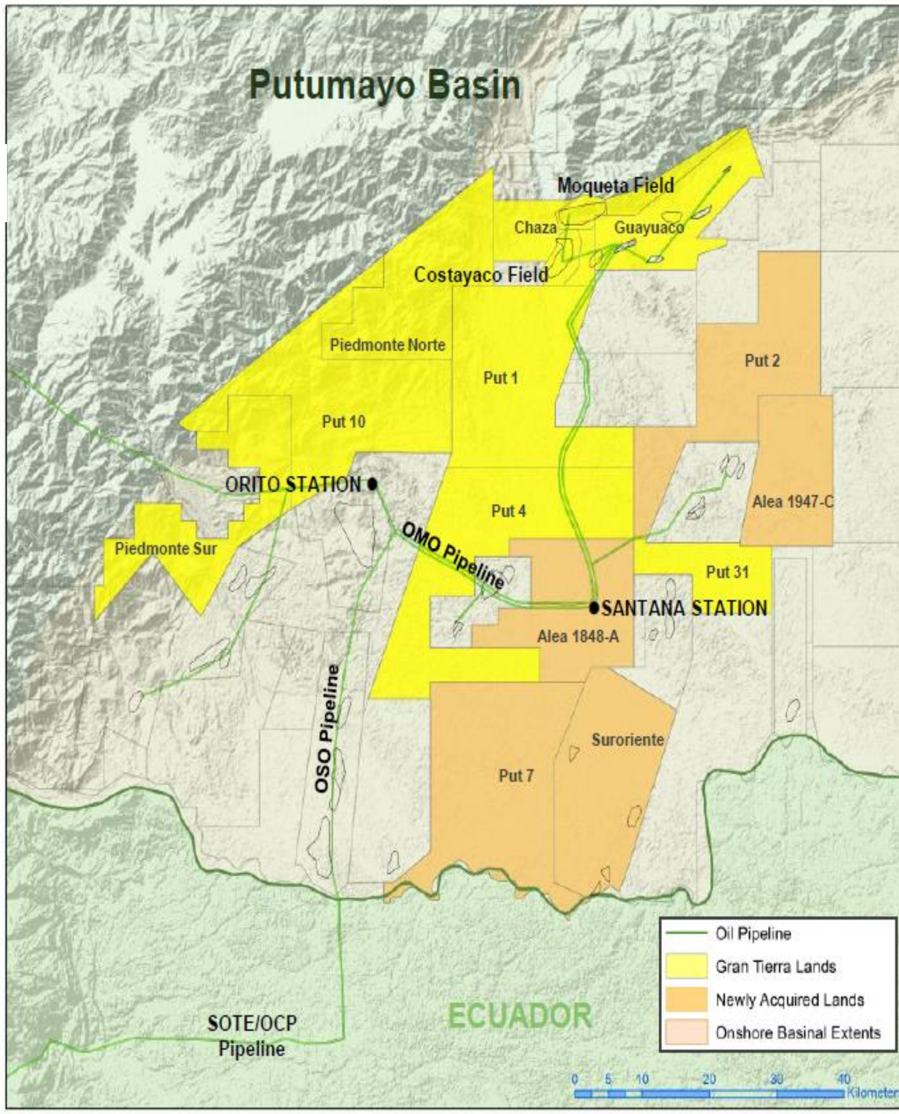



Source: NaturalGas Intel.com

## Canada:

| Play Area | SAMI Covered Companies | Target | Location | Ownership Working Interest | Leverage Potential to Upside Success | Est. Chance of Success | Timing |
|---|---|---|---|---|---|---|---|
| Pouce Coupe | Birchcliff Energy Ltd. (BIR) | Montney D1 and Basal Doig | Pouce Coupe NW AB – north of Grande Prairie | 100% | >$1.00 | 50% | 12 wells in 2016 |
| Montney Multi-Frac, Extended-reach Horizontal Program | Delphi Energy (DEE) | Montney /Liquids | Bigstone, AB | ~80% | >$0.20/share | 50% | 5 wells in 2016 and 5 in 2017 |
| Valhalla Doig | Surge Energy Inc. (SGY) | Doig light oil | Valhalla (NW AB) | 100% | $0.75/share | 50% | 4-6 Wells in 2016 |
| Cardium Oil | Tamarack Valley Energy (TVE) | Cardium | Wilson Creek (AB) | 80% or more | >$0.50/share | 50% | 8-10 wells in 2H/16 |

# South America



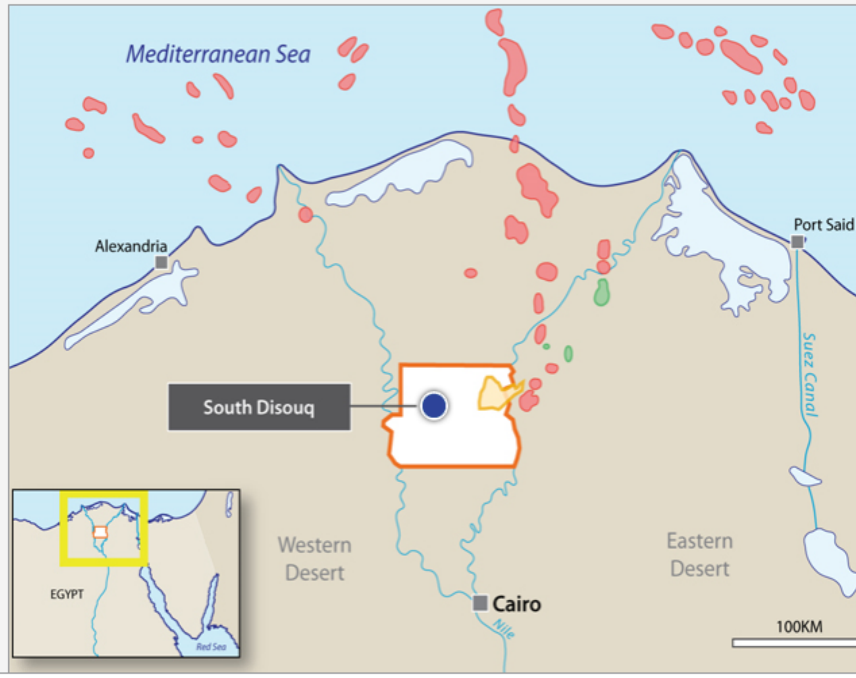

| Play Area | SAMI Covered Companies | Target | Location | Ownership Working Interest | Leverage Potential to Upside Success | Est. Chance of Success | Timing |
|---|---|---|---|---|---|---|---|
| Putumayo 7 Basin | Gran Tierra Energy (GTE) | 4 Exploration wells – 10Mb gross: Cumplidor-1, Alpha-1, Siriri-1 and Crypto-1 | Colombia | 100% | \$0.30+<br><br>>20Mb | 25% | Drill Q3-Q4/16 |

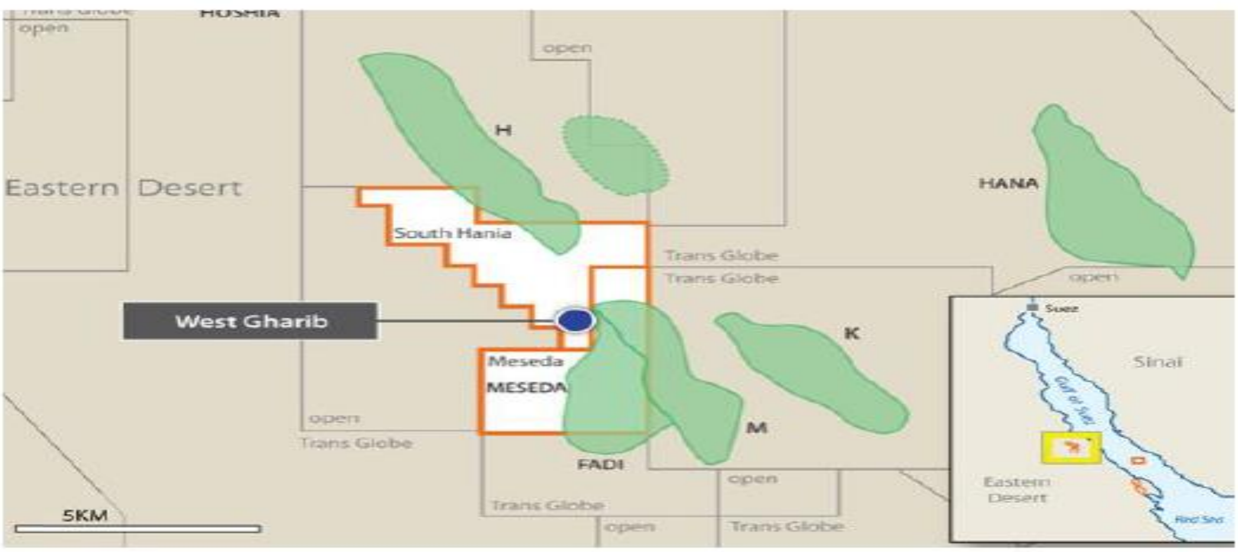
## South Disouq

The South Disouq concession consists of a 1275 km² acreage position in the Nile Delta. Estimated to contain 1.2 TCF of resource potential (P10), the concession is located within the prolific Abu Madi – Baltim trend which contains 10 discoveries containing 6.3 TCF of gas and 100 MMBO of liquids.

The company completed a farm-out of the acreage to IPR in February of 2015 and now retain a 55% operated equity position.

Work plans for 2015/16 include the acquisition of 300 km² of 3D seismic and the drilling of an exploration well.




# Europe and Africa:

| Play Area | SAMI Covered Companies | Target | Location | Ownership Working Interest | Leverage Potential to Upside Success | Est. Chance of Success | Timing |
|---|---|---|---|---|---|---|---|
| South Disouq | SDX Energy Inc. (SDX) | >270 Bcf | Nile Delta | 55% | >$0.50/share | 50% | Spud Dec/16 |
| Meseda | SDX Energy Inc. (SDX) | 2.5 Mb Yusr-1<br>60 Mb - Nubia | West Gharib | 19 – 19.25% entitlement interest | >$0.30/share<br>> $1.00/share | 33% | Activity Q1/17 ongoing |

# 3. Research Updates

**Maison Placements Canada**

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**Josef I. Schachter, CFA**
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**June 2, 2016**

SCHACHTER ASSET MANAGEMENT INC.

## Birchcliff Energy Ltd. BIR $5.66

**Potential Upside 59%** **Target Price $9.00 ↑ $7.80**

***RATING: 5**

| | 2015 Actual | 2016 Forecast | 2017 Forecast |
|---|---|---|---|
| Production | | | |
| Oil & Liquids b/d | 5,380 | 4,800 | 5,400 |
| Natural Gas Mmcf/d | 201.4 | 226.3 | 244.4 |
| Total 6:1 | 38,950 | 41,000 | 44,500 |
| Volume Growth | 15% | 5% | 9% |
| Per million shares | 255.7 | 269.2 | 292.2 |
| Gross Wells Drilled | 32 | 13 | 20 |
| Volumes Mix % | | | |
| Oil & Liquids | 14% | 12% | 12% |
| Natural Gas | 86% | 88% | 88% |
| Financials | | | |
| Cash Flow/Share | $1.06 | $0.83 | $1.62 |
| Price/Cash Flow | 5.3 | 6.8 | 3.5 |
| Net Capital Exp $M | $247.2 | $105 | $200 |
| Cash Flow $M | $160.8 | $126 | $246 |
| CapEx/Cash Flow | 1.5x | 0.8x | 0.8x |
| Commodity Prices (SAMI forecasts) | Actual | SAMI Est. | SAMI Est. |
| US$ WTI | $48.80 | $48.50 | $55.00 |
| C$ AECO | $2.70 | $2.45 | $3.40 |

**Quarterly Results**

| | Production (b/d) | | | Cash Flow per Share | | |
|---|---|---|---|---|---|---|
| | 2015A | 2016F | 2017F | 2015A | 2016F | 2017F |
| Q1 | 38,416 | 41,958a | 44,000 | 0.24 | 0.14a | 0.36 |
| Q2 | 38,489 | 42,000 | 43,000 | 0.30 | 0.15 | 0.30 |
| Q3 | 38,433 | 38,000 | 43,000 | 0.29 | 0.18 | 0.36 |
| Q4 | 40,445 | 44,000 | 48,000 | 0.22 | 0.36 | 0.60 |

***RATINGS:** **5** -STRONG BUY **4** - BUY **3** - HOLD **2** - SELL **1** - STRONG SELL

| | | |
|---|---|---|
| **Reporting Periods** | | |
| Year-end: | | Dec-31 |
| Next report: | Q2 | Aug/10/16 |
| **Shares O/S** | | |
| Basic M: | | 152.3 |
| Fully diluted M: | | 169.2 |
| **Financial Data** | | |
| Market Cap $M: | | 862.0 |
| Enterprise Value $M: | | 1,509.4 |
| Enterprise Value per 2017 annual production $: | | 33,920 |
| **Reserve Life Index** (years) | | 2015 |
| Proven: | | 23.7 |
| P+P: | | 38.7 |
| **NAV** | $7.08 | SAMI est. |
| *Book Value* | $7.13 | Q1/16 |
| **Debt** | | Q1/16 |
| Bank Debt Line $M: | | 750.0 |
| Bank Debt Utilized $M: | | 647.4 |
| **Insider Ownership** | | 2% |
| Pres & CEO | Jeff Tonken | 1.26M |
| COO/VP EXP | Myles Bosman | 44K |
| CFO | Bruno Geremia | 205K |
| VP Corp D | James Surbey | 562K |
| Major Shareholder - Seymour Shulich 42M | | |
| **Service Providers** | | |
| Bankers: | BNS/HSBC/UB/ATB/NA/TD/CM/BDB/U | |
| Auditors: | KPMG LLP | |
| Engineers: | Deloitte LLP | |

# Birchcliff Energy Ltd.

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Phone 403 261-6401 Fax 403 261-6424 Website: www.birchcliffenergy.com

## Company History & Management Info:

The company was incorporated as an ABCA in July/04 and changed its name to Birchcliff Energy Ltd. in Jan/05. BIR had 122 full time employees at head office and 40 in the field at year end 2015.

Management: President and CEO – Jeff Tonken COO/VP Exploration – Myles Bosman CFO/VP – Bruno Geremia VP Engineering – Chris Carlsen VP Operations – David Humphreys VP Corp. Dev. – James Surbey

## Core Areas:

Birchcliff is an intermediate Canadian oil and gas producer that explores for, develops and produces natural gas, light oil and natural gas liquids from a concentrated core area in the Peace River Arch area in Alberta. They are a very low cost operator and hold the sixth largest Montney land position. Firm transportation covers their growing production profile. BIR operates with 3 teams: The West team covers their core Pouce Coupe Montney natural gas production, their North team operates their Worsley Charlie Lake light oil production and the East team operates their exploration portfolio. Total net undeveloped acres for the 5 play areas (Montney, Charlie Lake, Duverney, Nordegg and Banff/Exshaw resource plays is 429K net acres at the end of Q1/16.

## Key Impact Plays / Black Gold Wealth Creation:

**Montney:** BIR operates the Pouce Coupe South Gas Plant (PCS gas plant) to process >80% of its natural gas production or 180Mmcf/d. BIR has firm take away capacity for these volumes but has been impacted (loss of 2K boe/d in 2015) by downtime due to difficulties with the Nova system of TCPL. To date, 198 Montney/Doig wells have been drilled of which 10 have been drilled so far in 2016. They have a lot of leg room to grow volumes which could reach 100K boe/d by the end of this decade if takeaway issues such as LNG are resolved. They have over 3,600 drilling locations in inventory and BIR has drilled up to 6 wells per pad. With 6 productive zones, they could put 4 wells per section per zone and have 24 wells per section when fully developed. So far they have focused on the Montney D1 (114 wells so far) and the Basal Doig (63 wells to date), Upper Montney intervals. The next phase of plant expansion will occur this year with the startup of Phase V adding 80 Mmcf/d and lifting capacity to 260Mmcf/d commencing in Q2/17. They have firm transportation capacity for this expansion. The Phase VI expansion adding another 80Mmcf/d taking capacity to 340 Mmcf/d has not yet received sanction. They will need to negotiate firm transportation for this expansion by 2018 if they are to sanction this phase. This July they will undergo a 10 day to 2 week turnaround at the plant which will impact Q3/16 volumes. This plant provides BIR with a very low cost structure. Its plant, operating costs and transportation were $0.58/mcf or $3.46/boe in Q1/16. Production in Q1/16 was 36,506 boe/d up 14% from the prior year.

**Charlie Lake Oil:** BIR has over 200 locations in inventory and holds over 190 net sections with 2P reserves of 41Mb and produced 3,819 boe/d in Q1/16 (down 18% from the prior year) due to only planning to drill 1 well in 2016. Upside could come from increasing the recovery factor through water floods, infill drilling and expanding the pool boundaries. BIR has been active in land acquisition due to bargain land prices. For BIR to accelerate their oil drilling activity will require oil prices to lift to US$50 WTI. Wells IP30 at up to 600 boe/d producing 50% oil. As at the end of Q1/16, 60 wells have been completed in this area.

## Recent Operational & Financial Results:

- BIR in Q1/16 produced 41,958 boe/d, above our forecast of 41,000 boe/d. CFPS came in as expected at $0.14/share. Operating costs in 2015 fell to a new low of $4.54/boe down from $5.22/boe in 2014.The company has reduced its planned spending to $104M from its prior $128M budget for 2016 and plans on drilling only 13 wells using 2 rigs (2 Montney wells less than the original plan). They still expect to average 40-41K boe/d in 2016. BIR is very leveraged to rising gas prices with a $1/mcf price change adding $100M to cash flow. We expect AECO prices to exceed $3/mcf in 2017 with prices in winter 2017-2018 exceeding $4/mcf. BIR continues to make progress in lowering its cost structure. Op costs in Q1/16 were $3.71/boe down from $5.11/boe in the prior year. Capex in Q1/16 was $64M and 9 wells were drilled.
- In Q2/16, BIR sold a non-core property producing 600 boe/d for $19M and used the proceeds to pay down debt.
- ***Our revised 12-month target of $9.00 is based upon 5.5x times (way below the proven RLI of 23.7) our 2017 CFPS estimate of $1.62/share. The stock would be a tremendous table pounding purchase <$4.90/share if the expected near term commodity and stock market correction develops.***

## Balance of Evidence

| Growth Drivers | Limits to Growth |
|---|---|
| • BIR has one of the longest RLI's in the business and can grow into the next decade in stair case fashion as they add additional phases to the Pouce Coupe plant. BIR sees Contingent Resources at 9.5Tcf and 2P reserves at year end 2015 at 523.4M boe.<br>• To keep production flat BIR only needs to spend $90M annually. They have a low corporate decline rate at 20% annually.<br>• If LNG exports do not go through then BIR will generate significant cash flow in upcoming years when natural gas prices exceed $3/mcf, and could start to pay a dividend. | • The new royalty regime and GHG's have not been detailed yet and this needs clarification. BIR wants to know what the curve will look like and what costs will be included in the calculations.<br>• Downtime from the Nova system of TCPL continues to impact full production potential. The Nova lines are almost 40 years old and need upgrades.<br>• Approval of LNG on the west coast will be needed if BIR is to achieve its goal of 100,000 boe/d by the end of this decade. |

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**June 9, 2016**

SCHACHTER ASSET MANAGEMENT INC.

# Delphi Energy Corp. DEE $1.02

**Potential Upside 76%** **Target Price: $1.80**

***RATING: 4**

***RATINGS:** 5 - STRONG BUY 4 - BUY, 3 - HOLD 2 - SELL 1 - STRONG SELL

| | 2015 Actual | 2016 Forecast | 2017 Forecast |
|---|---|---|---|
| Production | | | |
| Oil & Liquids b/d | 2,900 | 3,000 | 3,420 |
| Natural Gas mmcf/d | 39.4 | 35.0 | 38.0 |
| Total 6:1 | 9,469 | 8,600 | 9,500 |
| Volume Growth | -10% | -9% | 16% |
| Per million shares | 60.8 | 55.3 | 64.3 |
| Gross Wells Drilled | 6 | 5 | 5 |
| Volumes Mix % | | | |
| Oil & Liquids | 31% | 36% | 36% |
| Natural Gas | 69% | 64% | 64% |
| Financials | | | |
| Cash Flow/Share | $0.28 | $0.22 | $0.29 |
| Price/Cash Flow | 3.6 | 4.6 | 3.5 |
| Net Capital Exp $M | -$10.1 | $32.0 | $40.0 |
| Cash Flow $M | $42.9 | $34.0 | $45.0 |
| CapEx/Cash Flow | n/a | 0.9x | 0.9x |
| Commodity Prices | Actual | SAMI Est. | SAMI Est. |
| US$ WTI | $48.80 | $48.50 | $55.00 |
| C$ AECO | $2.70 | $2.45 | $3.40 |

| | | |
|---|---|---|
| **Reporting Periods** | | |
| Year-end: | | Dec-31 |
| Next report: | Q2 | Aug/10/16 |
| **Shares O/S** | | |
| Basic M: | | 155.5 |
| Fully diluted M: | | 184.6 |
| **Financial Data** | | |
| Market Cap $M: | | 159 |
| Enterprise Value $M: | | 271 |
| Enterprise Value per 2017 production $: | | 28,485 |
| **Reserve Life Index** (years) | | Dec-15 |
| Proven: | | 6.1 |
| P+P: | | 11.7 |
| NAV/SAMI | $0.77 | Q1/16 |
| BV | $1.25 | |
| **Debt** | **Bank Proforma** | Q2/16 |
| Bank Debt Line $M: | | 85.0 |
| Bank Debt Utilized $M: | | 52.0 |
| **Insider Ownership** | | 6% |
| CEO: | David Reid | 1.38M |
| CFO: | Brian Kohlhammer | 416K |
| VP Ops: | Hugo Batteke | 342K |
| Mawer <10%, Bissett >10% | | |
| Inst. Ownership: | | 40% |
| **Service Providers** | | |
| Bankers: | NatBank,ScotiaBank, ATB | |
| Auditors: | KPMG LLP | |
| Engineers: | GLJ Associates | |

**Quarterly Results**

| | Production (b/d) | | | Cash Flow per Share | | |
|---|---|---|---|---|---|---|
| | 2015A | 2016F | 2017F | 2015A | 2016F | 2017F |
| Q1 | 11,002 | 8,395a | 9,300 | 0.07 | 0.05a | 0.07 |
| Q2 | 10,210 | 8,200 | 9,100 | 0.06 | 0.05 | 0.06 |
| Q3 | 7,888 | 8,500 | 9,500 | 0.06 | 0.05 | 0.07 |
| Q4 | 8,814 | 9,300 | 10,100 | 0.09 | 0.07 | 0.09 |

# Delphi Energy Corp.

Suite 300, 500-4th Ave, SW Calgary, AB T2P 2V6
Phone: 403 265-6171 Fax: 403 265-6207 Website: www.delphienergy.ca

## Company History & Management Info:

- Delphi Energy was created in June 2003 following the merger of DT Energy and Rise Energy. Delphi currently has 24 full-time employees after selling off their Hythe and Wapiti assets and having reduced staff utilized in managing the sold assets. Management has built and successfully sold previous entities.
  Management: Pres & CEO – David Reid Sr VP Finance & CFO – Brian Kohlhammer
  Sr VP Engineering - Rod Hume VP Operations - Hugo Batteke VP Land – Michael Galvin

## Core Areas:

- The company has one large dominant core area in the Deep Basin of the Peace River Arch in NW Alberta. The current focus is at Bigstone West where DEE has its highest total return from a liquids rich Montney play. DEE is utilizing "slick water fracs" which increase liquids production and produce a better production decline curve versus previous "oil based fracs" used in the first 3 wells. They have other minor operations with the largest at Tower Creek (sour gas).

## Key Impact Plays / Black Gold Wealth Creation:

- At **Bigstone**, in NW Alberta, they have a Montney core area that has 139 gross sections East Bigstone (100+ 2-mile HZ wells in inventory), West Bigstone (100 locations) and South Bigstone 33 sections. The company believes they have a 10 year drilling inventory ahead of them with potential to raise production to 20,000 boe/d in a more normal commodity price environment with current infrastructure. So far DEE has drilled 26 wells at Bigstone, has moved from 20 stage fracs to 30 stage fracs and has completed 2 wells with a 40 stage frac. The four most recent wells utilize 37 stage fracs. Costs have come down sharply and new wells are being drilled and completed for $7.0M versus $10.2M each in 2014. They have a new target of $6.5M per well in 2017. DEE is experimenting with tighter frac spacing, changing ball sizes for the fracs, changing the sand concentration and using different fluids and gels for faster clean-up of the wells. A 100% owned water disposal facility installed in 2015 for $3M has lowered costs by over $2M per year. The focus for the rest of 2016 and going forward, during this period of weak energy prices, is on West Bigstone. DEE is now one of the largest land holders in the area with majors such as EnCana, Exxon and Chevron as the other large land holders and operators. Their most recent well is the 13-21. Production over the first 30 days was 1,204 boe/d with 252 b/mcf of field condensate. It appears that the area to the north and northwest has better liquids contribution. Because of sloppy commodity prices, DEE will only drill 5 wells in 2016. We expect that they will complete the fifth well in Q1/17. In future years they will need to work with a mid-stream operator to add a sweetening plant on their western assets in the area at a cost of $100M to meet their end of decade volume objectives. The move to the Alliance system is now aiding netbacks even though transportation costs are higher. DEE was able in 2015 to add wonderfully attractive NYMEX hedges to support this move for 2016 production. Hedges on 75% of natural gas production are hedged at US$3.50/mcf versus the current NYMEX price of US$2.44/mcf. Operating costs continue to decline ($6.74/boe in Q1/16 versus $8.31 in the prior year) as high cost assets were sold. Their goal is to lower operating costs to $5.75/boe and to lower transportation costs in 2017 for the liquids by half to $3/b with a deal with Pembina which will add a 4 KM line and end the higher trucking costs.

## Recent Operational & Financial Results:

- To improve their balance sheet, remove abandonment liabilities and lower operating and administrative costs, DEE sold their Wapiti/Hythe assets for gross proceeds of $62M in 2H/15. Funds were used to pay down debt and give the company a stronger balance sheet. This was not enough for their queasy bank lenders who cut back their line of credit severely and forced DEE to raise additional funds via unrated debentures sold to retail investors. The deal was for $60M and had 245 attached warrants exercisable at $1.40/share per $1,000 through July 15, 2021. Interest costs will rise by $750K per quarter over the Q1/16 interest expense due to the new debt. We see this as very manageable.
- In Q1/16, DEE reported production of 8,395 boe/d, below our forecast of 8,800 boe/d due to the asset sales and the slow pace of activity. Cash flow per share came in at 5 cents per share (our forecast) as they monetized $6.0M (3.8 cents) of their hedge book in the quarter. Production will decline in Q2/16 and then rebound in Q3/16.
- **Our 12-month target of $1.80 reflects a 5.0x our estimated Q4/17 annualized CFPS of $0.36 *DEE would be a very compelling purchase >$0.80/share if the expected correction develops this summer. We have modeled in a slower pace of activity in 2016 and 2017 than is possible. We see DEE as gun shy near term.***

## Balance of Evidence

| Growth Drivers | Limits to Growth |
|---|---|
| ▪ DEE has a concentrated land base with facilities in one of the most attractive basins in Alberta (Montney land holdings). Over time, this may make DEE an attractive takeover candidate. With majors in the area and lots of growth ahead, it would not surprise us if ECA, XOM, or Repsol who operate in the area, make an overture in the next up-cycle.<br>▪ DEE owns the Cretaceous rights to 87.5 gross sections in the Bigstone area. This dry gas play is being targeted to the Wilrich zone by competitors. DEE is focused on its higher return Montney play and may look to JV this zone/play. | ▪ DEE was given a nasty wake-up when its energy shy lenders (many companies have experienced this reticence) cut back their credit line from $132.5M in stages to $85M, forcing DEE to add high yield notes sold to retail adding $60M. The proceeds will pay down the banks and its third party credit facility.<br>▪ Delphi needs to add takeaway capacity for 100 Mmcf/d of natural gas in coming years if they are to reach their growth objectives. A deal with a mid-stream operator would make an attractive solution.<br>▪ The new royalty regime and government approval delays have impacted growth timelines. |

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**May 27, 2016**

SCHACHTER ASSET MANAGEMENT INC.

# Surge Energy Inc. SGY $2.42

**Potential Upside 53%** **Target Price $3.70 ↑ $3.20**

## *RATING: 5

| | 2015 Actual | 2016 Forecast | 2017 Forecast |
|---|---|---|---|
| Production | | | |
| Oil & Liquids b/d | 13,568 | 10,440 | 10,640 |
| Natural Gas Mmcf/d | 17.4 | 18.4 | 21.0 |
| Total 6:1 | 16,462 | 13,380 | 15,000 |
| Volume Growth | -9% | -18% | 12% |
| Per million shares | 74.4 | 60.5 | 67.9 |
| Gross Wells Drilled | 18 | 32 | 50 |
| Volumes Mix % | | | |
| Oil & Liquids | 82% | 78% | 78% |
| Natural Gas | 18% | 22% | 22% |
| Financials | | | |
| Cash Flow/Share | $0.54 | $0.20 | $0.37 |
| Price/Cash Flow | 4.5 | 12.1 | 6.5 |
| Net Capital Exp $M | -$386.8 | $25 | $82 |
| Cash Flow $M | $118.9 | $45 | $82 |
| CapEx/Cash Flow | n/a | 0.6x | 1.0x |
| Commodity Prices (SAMI forecasts) | **Actual** | **SAMI Est.** | **SAMI Est.** |
| US$ WTI | $48.80 | $48.50 | $55.00 |
| C$ AECO | $2.70 | $2.45 | $3.40 |

**Quarterly Results**

| | Production (b/d) | | | Cash Flow per Share | | |
|---|---|---|---|---|---|---|
| | 2015A | 2016F | 2017F | 2015A | 2016F | 2017F |
| Q1 | 20,585 | 13,408a | 14,300 | 0.23 | 0.05a | 0.08 |
| Q2 | 17,652 | 12,600 | 14,000 | 0.16 | 0.03 | 0.08 |
| Q3 | 13,523 | 13,000 | 15,000 | 0.08 | 0.04 | 0.09 |
| Q4 | 14,187 | 14,512 | 16,700 | 0.07 | 0.08 | 0.12 |

***RATINGS:** **5** -STRONG BUY **4** - BUY **3** - HOLD **2** - SELL **1** - STRONG SELL

| | | |
|---|---|---|
| **Reporting Periods** | | |
| Year-end: | | Dec-31 |
| Next report: | Q2 | Aug/5/16 |
| **Shares O/S** | | |
| Basic M: | | 221.0 |
| Fully diluted M: | | 223.7 |
| **Financial Data** | | |
| Market Cap $M: | | 534.8 |
| Enterprise Value $M: | | 660.0 |
| **Enterprise Value $ /b 2017 annualized production:** | | 44,001 |
| **Reserve Life Index** (years) | | 2015 |
| Proven: | | 10.0 |
| P+P: | | 16.4 |
| **NAV** | $1.81 | SAMI est. |
| *Book Value* | $3.63 | Q1/16 |
| **Debt** | | Q1/16 |
| Debt Line $M: | | 400.0 |
| Bank Debt Utilized $M: | | 125.2 |
| **Insider Ownership** | | 3% |
| Pres & CEO: | Paul Colborne | 3.48M |
| CFO: | Paul Ferguson | 23K |
| COO: | Dan Brown | 375K |
| Director: | Robert Leach | 1.23M |
| Instl Holders: | Dimensional 8.6M, IG 5.9M, Fidelity 4M | |
| **Service Providers** | | |
| Bankers: | NA/BNS/CM/TD/BMO/ATB/HSBC/WF/GS | |
| Auditors: | KPMG LLP | |
| Engineers: | Sproule | |

# Surge Energy Inc.

Suite 2100, 635 – 8th Ave. SW Calgary, AB T2P 3M3
Phone 403 930-1010 Fax 403 930-1011 Website: www.surgeenergy.ca

## Company History & Management Info:

The company was incorporated in Jan/98 as Zapata Capital Inc. In 2010, the company added additional capital and a new management team were appointed. The name was changed to Surge Energy Inc. In May 2013 Paul Colborne was appointed President and CEO. At Dec/15, SGY had 61 full time employees at head office and had 4 in the field.

Management: President and CEO – Paul Colborne COO – Dan Brown CFO –Paul Ferguson
VP Production – Murray Bye VP Geosciences – Garry de Leeuw VP Land – Margaret Elekes

## Core Areas:

Surge is a Calgary-based oil focused E&P Company that has a high quality crude oil reserve production, low operating costs and in more normal price environment, a stable cash flow base. Surge's 3 100% operated core properties (Shaunavon, Valhalla, and Sparky) have large OOIP crude reservoirs with low recovery factors and capability for large increases in production as new technologies are applied. SGY has a long life RLI with an extensive 12 year inventory with over 750 locations. In addition several quality water flood projects provide long term growth opportunities with low decline rates. SGY estimates their current 2016 decline rate at 20% that necessitates drilling only 13 wells and spending $50M to keep production flat, net of asset sales.

## Key Impact Plays / Black Gold Wealth Creation:

**Upper Shaunavon (Sask):** This core area has 250Mb OOIP and the most recent horizontal wells have come in at 235 boe/d at a cost of $1.6M per well. There are 4 sands with productive capability. Over time with water floods they estimate that the recovery factor could rise to 13% of the reserves in place from the 1% recovery rate so far. The oil has an API of 21-23 degrees and 4-10 metres of pay. SGY has nearly 400 wells in inventory for the Shaunavon from 2 different productive zones.

**Valhalla (NW AB)** This core area has 140Mb OOIP of 40 degree API crude oil in place with a 7% recovery so far. SGY's 3 most recent wells have been spectacular at over IP of 2,000 boe/d and over 1,000 boe/d for 30 day IP's from the Doig formation at a reduced planned cost of $3.3M per well. Their type curve estimates 30 day IP's at 860boe/d. To handle their natural gas, they are building a compressor in the north end of the pool so that the gas can be moved at all times and not subject to shut-ins. Year end 2015 production was 7,900 boe/d. Over time with water floods they estimate that the recovery factor could rise to 23% of the reserves in place. SGY has an inventory of 45+ locations in inventory.

**Sparky (SE AB) –** This oil pool has >350Mb OOIP of 23 – 31 degree oil. The recovery factor is <15%. SGY has 172 drilling locations and 2 water flood projects underway to increase recovery. Over time with water floods they estimate that the recovery factor could rise to >20% of the reserves. Well costs are $1.4M and 90 day targets of >110 boe/d per well.

## Recent Operational & Financial Results:

- SGY sold its non-core Sunset property in Q1/16 for proceeds of $28M (producing 700 boe/d) for $40,000/boe. In addition they sold some of their Valhalla facilities for $15M. The proceeds of $43M were used to pay down debt. Over the last 23 months SGY has sold $760M of assets at high prices to withstand the current energy downturn.
- SGY had shut-in production of 500 boe/d in Q1 due to poor economic conditions. Our forecast had been for 14,000 boe/d but actual results were 13,408 boe/d. CFPS met our forecast of 5 cents per share. In Q2/16 we see volumes falling to 12,600 boe/d but cash flow meeting our target as they monetized $4.2M of foreign exchange hedges.
- ***Our revised 12-month target of $3.70 is based upon a 10x (equal to the proved RLI of 10 years) times our 2017 annualized cash flow of $0.37/share. The stock would be a tremendous purchase <$1.95/share. SGY currently pays an annual dividend of $0.075. SGY wants to have a dividend but will manage its cash flow, spending and the dividend for the long term health of the business.***

## Balance of Evidence

| Growth Drivers | Limits to Growth |
|---|---|
| • SGY has been focused on lowering its cost structure and in Q1/16 had operating costs at $12.27/boe.<br>• SGY was quiet in Q1/16 drilling only 3 wells. In Q2 they started in the field this month (versus an expectation of July) and will drill 5 wells now that oil prices have recovered to nearly US$50/b, followed by our forecast 8-10 in Q3 and of 14 -16 wells in Q4. SGY should spend $53M in the last 3 quarters of this this year.<br>• SGY has an excellent Balance Sheet with over $260M available on its line of credit.<br>• We expect SGY to add lighter oil to their mix and add a 4th core area sometime within the next 18 months in Saskatchewan. The focus would be on buying 2-3K boe/d with lots of upside from drilling and consolidation opportunities. If they went for the larger size, they would need to do some equity to complete the deal. Any equity component would likely be done only if the stock price was above book value (Q1/16 –BV: $3.63/share) | • The new royalty regime, TCPL downtime, and government approval delays have impacted growth timelines of the company. They are watching for the specific details in the royalty review regarding stimulation (re-fracing) and water flood benefits.<br>• With banks now wanting to lower their lending exposure to the energy sector, it is very likely that SGY will see a lowering of their bank line from $400 to maybe $300-$340M by their syndicate led by NA. This should not be harmful to the company's growth plans in 2017 when energy prices are expected to rise to more normal level above $60/b in 2H/17.<br>• SGY has 1387 wells that are non-producing at the end of 2015. In normal years they spend $4M and abandon 80 wells. In 2016, they will spend only $2.5M and abandon 50 wells. With the Government of Alberta pushing for an orderly move on this issue, we expect SGY to abandon at a faster rate of 80-100 wells starting in 2017. |

# 4. Commodity Price Forecast 2017 and 2016 Update

## 2016 Price Deck

| | | Q1/A | Q2/E | Q3/E | Q4/E | 2016 Average |
|---|---|---|---|---|---|---|
| WTI | Crude Oil US$/b | 33.58 | 44.00 | 43.00 | 52.00 | 43.15 |
| NYMEX | Nat Gas US$/mcf | 2.04 | 2.10 | 2.50 | 3.75 | 2.60 |
| AECO | Nat Gas C$/mcf | 1.83 | 1.85 | 2.30 | 3.00 | 2.25 |

Source: SAMI June 14, 2016

During Q4/16 we expect to see much higher natural gas prices as LNG demand from the US Gulf coast picks up, that more electricity comes from natural gas as coal fired facilities are shut in due to EPA requirements and we see a more normal winter versus the much warmer winter of 2015-2016. In 2017 even higher exports from new LNG trains will add 3-4 Bcf of new demand and a more normal number of heating and cooling days adds to demand. With the rig count just beginning to grow (3 natural gas rigs last week) it will take some time for there to be a meaningful increase in production as the depletion should hold back volume growth over the next 12-18 months. We expect to see US$4/mcf regularly in winter 2017-2018. If we have a colder than normal winter as seen 2013-2014, prices could rise over US$5/mcf. Crude prices are expected to gradually rise in 2017 with the highest prices seen as winter 2017-2018 arrives and OPEC is producing at levels that allow the inventory glut worldwide to erode.

## Price Forecast 2017

| | | Q1 | Q2 | Q3 | Q4 | 2017 Average |
|---|---|---|---|---|---|---|
| WTI | Crude Oil US$/b | 54.00 | 49.00 | 49.00 | 68.00 | 55.00 |
| NYMEX | Nat Gas US$/mcf | 3.70 | 3.40 | 3.40 | 3.90 | 3.60 |
| AECO | Nat Gas C$/mcf | 3.30 | 3.20 | 3.40 | 3.70 | 3.40 |

Source: SAMI June 14, 2016

## 5. Top Picks: No Top Picks This Month – Downside Risk High

## 6. Recommended Buy List

Due to our bearish view and downside risk to the energy sector of 30%+ we have downgraded many stocks to holds and have removed from our recommended BUY list, those Maison covered securities that could face meaningful downside over the next 3-4 months. Caveat Emptor! We have only one stock that currently holds a 4 rating and there are no 5 rated stocks at this time.

Maison Placements Canada

**Junior & Intermediate Energy Companies**

**Recommended Buy List**
**June 10, 2016**

SCHACHTER ASSET MANAGEMENT INC.

| Company | Symbol | June 10/16 Stock Price $ | Target Price $* | APPRECIATION % Present Price % | On the Week % | Capitalization $M |
|---|---|---|---|---|---|---|
| **Domestic E&P** | | | | | | |
| Birchcliff Energy Ltd. | BIR-T | 6.29 | 9.00 | 43% | 7.0% | 958.0 |
| Delphi Energy Corp. | DEE-T | 1.05 | 1.80 | 71% | 6.1% | 163.3 |
| Surge Energy Inc. | SGY-T | 2.55 | 3.70 | 45% | 4.9% | 563.6 |
| **International E&P** | | | | | | |
| SDX Energy Inc. | SDX-V | 0.43 | 0.70 | 63% | -4.4% | 34.3 |

| | | Week's Δ |
|---|---|---|
| TSX Energy Index | 184.05 | -2.6% |
| WTI | 48.88 | 0.5% |
| Nymex | 2.58 | 7.9% |

* Our stock price targets are based upon the Proven Reserve Life Index times our future cash flow expectations.
** Based on approximate conversion of 1.0504 GJ heat value = 1mcf NatGas

Source: Schachter Asset Management Inc., June 10, 2016

# 7. Research Coverage List

Maison Placements Canada

## Research Coverage List - June 10, 2016

SCHACHTER ASSET MANAGEMENT INC.

| Rating: | |
|---|---|
| 5- Strong Buy | 2 - Sell |
| 4 - Buy | 1 - Strong Sell |
| 3 - Hold | |

| Companies Covered | Symbol | Stock Price $ June 10/16 | 12-M Target $ | Appreciation Potential % | Rating | M Shares O/S *Basic | $M Market Capitalization | Debt (Cash) $M | Enterprise Value $M | Liquids Latest Quarter | $ NAV Latest | $ BV Latest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Birchcliff Energy Ltd. | BIR-T | 6.29 | ***9.00*** | 43% | 3 | 152.3 | 958.0 | 647.4 | 1605.4 | 12% | 7.08 | 7.13 |
| Delphi Energy Corp. | DEE-T | 1.05 | ***1.80*** | 71% | 3 | 155.5 | 163.3 | 112.0 | 275.3 | 36% | 0.77 | 1.25 |
| Gran Tierra Energy Inc. | GTE-T | 4.10 | ***4.60*** | 12% | 3 | 296.2 | 1214.4 | (69.8) | 1144.6 | 99% | 2.41 | 3.32 |
| Hemisphere Energy Corp. | HME-V | 0.20 | ***0.30*** | 50% | 3 | 75.8 | 15.2 | 11.5 | 26.7 | 81% | 0.83 | 0.29 |
| Niko Resources Ltd. | NKO-T | 0.22 | ***0.40*** | 82% | 3 | 94.0 | 20.7 | 413.0 | 433.7 | 3% | n/a | neg |
| Pengrowth Energy Corporation | PGF-T | 2.28 | ***2.40*** | 5% | 3 | 543.0 | 1238.0 | 1514.0 | 2752.0 | 61% | 2.11 | 3.30 |
| SDX Energy Inc. | SDX-V | 0.43 | ***0.70*** | 63% | 4 | 79.8 | 34.3 | (24.0) | 10.3 | 100% | 0.46 | 1.44 |
| Serinus Energy Inc. | SEN-T | 0.40 | ***0.70*** | 75% | 3 | 78.6 | 31.4 | 32.3 | 63.7 | 27% | 4.87 | 0.83 |
| Surge Energy Inc. | SGY-T | 2.55 | ***3.70*** | 45% | 3 | 221.0 | 817.7 | 125.2 | 942.9 | 78% | 1.81 | 3.63 |
| Tamarack Valley Energy Ltd. | TVE-T | 3.92 | ***4.25*** | 8% | 3 | 114.9 | 450.6 | 50.0 | 450.6 | 55% | 2.38 | 3.56 |
| Touchstone Exploration Inc. | TXP-T | 0.225 | ***0.30*** | 33% | 3 | 83.1 | 18.7 | 7.5 | 26.2 | 100% | 0.01 | 0.62 |

* Our stock price targets are based upon the Proven Reserve Life Index times our future cash flow expectations or a risked NAV

Source: Schachter Asset Management Inc., June 10, 2016

UR = Under Review

NR = Not Rated

| Commodity Price Assumptions | 2015A | 2016E | 2017E |
|---|---|---|---|
| WTI US$/b | $48.80 | $43.15 | $55.00 |
| NYMEX-US$/mcf | $2.60 | $2.60 | $3.60 |
| AECO -C$/mcf | $2.70 | $2.25 | $3.40 |

| Symbol | % Insider Ownership | Production 6:1 | | % Production Growth 2015 | Latest 2P Reserves Millions/b | Reserve Values/$ boe | Enterprise Value Latest Q /boe Production | Cash Flow/share 2016 $ | Cash Flow Multiple 2016 est | P RLI | $M Cash Flow 2016 est | $ Capex est 2016 | Last Report Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Latest Quarter | 2016E | | | | | | | | | | |
| BIR-T | 2% | 41,958 | 41,000 | -2% | 523.4 | 3.07 | $39,155 | 0.83 | 7.6 | 23.7 | 126.0 | 105.0 | June/2/16 |
| DEE-T | 6% | 8,395 | 8,600 | 2% | 45.5 | 6.05 | $32,009 | 0.22 | 4.8 | 6.1 | 34.0 | 32.0 | June//9/16 |
| GTE-T | 2% | 25,610 | 28,000 | 9% | 76.2 | 15.02 | $40,879 | 0.37 | 11.1 | 6.3 | 108.0 | 108.0 | May/11/16 |
| HME-V | 12% | 508 | 600 | 18% | 3.3 | 8.08 | $44,433 | 0.07 | 2.9 | 6.8 | 2.0 | 2.0 | June/1/15 |
| NKO-T | <10% | 16,960 | 18,240 | 0% | 70.2 | 6.18 | $25,571 | 0.86 | 0.3 | 7.0 | 81.5 | 64.0 | April/2/14 |
| PGF-T | <2% | 62,056 | 58,150 | -6.3% | 476.2 | 5.78 | $47,327 | 0.78 | 2.9 | 12.1 | 423.0 | 70.0 | May/4/16 |
| SDX-V | 8% | 1,252 | 1,700 | 15% | 7.3 | 1.41 | $6,067 | 0.10 | 4.3 | 2.8 | 8.0 | 18.5 | May/17/16 |
| SEN-T | 60% | 4,072 | 4,000 | -2% | 19.5 | 3.27 | $15,935 | 0.32 | 1.3 | 4.6 | 15.0 | 17.0 | Sept/3/14 |
| SGY-T | 3% | 13,408 | 13,380 | 0% | 80.7 | 11.68 | $70,471 | 0.20 | 12.8 | 10.0 | 45.0 | 25.0 | May/27/16 |
| TVE-T | 4% | 9,582 | 9,500 | -1% | 45.0 | 10.01 | $47,428 | 0.46 | 8.5 | 6.9 | 53.0 | 53.0 | May/12/16 |
| TXP-T | 600% | 1,638 | 2,000 | 22% | 8.9 | 2.94 | $13,099 | 0.04 | 5.6 | 11.5 | 2.5 | 4.0 | Sept/2/14 |

Source: Schachter Asset Management Inc., June 10, 2016

# Analyst Disclosure

Rating: 5 – Strong Buy 4 – Buy 3 – Hold 2 – Sell 1 –Strong Sell

N.R. = Not Rated, U.R = Under Review

| Company Name | Trading Symbol | *Exchange | Disclosure Code | Rating |
|---|---|---|---|---|
| Birchcliff Energy Ltd. | BIR | T | | **3** |
| Delphi Energy Corp. | DEE | T | | **3** |
| Gran Tierra Energy Inc. | GTE | T | | **3** |
| Hemisphere Energy Corp. | HME | V | | **3** |
| Niko Resources Ltd. | NKO | T | | **3** |
| Pengrowth Energy Corporation | PGF | T | | **3** |
| SDX Energy Inc. | SDX | V | 1 | **4** |
| Serinus Energy Inc. | SEN | T | | **3** |
| Surge Energy Inc. | SGY | T | | **3** |
| Tamarack Valley Energy Ltd. | TVE | T | | **3** |
| Touchstone Exploration Inc. | TXP | T | | **3** |

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