

## Welcome to the October 2017 edition of the **PRIVITI ENERGY EXAMINER**, the monthly Newsletter from Priviti Capital Corporation.

### WHAT'S NEW IN PRIVITI FUNDS

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- Fund financial statements for the period ending September 30, 2017 will be sent to unitholders within 60 days of quarter end.

### PRIVATE COMPANY UPDATES

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#### **Karve Energy Inc. ("Karve") – Management Update**

Over the summer, Karve raised approximately \$140 million privately at a price of \$2.00 per share, up from their most recent raise at \$1.00 per share. We understand the deal was very well received and was upsized from an original size of \$115 million and was still significantly oversubscribed. Funds raised were used to buy Viking assets in eastern Alberta from a company that was exiting Canada. The price paid to acquire the assets was approximately \$115 million and included 6,500 boe/day (45% liquids) at attractive metrics of 4.3x cashflow and \$18,000 boe/day. With the low decline on these acquired assets combined with the existing Karve assets, current production is estimated to total approximately 9,000 boe/day. The company has put together an aggressive drilling program over the next 18 months and is projected to exit 2018 at over 13,000/boe. The capital program will primarily be funded from the cashflow off their assets plus additional working capital that was raised. This team, led by Bob Chaisson, has had tremendous success in the Viking with their previous ventures, most notably Beaumont Energy.

Priviti holds an interest in Karve through POGO LP 2014.

#### **North West Refining Inc. ("NWR") – Shareholder Update**

We recently sat down with NWR management for an update. NWR is a private company that is partnered 50/50 with Canadian Natural Resources Ltd. ("CNRL") to build and operate a bitumen refinery in the Redwater area near Edmonton. The refinery is built to process 80,000 bbls/d of diluted bitumen with the major output being ultra-low sulphur diesel. The refinery is greater than 90% complete and is expected to be operational by the second quarter of 2018.

NWR has signed a 30 year tolling contract with the Province of Alberta for 75% of the refinery capacity, with CNRL taking the remaining 25%. The primary cashflows received from the contracts are rate based which are independent from commodity prices. This will provide a predictable revenue stream for NWR over the next 30 years while also allowing for future upside based on performance of the refinery. NWR has two additional phases for the refinery with initial planning being done on how to develop those phases.

Management continues to explore liquidity opportunities for shareholders of NWR, including hiring investment bankers to pursue “liquidity alternatives”. Subsequent to our meeting, the company issued a press release advising that the best course of action was to defer advancing liquidity alternatives until they had commenced commercial operations. The company expects to see cashflow generated in less than a year which will enhance liquidity options and shareholder value. The company’s core focus remains on successfully completing the construction of the refinery, the commencement of commercial operations and advancing the second phase of the refinery. We believe that waiting until commercial operations are commenced should generate a greater ultimate return for shareholders.

Priviti holds an interest in NWR through PELP LP 2011 & 2012.

#### **Red River Oil Inc. (“Red River”) – Operational Update**

Red River recently came out with an operational update at their annual general meeting. Current production is in the 1,200 BOE/day range (100% liquids) from their concentrated land position in Sinclair/Fertile on the Saskatchewan/Manitoba border. The focus for the company currently is to harvest cashflow from their existing production and use it to advance their waterflood projects across their asset base. Results from their waterfloods to date have been very positive and they see the ability to continue to increase their reserve base and lower the decline rate of their production, making the company more attractive for potential acquirers in the future.

The company continues to have one of the highest netbacks, averaging approximately \$43/bbl in Q2/2017, due to their 100% oil weighted production and very low cost structure.

Priviti holds an interest in Red River through POGO LP 2011, Priviti Energy LP 2011 & 2012

## **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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