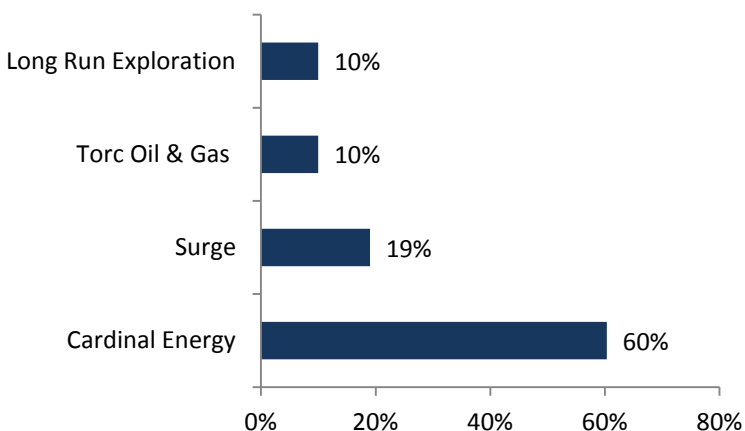


YTD Share Price Performance

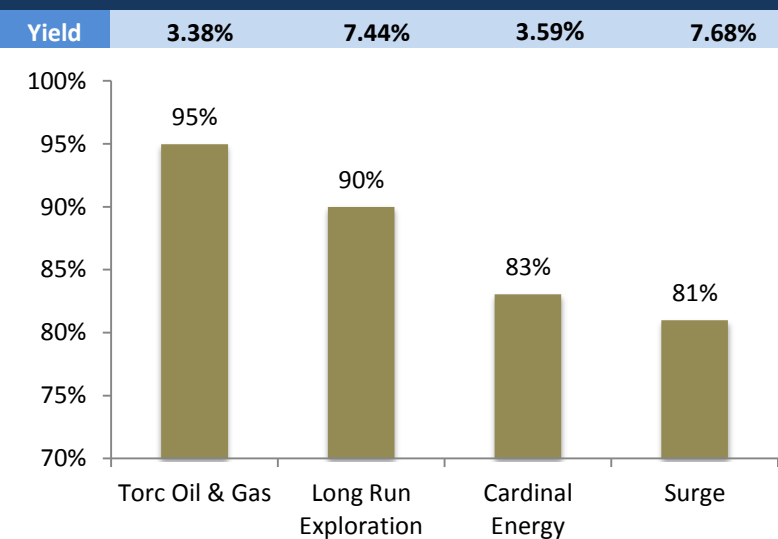


Elvis Picardo (Vice-President, Research)
Gint Austrins (Analyst)

- With oil continuing to perform on the back of increased geopolitical tension around the world, we see a renewed interest in oil focused income names.
- While less diversified than their senior counterparts, these mid cap dividend payers provide a healthy yield while having a total pay-out ratio at or near 100%. *Note that a pay-out ratio consistently above 100% may make it difficult to sustain dividend payments in the long run.*



Total Pay-Out & Yield



Name	Ticker	Share Price	Market Cap (\$bn)	EV/EBITDA	EV/Production (boe/d)	Dividend Yield	14E Total Payout Ratio
Surge	SGY	\$7.82	\$1.70	7.08x	\$94,795.35	7.68%	81%
Torc Oil & Gas	TOG	\$15.99	\$1.47	7.93x	\$35,573.24	3.38%	95%
Cardinal Energy	CJ	\$18.11	\$0.68	7.82x	\$43,220.78	3.59%	83%
Long Run Exploration	LRE	\$5.58	\$0.72	3.55x	\$83,888.58	7.44%	90%
Average:				6.60x	\$64,369.49	5.52%	87%

Surge Energy: A sustainable energy dividend and attractive yield

Surge Energy (TSX:SGY) is a dividend paying Oil & Gas producer focused in central Canada

➤ Weather impacts Q1 results

- Q1 production came in at 15,024 boe/d, just below the street estimate of 15,200 boe/d.
- Severe weather negatively impacted production by 650 boe/d.
- According to management, SGY generated Q1 EBITDA of \$44.41m vs. expectations of \$59.5m.

➤ Completed \$430m Longview Oil acquisition on June 5, 2014

- Transaction adds 5,700boe/d of production.
- After close, the company's Resource Life Index rises to 15 years (from 12.5) and corporate well decline rate drops to 22% from 24%.
- Longview's asset are 80% oil and primarily in central Alberta and Saskatchewan.

➤ Positive upside potential

- After the Longview transaction, SGY's pay-out ratio drops to an expected 81%. (vs. the peer average of over 100%) with a current yield of 7.81%.
- SGY trades at a slight premium to peers on a cash flow basis, driven by a sustainable dividend model and organic growth expectations.

Financial Details

Price: \$7.80
Market Cap (\$mm): \$1283
Current Yield: 7.68%
Dividend Payment: Monthly

	Q1 2014	2014 Est.
Production		
Boe/d	15,024	19,500
Boe Total	1,352,160	7,117,500
Netbacks/boe		
Revenue	\$79.55	\$77.90
Royalties	-\$14.08	-\$13.83
Operating Cost	-\$14.35	-\$16.25
GA & Interest	-\$4.38	-\$4.93
Cash Netback/BOE	\$47.00	\$42.89
Dividend Safety (\$000)		
Operating Cash Flow	63,551	305,269
Capital Expenditures	-58,400	-153,100
Dividend	-8,078	-94,140
Basic Pay-Out	13%	33%
Total Pay-Out (Including Capex)	105%	81%

Valuation	Surge	Group Avg.
EV/2014e EBITDA	7.08x	5.81x
EV/2014e Production (boe/d)	\$85,636	\$77,229



Surge offers the best of both worlds for income investors: an attractive yield and a sustainable dividend

TORC Oil & Gas: Dividend strategy proving to be effective

TORC Oil & Gas (TSX:TOG) is an E&P company focused in Western Canada

- **Q1 saw continued production growth and strong performance**
 - Production of 10,529 boe/d came in ahead of expectations of ~10,200 boe/d driven by a 21% rise in Nat Gas production vs. the previous quarter.
 - Operating costs fell 2% vs. last quarter to \$12.9/boe.
 - EBITDA for the quarter came in at \$46.6m vs. expectations of \$44.7m.
- **Strategic acquisitions in the Cardium and SE Saskatchewan add to production**
 - TORC paid ~\$70m to acquire ~800boe/d and ~4m boe of Proven and Probable reserves.
 - Deal implies reasonable metrics at \$87,500 per flowing boe and \$17.00/reserve boe.
 - Post deal, management is guiding for 2014e production of 11,000 boe/d.
- **Valuation is at a premium, but driven by potential upside guidance**
 - Trades at a premium based Price to Cash Flow likely because production estimate may be too conservative.



Financial Details

Price: \$15.99
 Market Cap (\$mm): \$1370
 Current Yield: 3.38%
 Dividend Payment: Monthly

	Q1 2014	2014 Est.
Production		
Boe/d	10,529	11,000
Boe Total	947,610	4,015,000
Netbacks/boe		
Revenue	\$79.16	\$83.55
Royalties	-\$13.06	-\$13.06
Operating Cost	-\$12.96	-\$16.25
GA & Interest	-\$4.93	-\$4.37
Cash Netback/BOE	\$48.00	\$49.87
Dividend Safety (\$000)		
Operating Cash Flow	45,485	200,228
Capital Expenditures	-42,657	-156,500
Dividend	-8,411	-33,644
Basic Pay-Out	18%	18%
Total Pay-Out (Including Capex)	112%	95%

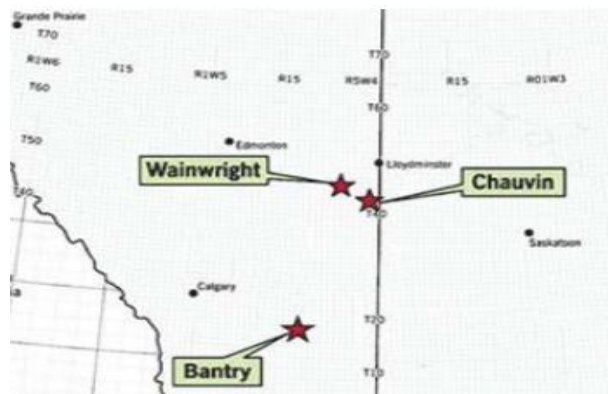
Valuation	TORC	Group Avg.
EV/2014e EBITDA	7.9x	5.81x
EV/2014e Production (boe/d)	\$56,540	\$77,229

TORC has an excellent management team that consistently meets or beats guidance

Cardinal Energy: Clean balance sheet and low decline rate catalysts for sustainability

Cardinal Energy (TSX:CJ) is an oil exploration and development company that aims to provide investors with sustainable yield and growth. It runs operations in Alberta and Saskatchewan.

- **Q1 performance shows improvement in netback fundamentals**
 - Production of 6,235 boe/d was slight beat of expectations (6,040 boe/d). EBITDA came in at \$18m, in line with expectations.
 - Strong commodity prices and a reduction in operating costs by 17% have pushed field netbacks higher.
 - Completed drilling of 2 Glauconite horizontal wells with plans to drill additional wells in Q2.
- **Management outlook signals growth through accretive acquisitions**
 - Intends to grow to 10,000 – 12,000 boe/d through acquisitions over the next 1-2 years.
 - Aims to maintain a net debt/CFO ratio less than 1x
 - Production decline rate expected to be less than 15% per year.
- **Premium valuation may be justified by strong production base**



Financial Details

Price: \$18.11
Market Cap (\$mm): \$643.3
Current Yield: 3.59%
Dividend Payment: Monthly

	Q1 2014	2014 Est.
Production		
Boe/d	6,235	6,251
Boe Total	561,150	2,281,165
Netbacks/boe		
Revenue	\$73.58	\$73.58
Royalties	-\$8.26	-\$8.26
Operating Cost	-\$23.83	-\$23.83
Hedging	-\$2.76	-\$2.76
GA & Interest	-\$5.79	-\$5.79
Cash Tax	-\$0.8	-\$0.8
Cash Netback/BOE	\$32.14	\$32.14
Dividend Safety (\$000)		
Operating Cash Flow	18,035	73,331
DRIP Effects	500	800
Capital Expenditures	-7,798	-35,600
Dividend	-3,500	-24,500
Basic Pay-Out	19%	33%
Total Pay-Out (Including Capex)	65%	83%

Valuation	Cardinal	Group Avg.
EV/2014e EBITDA	7.8x	5.81x
EV/2014e Production (boe/d)	\$117,615	\$77,229

After recently going public, Cardinal Energy shows strong potential for sustainable yields



Long Run Exploration Ltd: High yield at an attractive valuation

Long Run (TSX:LRE) is a light-oil focused intermediate exploration and development company located in western Canada.

➤ Q1 results show the company is on track to meet guidance

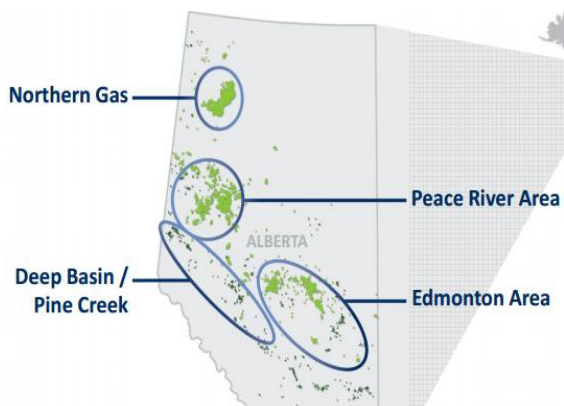
- Q1 production was in-line with expectations, averaging 25,613 boe/d (up 8% from a year ago).
- EBITDA came in at \$72.3m (vs. expectations of \$74m), and drilling program of 47.5 net wells had a 100% success rate.

➤ Strategic acquisitions

- Recently closed \$225m acquisition of liquids-rich nat-gas assets focused on the Cardium in Deep Basin and Pine Creek, which are currently producing approx. 6,600 boe/d (25% oil & NGLs).

➤ Valuation metrics signal upside potential

- Trades at an attractive discount on an EV/EBITDA basis relative to its peers .
- Expects to fund capex and dividend payments through funds flow from operations.
- Discount multiple may be driven by its lower percentage of oil and NGL production (43%).



Financial Details

Price: \$5.40
Market Cap (\$mm): \$726.39
Current Yield: 7.44%
Dividend Payment: Monthly

	Q1 2014	2014 Est.
Production		
Boe/d	25,613	32,000
Boe Total	2,305,170	11,680,000
Netbacks/boe		
Revenue	\$65.89	\$60.00
Royalties	-\$8.01	-\$7.00
Operating Cost	\$18.11	-\$17.50
Hedging	-\$3.22	-\$1.45
GA & Interest	-\$5.92	-\$4.53
Cash Tax	\$0	-\$0.09
Cash Netback/BOE	\$30.63	\$29.43
Dividend Safety (\$000)		
Operating Cash Flow	70,607	343,743
DRIP Effects	0	0
Capital Expenditures	-99,420	-250,000
Dividend	-11,000	-58,000
Basic Pay-Out	16%	17%
Total Pay-Out (Including Capex)	156%	90%

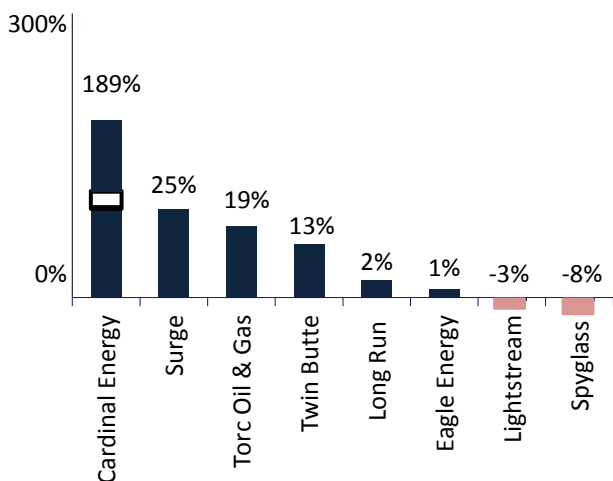
Valuation	Long Run	Group Avg.
EV/2014e EBITDA	3.55x	5.81x
EV/2014e Production (boe/d)	\$36,143.81	\$77,229

Long Run has recently transitioned into a dividend plus growth model

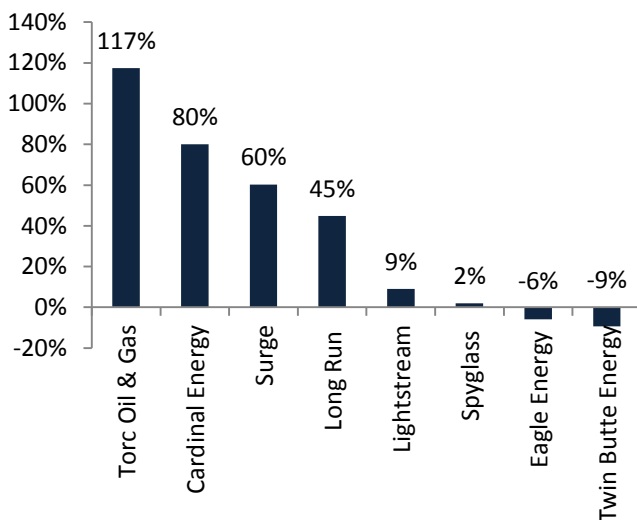


O&G INCOME: Dividend Growth

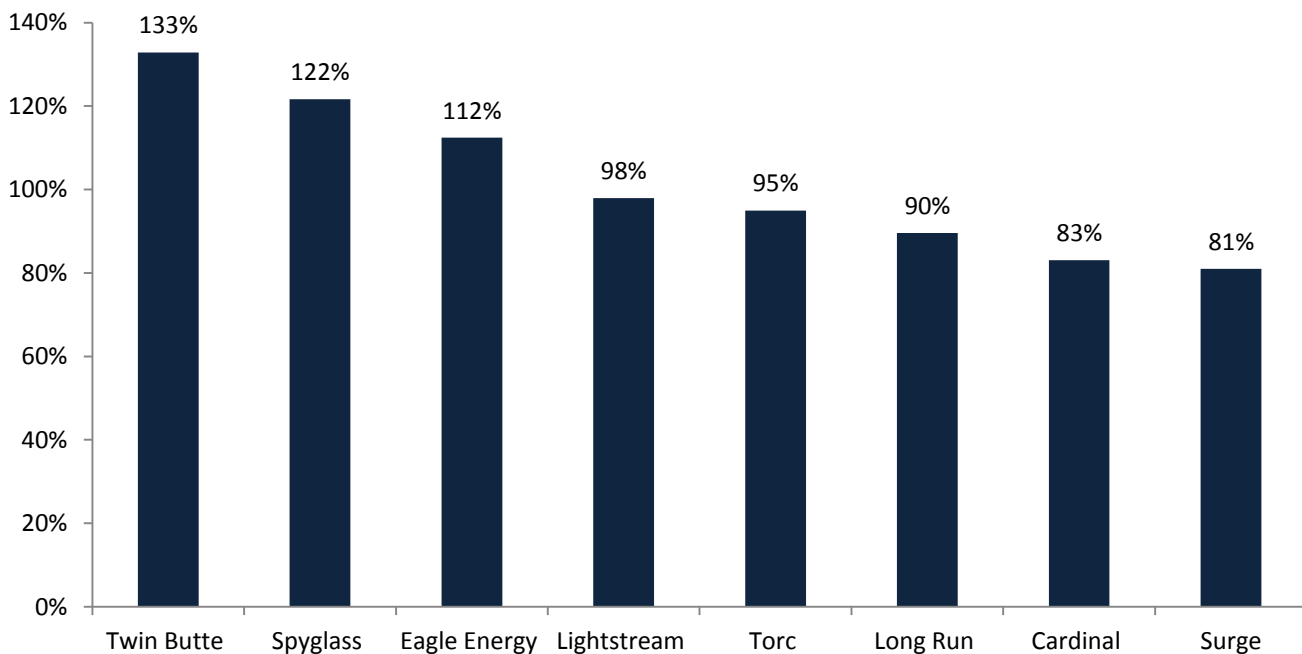
Q4/13 vs. Q1/14 Production Growth



TTM Total Return (Including Dividends)

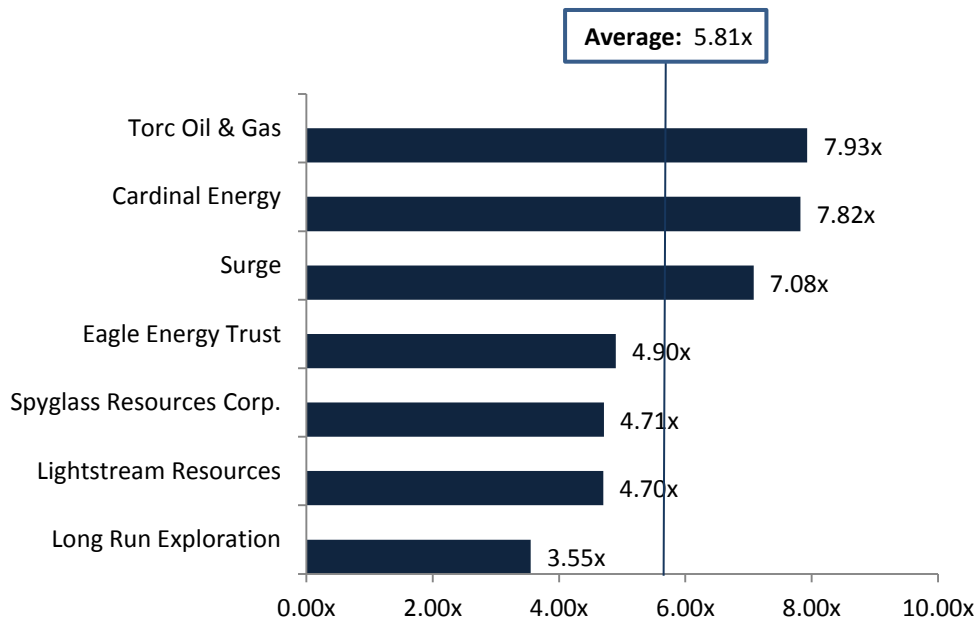


Payout Ratios

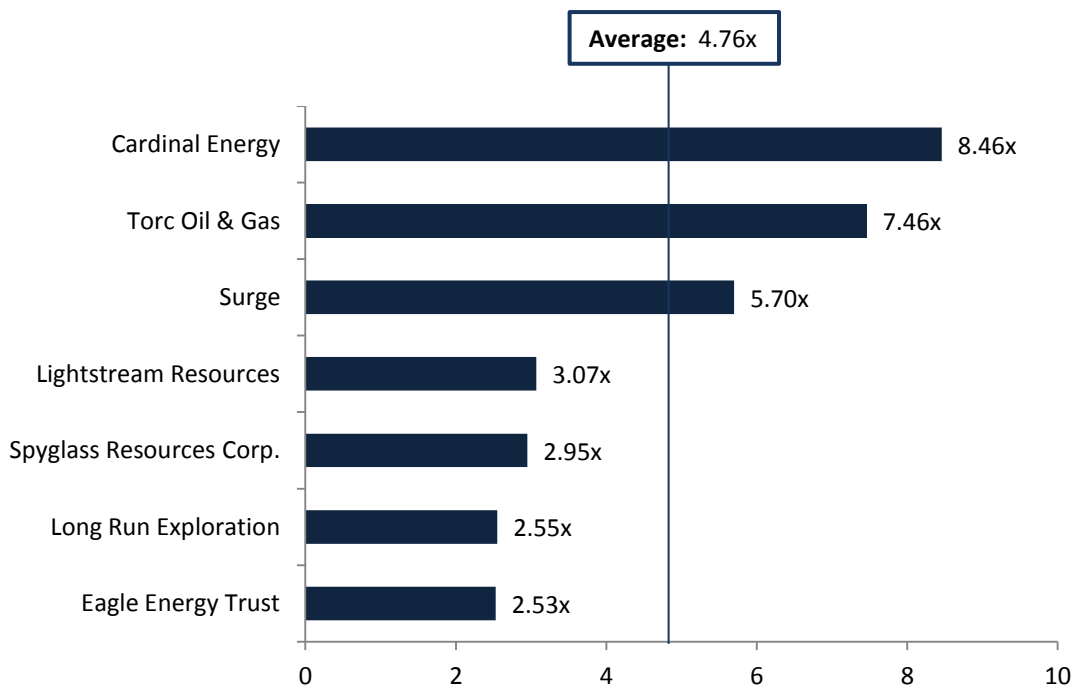


Valuation Multiples: EV/EBITDA & P/CF

Current EV/EBITDA MULTIPLE



Current P/CF MULTIPLE



Peer Group: Comparables

North American Oil & Gas Equities

INCOME-FOCUS COMPARABLES
Global Securities Corporation

Last Update: 23/06/2014

Company / Security	Security Ticker	Current Price	% of 52wk High	1 Y Total Return	Market Cap (\$bn)	Debt/ EBITDA	EV/ EBITDA	Price/ Cash flow	% OIL	Payout w/ CapEx	Payout w/o CapEx	Dividend Yield	Security Commentary
UPSTREAM / E&P PRODUCERS													
Surge	SGY	\$7.82	97.1%	60.29%	1.70	0.98x	7.08x	5.70x	75%	81%	31%	7.68%	Successful development drilling in Saskatchewan. Consistent dividend with high yield.
Torc Oil & Gas	TOG	\$15.99	98.9%	117.43%	1.47	0.36x	7.93x	7.46x	81%	95%	17%	3.38%	Stable dividend & strong cash flow. \$10m light oil drilling project in Three Forks/Torquay.
Cardinal Energy	CJ	\$18.11	96.9%	N/A	0.68	0.11x	7.82x	8.46x	88%	83%	33%	3.59%	Recently made public. Low production decline rate. Clean balance sheet.
Long Run Exploration	LRE	\$5.40	76.4%	44.87%	0.72	1.27x	3.55x	2.55x	43%	90%	17%	7.44%	Transitioned to dividend plus growth model. Trades at a discount.
Spyglass Resources Corp.	SGL	\$1.77	35.5%	2.00%	0.23	1.87x	4.71x	2.95x	44%	122%	37%	15.25%	Expects decrease in Q2 cash flow due to pipeline leaks. High payout.
Twin Butte Energy Ltd.	TBE	\$1.86	27.8%	-9.42%	0.64	N/A	N/A	3.07x	91%	133%	44%	10.35%	Power and propane prices putting pressure on operating costs.
Lightstream Resources	LTS	\$8.65	97.4%	8.95%	1.73	2.61x	4.70x	2.53x	78%	98%	18%	5.55%	Aims to raise \$600m by selling assets in order to clean up balance sheet.
Eagle Energy Trust	EGL UN	\$6.30	31.2%	-5.89%	0.21	0.69x	4.90x	4.32x	76%	112%	57%	16.67%	Generated 18% increase in funds flow from operations from Q4/13. High, but unsustainable, yield.

Average: 70.2% 31% 1.13x 5.81x 4.6x 102% 32% 9%

1. Debt, EBITDA, Earnings and Cashflow estimates are Bloomberg generated as of 13/06/2014
2. Payout ratios are derived from cash flows and exclude capital acquisitions where they were disclosed separately
3. Total 1 year return, including dividends
4. % Oil includes Condensates and NGLs



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Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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