

## Welcome to the January edition of the **PRIVITI ENERGY EXAMINER**, the monthly Newsletter from Priviti Capital Corporation.

### WHAT'S NEW IN PRIVITI FUNDS

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- We are pleased to announce that the remaining investments in Priviti Energy Limited Partnership 2009 ("Priviti 2009") have been sold and we are proceeding with the dissolution of the Fund. The only remaining communications with respect to Priviti 2009 will be the Fund's T5013 for the 2016 tax year which will be sent out in March 2017.

### PRIVATE COMPANY UPDATES

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#### **Spur Resources Ltd. ("Spur") – Corporate Sale and Go-Forward Plans**

Spur recently announced an agreement whereby Tamarack Valley Energy Ltd. ("Tamarack") will acquire all of the outstanding shares of Spur for a total consideration of \$407.5 million, which will be paid through a combination of shares and cash. Despite the significant decline in oil prices, Spur was able to realize a 2.9x return on investment for the assets sold in the transaction. Concurrent with the transaction, Spur's Clearwater medium oil and Colorado gas assets will be transferred into a newly-formed entity called Spur Petroleum Ltd. ("SPL"). Each Spur shareholder will receive 0.3333 of an SPL share and 0.2 of an SPL arrangement warrant. The closing of the transaction is expected to be on or about January 11, 2017.

SPL will have approximately 1,250 boe/d (36% oil + liquids) and will be operated by the same management team that is currently at Spur. The assets in SPL are considered low cost and low decline that produce predictable and consistent results. The management team has been able to show highly economical results to date despite the low oil prices.

Assuming the exercising of the arrangement warrants, SPL will have a clean balance sheet and no debt. The management team will focus on maintaining a strong balance sheet while building a balanced portfolio of high-quality assets. Capital spending will be focused on delineating existing assets, new grassroots plays and strategic acquisitions.

Priviti holds an interest in Spur through POGO LP 2011.

### **Mount Bastion Oil & Gas Corp. (“Mount Bastion”) – Third Quarter Financial Statements**

Mount Bastion released its third quarter 2016 financial statements along with a shareholder update. Recall, the company completed its first financing of over \$160 million in March 2016 to acquire its core asset in North Central Alberta. Corporate production for the third quarter averaged 4,125 boe/d (97% oil + liquids), which is slightly ahead of the 2016 average of 3,900 boe/d that management had previously indicated. Production levels are expected to exit 2016 at 4,300 boe/d. During the quarter the company generated a funds flow from operations of \$7.6 million. This equates to cash flow netback of \$20.10/boe which is in line with the 2016 year-to-date cash flow netback.

During the quarter the company spent a modest \$1.9 million in capital to complete wellbore sand cleanout operations in order to increase production. Subsequent to the quarter, the company completed a small acquisition of 160 boe/d which added 10.5 net sections of key undeveloped land in its core area. Capital spending for the year will be substantially under the original budget as the company has been able to maintain production through cost effective cleanouts and workovers on the wellbores. Mount Bastion recently started its first drilling program on the asset in December 2016 and have plans to drill 5 to 6 wells.

At the end of the quarter, Mount Bastion had a positive working capital balance of \$31.3 million and no debt. In addition, the company has a remaining \$27.6 million in further equity available on its line of credit from the original raise. The ample amount of liquidity remaining in the company allows them to patiently consolidate struggling producers that will complement their core production base.

Priviti holds an interest in Mount Bastion through POGO LP 2014.

### **Steppe Resources Inc. (“Steppe”) – Shareholder Update**

Priviti recently sat down with the Steppe management team to get a shareholder update. The company closed out 2016 with a successful execution of their phase 1 drilling program. The program increased corporate production to 1,400 boe/d while achieving significant efficiencies in well costs and improvement in type curves. Phase two of the drilling program is underway which will further delineate the land base and is expected to bring production close to 2,000 boe/d. In conjunction with production trending upwards, Steppe has managed to continuously lower corporate operating costs. Operating costs have been reduced from over \$20/bbl at inception of the company to under \$15/bbl and continue to trend lower.

Recent land sales immediately offsetting Steppe’s acreage to the north have seen a surge in activity and consequently higher prices. The encouraging land sales and constant activity from neighbouring producers such as Crescent Point Energy and TORC Oil & Gas appears to validate that Steppe’s acreage is in the right postal code.

Steppe has continued to prudently manage its balance sheet and plans to have a top decile debt-to-cash flow ratio at the end of 2017 of 0.5x. Steppe completed a transformative quarter and continues to position itself well for potential liquidity.

Priviti holds an interest in Steppe through POGO LP 2013.

## PRIVITI CAPITAL CORPORATION

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Priviti is a Calgary, Alberta based private equity firm that specializes in the Canadian energy market. We manage a number of investment funds that invest in quality energy corporations. Priviti is a leading buyer of private oil & gas shares in the secondary market. Since our inception in 2007, we have raised over \$360 million in nine separate funds. For further information, please visit our website at [www.priviticapital.com](http://www.priviticapital.com).

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