Maison Placements Canada

Maison Energy Monthly
March 25, 2014

COMMODITY PRICE TARGETS

Oil

US$80/b – WTI

Q2/Q3 2014

Oil Glut Building – Big Price Downside Ahead

Natural Gas Fundamentals Have Improved Greatly
Price Upside Winter 2014-2015

What's Inside:

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2. Maison Universe High Impact Drilling Watch List
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SCHACHTER ASSET MANAGEMENT INC.

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➢ *OPEC Excess Production Should Soon Glut World Oil Markets*

Oil Glut Building – Big Price Downside Ahead

Winter oil and natural gas demand over the last few months has been especially brisk due to the Polar Vortex. With spring officially here, the last of the winter snows and cold weather should soon be behind us. A period of restocking will be needed to get inventories in consuming nations back to normal levels and then we expect the excess and growing production from OPEC will be very apparent. We would look for this to occur in the May/July period. This past week, the U.S. Energy Information Agency showed a weekly crude oil build of 5.8Mb to 1.07Bb. However overall stocks fell by 0.5Mb as destocking of winter grades of gasoline and distillate fuels continues. Once these stocks have been run down, the refineries will convert (part-time shutdown) to start producing more environmentally restrictive summer grades. During this period crude oil stocks should build up and move back to normal or above normal levels. This past week's data was 6.8Mb below the prior year, so it won't take long to be back to normal levels. Overall stocks (including the SPR – Strategic Petroleum Reserve) were at 95.2 days last week (normal range 80 -102 days) and total stocks excluding the SPR were at 55.0 days (normal range 45-62 days).

Supply and demand *mb/d*

2013		12/13	2014		13/14
World demand	90.0	1.0	World demand	91.1	1.1
Non-OPEC supply	54.2	1.3	Non-OPEC supply	55.5	1.3
OPEC NGLs	5.8	0.2	OPEC NGLs	5.9	0.1
Difference	**30.0**	**–0.5**	**Difference**	**29.7**	**–0.3**

Source: OPEC Monthly Oil Market Report – March 2014

Once winter demand is over and the shoulder seasonal weakness commences, overall demand world-wide for crude oil should fall from a peak of 91.5 - 92Mb/d to 89-89.5Mb/d, down from the year's average expectation of 91.1Mb/d.

So far in 2014, OPEC has been producing more oil than required to balance supply and demand. With world demand at 91.1Mb/d average for 2014, the growth in non-OPEC supply has been exceeding world demand growth and OPEC has been losing market share. In 2013, the loss was 500Kb/d as demand grew to 90.0Mb/d and non-OPEC supplies grew by 1.3Mb/d to 54.2Mb/d taking all of the 1.0Mb/d growth in demand. This year OPEC should lose another 300Kb/d of production. Our concern is that demand growth may not be as high as OPEC is forecasting, due to: the weakness in China, the emerging market difficulties in Brazil, Turkey and Indonesia etc., and the ongoing weak economic activity in Europe. Add to this the Russia/Ukraine confrontation, and the overall demand picture may slacken, affecting overall crude oil demand in 2014.

On the production side, the success of horizontal drilling and fracking has increased production faster than EIA, IEA or OPEC forecasts. For example, Canada was expected to grow production in 2014 to 4.2Mb/d by the end of the year, yet in February had already reached 4.3Mb/d and may now see growth into year end in excess of 4.5Mb/d. For the U.S. production is already up to 8.215Mb/d up over 1.065Mb/d from a year ago, and natural gas liquids are up 201kb/d from a year ago – this growth alone meeting all world-wide demand growth.

At the same time many OPEC members have increased production as they need funds to meet their ongoing expenses. With the draw on OPEC for 2014 at 29.7Mb/d, in February 2014, OPEC countries produced 31.4Mb/d. As we head into the slower shoulder season, if OPEC continues to produce at such lofty levels, a glut of over 2Mb/d will need to find a home. If Saudi Arabia does not become the swing producer again and shuts in material supplies to allow other OPEC members to gain revenues, then the glut will build quickly.

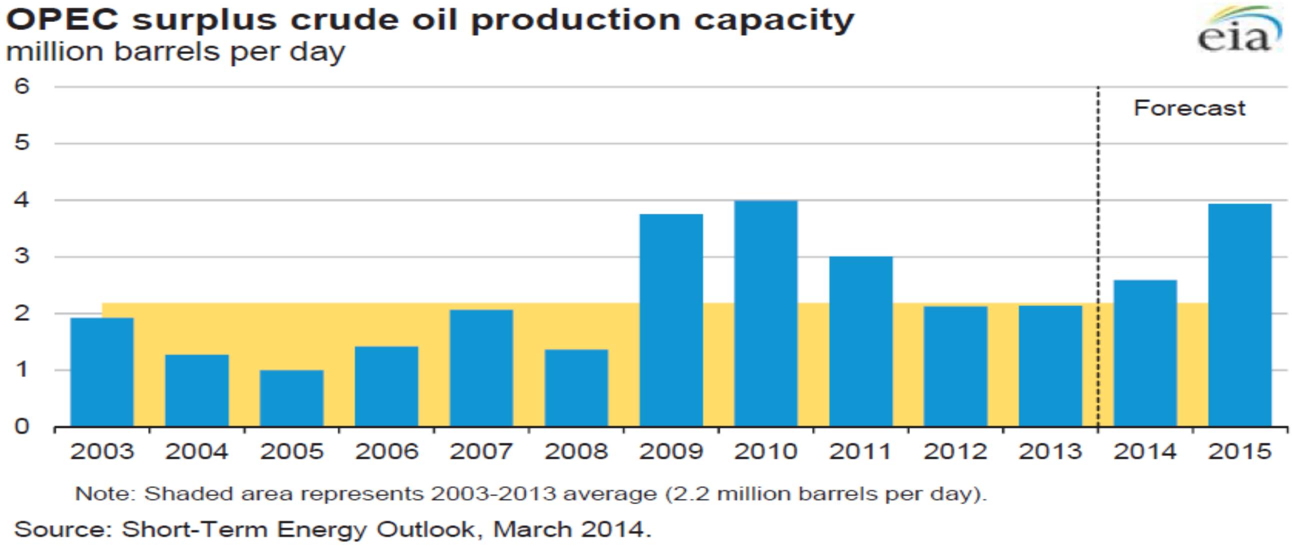
Table 5.5: OPEC crude oil production based on *direct communication*, tb/d

	2012	2013	2Q13	3Q13	4Q13	Dec 13	Jan 14	Feb 14	Feb/Jan
Algeria	1,203	1,203	1,202	1,202	1,208	1,207	1,193	1,211	*18.0*
Angola	1,704	1,697	1,730	1,701	1,625	1,626	1,616	1,602	*-14.0*
Ecuador	504	526	520	534	544	548	550	551	*0.7*
Iran, I.R.	3,740	3,576	3,711	3,653	3,239	3,220	3,250	3,260	*10.0*
Iraq	2,944	2,980	3,042	3,006	2,915	3,002	2,848	3,410	*562.0*
Kuwait	2,977	2,922	2,970	2,992	2,912	2,940	2,920	2,900	*-20.3*
Libya	1,450	993	1,415	752	332	228	508	405	*-103.9*
Nigeria	1,954	1,749	1,649	1,824	1,706	1,702	1,899	1,908	*8.9*
Qatar	734	724	724	719	725	733	732	734	*2.2*
Saudi Arabia	9,763	9,637	9,538	10,115	9,773	9,819	9,767	9,850	*82.8*
UAE	2,652	2,797	2,792	2,859	2,714	2,739	2,717	2,701	*-15.9*
Venezuela	2,804	2,786	2,767	2,781	2,851	2,884	2,888	2,878	*-9.6*
Total OPEC	**32,429**	**31,590**	**32,060**	**32,139**	**30,543**	**30,650**	**30,888**	**31,409**	**521**
OPEC excl. Iraq	**29,485**	**28,611**	**29,018**	**29,133**	**27,629**	**27,648**	**28,040**	**27,999**	**-41**

Totals may not add up due to independent rounding.

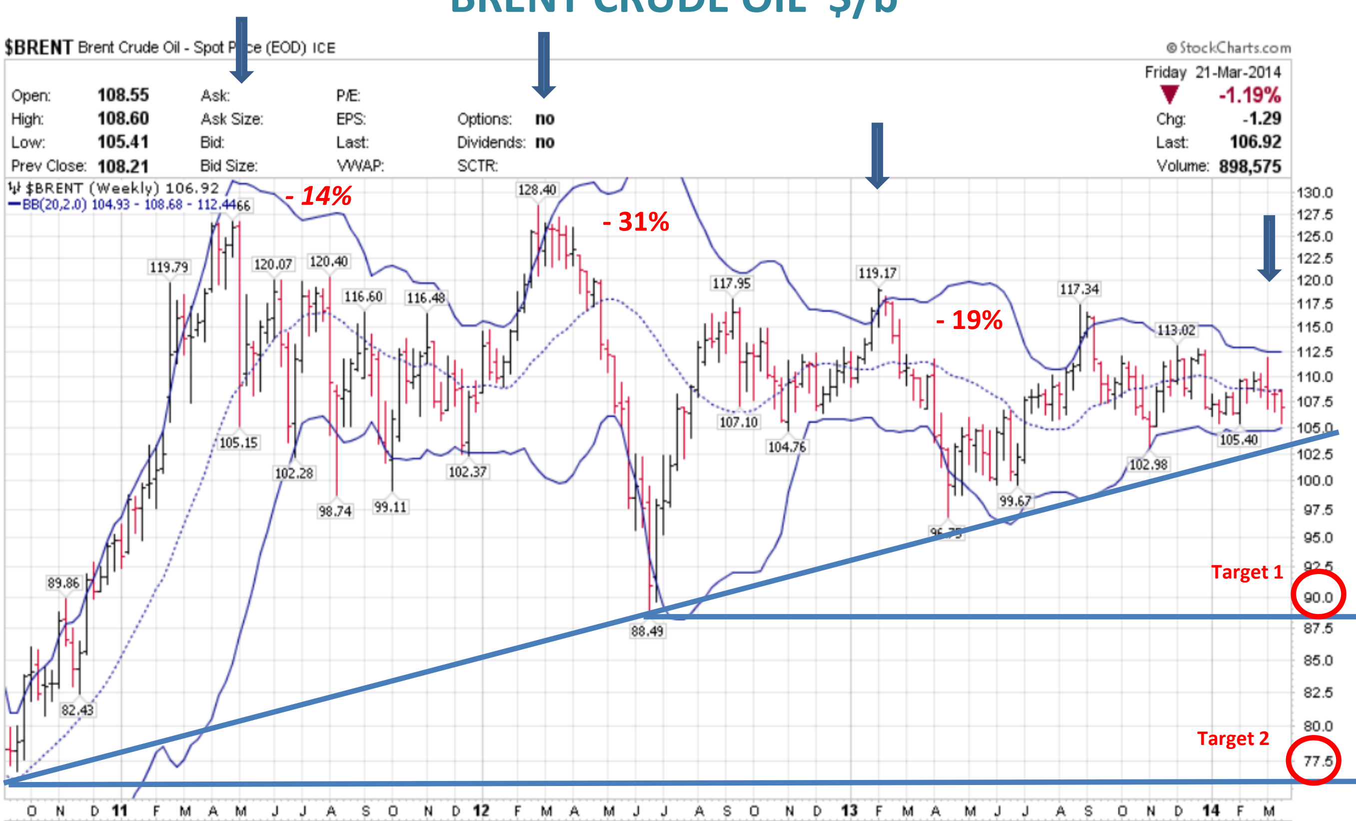
Source: OPEC Monthly Oil Market Report – March 2014

Of note in the OPEC report is that Iraq is now seeing significant new production coming on stream as new off-loading facilities are completed and new production in the southern part of the country boosts capacity. China has been a big investor in the country's Shiite held areas and has starting increasing volumes materially. In February alone 562Kb/d were added. Over the rest of the year, another 500Kb/d is expected to come on stream, adding further to the glut. If Libya gets its act together, it could add a further 1Mb/d before year end. Note also that last month, Saudi Arabia raised production by 83Kb/d. Other potential new capacity could come on from Kurdistan – via the new pipelines being completed, routing to the port of Ceyhan in Turkey. The Kurds estimate that they have production capacity of 301Kb/d this year which can rise to 950Kb/d in 2015, if export capacity can be found and the financial sharing issues are resolved with Baghdad. We see this productive capacity coming on stream as less likely given the sectarian war going on in the country. New elections planned for next month may be difficult with many ethnic groups either not voting or the elections being unfair. Iraq is a mess and seems to be just getting worse under the current dictator Prime Minister Nouri al-Maliki.



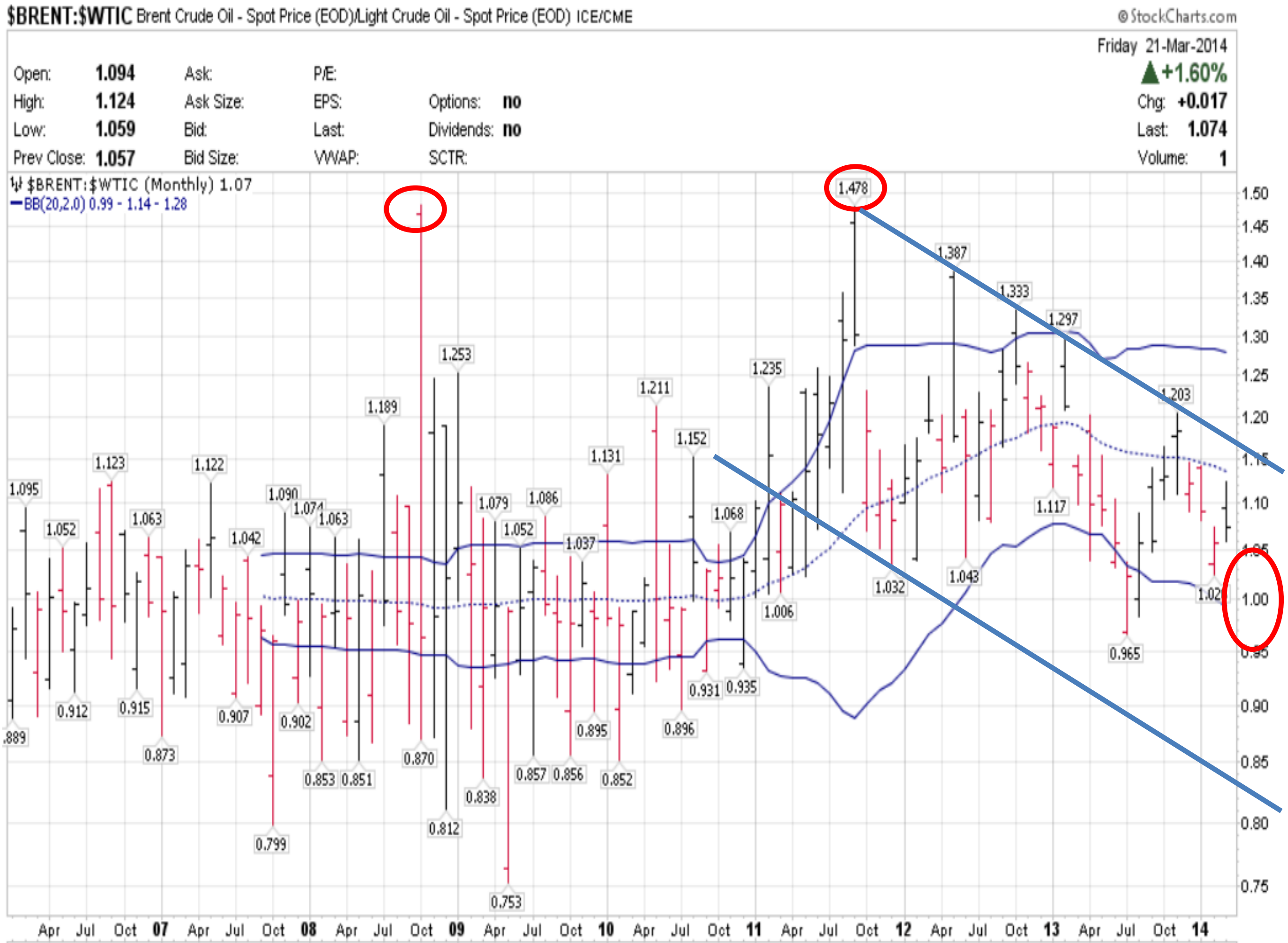
As warmer weather arrives in coming weeks, we expect the glut from OPEC excess production and a growing surplus capacity in OPEC to drive down prices materially. Our expectation is that both Brent and WTI will see handles in the low $80's/b. If weaker economic activity results from the plethora of issues discussed before, we may see prices for crude retreat into the 70's. The seasonal annual peaks in prices occur in the February to early April window and we are now back again into what we think will be a significant seasonal peak. Over the last 3 years Brent has declined between 14 and 31% from the seasonal peak to seasonal low. Our expectation is that the decline in Brent may be larger than WTI as the glut is international and the demand weakness is as well.

BRENT CRUDE OIL $/b



Source: Stock Charts, March 21, 2014

BRENT / WTI RATIO



Source: Stock Charts March 21, 2014

Brent oil prices have been trading at a premium to WTI for the last 3 years as the rising supply of U.S. crude and the land locked nature of the additional supplies added a transportation differential. With pipelines in the political arena now, rail, trucking and barge have taken up the slack to the refineries. Refiners have lucked out and are willing to pay the high transport costs as the cheaper WTI oil price makes for great margins, and the export of very profitable finished product is permitted.

We now see the Brent price more vulnerable to price pressure than the WTI price and the ratio of Brent/WTI should return to the 1 to 1 or even lower. From a high of a premium of $47 for Brent (Q3/11), the premium has declined to US$7 currently. We would expect this to move to even in coming months and in the fall maybe even to a discount versus WTI as weak economic conditions and the OPEC glut get worse.

Natural Gas Fundamentals Have Improved Greatly

Price Upside Winter 2014-2015

The exceedingly cold weather throughout North America this winter drove record consumption of energy, particularly natural gas. From the second week of November, 14 weeks out of 20 weeks have seen record withdrawals over the prior year and over the prior 5-year average. Storage is now at unbelievably low levels and there is great concern that the upcoming injection season will not see sufficient injections to meet an even normal winter in 2014-2015.

In 2011, storage reached 3.84Tcf in November as the drawdown season started. In 2012, storage reached 3.799Tcf and in 2013 storage reached 3.82Tcf. The injection season for each of these years was 2.3Tcf in 2011, 1.5Tcf in 2012 and 1.96Tcf in 2013. With storage likely to be <900Bcf by the end of the withdrawal season (last week at 953Bcf), then it is very unlikely that storage can be rebuilt to 3.8Tcf+ needed by November 1st 2014.

Winter Withdrawals Bcf

		Winter 2013 - 2014	Winter 2012 - 2013	5-Year Average
Nov/13 week	1	35	65	55
Nov/13 week	2	20	21	24
Nov/13 week	3	-45	-18	-6
Nov/13 week	4	-13	-38	-9
Nov/13 week	5	-162	4	-36
Dec/13 week	1	-81	-13	-53
Dec/13 week	2	-285	-58	-165
Dec/13 week	3	-177	-154	-156
Dec/13 week	4	-97	-135	-114
Jan/14 week	1	-157	-201	-145
Jan/14 week	2	-287	-148	-187
Jan/14 week	3	-107	-172	-171
Jan/14 week	4	-230	-194	-175
Jan/14 week	5	-262	-118	-163
Feb/14 week	1	-230	-157	-173
Feb/14 week	2	-250	-127	-185
Feb/14 week	3	-95	-171	-137
Feb/14 week	4	-152	-146	-104
Mar/14 week	1	-195	-145	-120
Mar/14 week	2	-48	-62	-48

Source: EIA, SAMI, February 2014

While natural gas prices have lifted in North America materially in 2014 as the Polar Vortex lifted demand for heating fuels, they are still much below prices in Europe and Asia. This winter, NYMEX prices rose from a low of US$3.38/mcf in early November to a high of US$6.49/mcf in late February. Canadian AECO prices did even better rising to a high of C$7.42/mcf the same frigid week.

Production data for the U.S. highlights the success of the unconventional basin. Overall production in the U.S. has lifted due to the success of the shales (now 38.8Bcf/d). However, overall production has only lifted from 53.4Bcf/d in September 2008 (restrained due to the financial crisis) to a high of 72.2Bcf/d in November 2013. The offset of falling legacy dry gas production, which is uneconomic at the low prices seen over the last few years has been offset by volume growth from liquids rich natural gas plays.

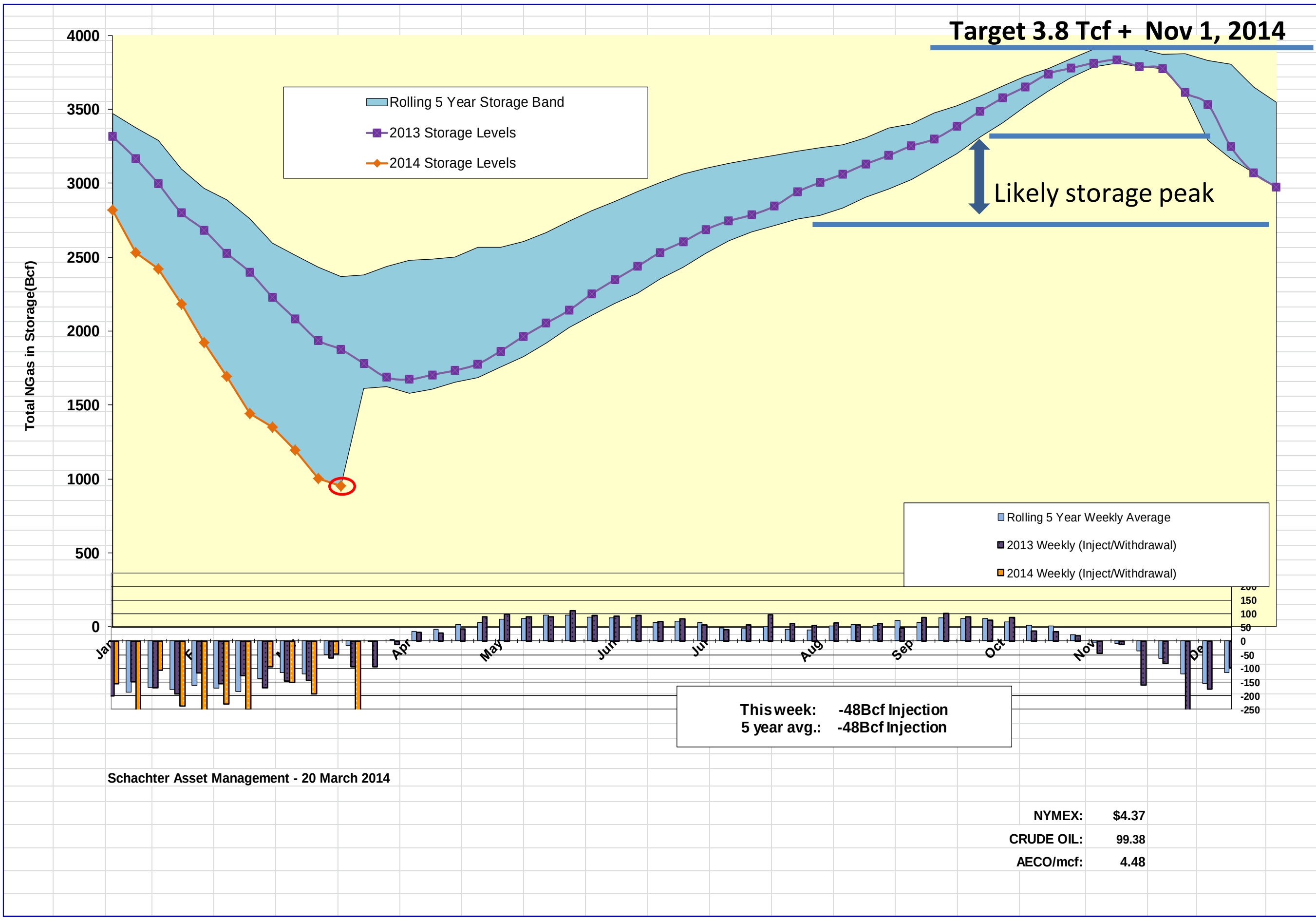
We note from the following table that volumes have stabilized in the 70-72Bcf/d level despite the continuing success of the Marcellus (now 14.8Bcf/d – up from <2Bcf/d in 2010) and the Eagle Ford (now 6.57Bcf/d - up from 1.6Bcf/d in 2009). Production continues to fall in conventional areas (Gulf of Mexico – down 6.7% in 2013, New Mexico – down – 3.9%, Louisiana – down 3.8%, and Wyoming down 4.4%.)

Marketed Natural Gas Production U.S. Bcf/d

	2013	2012	2011	2010	2009	2008
January	68.6	69.5	63.0	59.7	60.2	57.6
February	69.4	68.1	61.8	60.6	60.8	58.5
March	68.9	68.4	64.6	61.5	60.3	59.0
April	69.5	68.2	65.4	61.6	59.3	58.5
May	69.5	68.5	65.5	61.6	59.3	58.5
June	69.9	68.1	65.1	60.7	59.6	59.6
July	70.6	69.8	65.6	61.0	58.8	60.1
August	70.8	69.5	66.4	62.2	59.3	60.0
September	70.2	69.9	66.2	62.8	57.7	53.4
October	71.0	70.0	68.4	62.8	58.5	58.1
November	72.2	70.1	69.2	63.6	58.4	60.0
December	71.2	69.5	68.9	64.0	58.1	60.1

Source: EIA, SAMI, February 2014

WEEKLY INJECTION CHART



Source: SAMI March 20, 2014

With storage unlikely to fill sufficiently to meet a normal winter usage yet alone a cold one like this past one, it is likely that much higher natural gas prices will be seen in winter 2014-2015.

Our expectation is that in winter 2014-2015 NYMEX natural gas prices should exceed US$7/mcf and for Canadian AECO prices to be even firmer.

These high prices will be needed to ration natural gas supplies and to provide usage cover to coal during high demand periods for electricity.

As the start of U.S. LNG exports commence in late 2015, a much higher pricing scenario may occur even though the first LNG start-up, the Cheniere, Sabine Pass project will start with only 2.2Bcf/d of capacity. At the margin this should be sufficient to drive prices somewhat higher but still be under the prices currently seen in Europe and Asia minus transportation.

U.S. Natural Gas

LNG Projects

Facility	Developer(s)	Location	Total Capacity FTA/Non-FTA (BCFD)	Non-FTA Capacity (BCFD)	Start-Up Date	DOE Approval Non-FTA	Approval FERC	Final Investment Decision (FID)
Sabine Pass (phase 1 & 2)	Cheniere	Cameron, LA	2.2	2.2	4Q 2015	Approved	Approved	July 2012
Freeport LNG (phase 1)	Freeport LNG	Freeport, TX	1.4	1.4	4Q 2017	Approved	Filed	--
Lake Charles	Lake Charles Exports/Trunkline	Lake Charles, LA	2.0	2.0	2Q 2019	Approved	Pre-Filed	--
Cove Point	Dominion	Lusby, MD	1.0	0.8	2017	Approved	Filed	--
Freeport LNG (phase 2)	Freeport LNG	Freeport, TX	1.4	0.4	4Q 2018	Approved	Pre-Filed	
Cameron	Sempra Energy	Hackberry, LA	1.7	1.7	2017	Pending	Filed	--
Jordan Cove	Fort Chicago	Coos Bay, OR	1.2	0.8	2017	Pending	Filed	--
Oregon LNG	LNG Development	Astoria, OR	1.3	1.3	4Q 2017	Pending	Filed	--
Corpus Christi	Cheniere	Corpus Christi, TX	2.1	2.1	2020	Pending	Filed	--
Excelerate LNG	Excelerate	Lavaca Bay, TX	1.4	1.4	2020	Pending	Pre-Filed	--
Gulf Coast LNG	Freeport LNG	Brownsville, TX	2.8	2.8	2020	Pending	--	--
Others			16 - 18	15 - 17	2017 - 2026	--	--	--
		TOTAL U.S.	**34.5 - 36.5**	**31.9 - 33.9**				

Source: Devon Energy Investor Presentation, March 10, 2014

If the Russians' move to annex eastern Ukraine or parts thereof, then economic sanctions by the E.U. and the U.S. will most certainly occur. As a result, the power of Gazprom over the consumers in western Europe will need to be diminished and finding other supplies of natural gas will be critical. In this situation, we would expect that the U.S. would accelerate the approval and construction process to get more LNG export facilities up and running to help Europe and exacerbate the dominance of Gazprom.

In this case, we expect our natural gas price forecast would be too conservative and prices could approach the low double digits heading out into the 2015-2018 period.

In either case, by the later part of this year, owning natural gas focused stocks should become very rewarding.

2. Maison Universe High Impact Drilling Watch List

Canada:

Play Area	SAMI Covered Companies	Target	Location	Ownership Working Interest	Leverage Potential to Upside Success	Est. Chance of Success	Timing
Montney Multi-Frac, Extended-reach Horizontal Program	Delphi Energy (DEE)	Montney /Liquids	Bigstone, AB	~92%	>$1/share	50%	Ongoing
Normandville/ Girouxville	Long Run Exploration (LRE)	Montney /Liquids	Peace River Arch, AB	80%	$2/share	50%	Ongoing
Kakwa-Resthaven	Questerre Energy Corp. (QEC)	Montney /Liquids	Kakwa, south of Grand Prairie	Most 25%, others 80% after payout	$0.50/share	50%	Ongoing
Cardium Oil/Viking Oil	Tamarack Valley Energy (TVE)	Cardium /Viking Oil	Lochend/ Garrington/ Redwater	80% or more	>$1/share	50%	Ongoing

Europe, India, Indonesia, and the Middle East:

Play Area	SAMI Covered Companies	Target	Location	Ownership Working Interest	Leverage Potential to Upside Success	Est. Chance of Success	Timing
Sidi Moktar Koba-1	Longreach Oil & Gas (LOI)	>40Mboe	Morocco	50%	$1.00+	25%	Spud March 19/14 News Q3/14
MJ-A1	Niko Resources Ltd.(NKO)	Gross 3TCF 200B Liquids	Offshore India	10%	$5+	33%	News April/14
Block 2-3	Petromanas Energy Inc. (PMI)	>200Mb	3 wells in Albania	25%	$0.50+	25%	Miloshst-1 News June-July/14
Shukheir Bay	Sea Dragon Energy Inc.(SDX)	5Mb Target Nubia	Egypt	100%	$0.20	33%	Spud Late 2014 or 1H/15
A8 &Crosgan	Sterling Resources (SLG)	100Bcf	UK N.Sea	30%	$0.50+	33%	Q2-Q3/14

South America & Caribbean:

Play Area	SAMI Covered Companies	Target	Location	Ownership Working Interest	Leverage Potential to Upside Success	Est. Chance of Success	Timing
Chaza Block	Gran Tierra Energy (GTE)	3 Exploration wells	Columbia	100%	$1.00+	25%	Throughout 2014
Peru Block 107	Gran Tierra Energy (GTE)	>70Mb oil	Peru	100%	$2.00+	20%	2H/14

3. Research Updates
Long Run Exploration Ltd.

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SCHACHTER ASSET MANAGEMENT INC.

Long Run Exploration Ltd. LRE $5.02

Total Return Upside 35% **Target Price** $6.40

*** Rating 5**

	2012 Actual	2013 Actual	2014 Forecast
Production			
Oil & Liquids b/d	8,576	13,232	14,250
Natural Gas Mmcf/d	27.7	71.2	74.7
Total 6:1	13,189	25,094	26,200
Volume Growth	127%	90%	4.4%
Per million shares	145	196	205
Gross Wells Drilled	132	129	84
Volumes Mix %			
Oil & Liquids	65%	53%	54%
Natural Gas	35%	47%	46%
Financials			
Cash Flow/Share	$1.41	$1.83	$1.97
Price/Cash Flow	3.5x	2.7x	2.5x
Net Capital Exp $M	210.4	385.3	210
Cash Flow $M	128.7	230.1	258
Net CapEx/Cash Flow	1.6x	1.7x	0.8x
Commodity Prices (SAMI forecasts)	Actual	SAMI Est.	SAMI Est.
US$ WTI	$94.21	$90.00	$85.00
C$ AECO	$2.40	$3.12	$3.50

Quarterly Results

	Production (b/d)			Cash Flow per Share		
	2011A	2013A	2014F	2012A	2013A	2014F
Q1	8,848	23,611	25,000	0.35	0.39	0.47
Q2	11,549	24,431	26,600	0.41	0.50	0.50
Q3	10,890	25,293	26,200	0.32	0.50	0.49
Q4	21,405	27,003	27,000	0.33	0.45	0.51

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

Reporting Periods		
Year-end:		December
Next Report:	Q1	May/15/14
Shares O/S		
Basic M:		127.9
Fully diluted M:		138.2
Financial Data		
Market Cap $M:		642
Enterprise Value $M:		1,125
Enterprise Value per 2014 avg production:		$42,981
Reserve Life Index (years)		Dec-13
Proven:		6.4
P+P:		9.9
SAMI NAV	$7.85	
Book Value	$4.91	Q4/13
Debt	**CV $75M**	Q4/13
Bank Debt Line $M:		$475
Bank Debt Utilized $M:		$424
Insider Ownership		~4%
Ex. Chair:	William Andrew	450K
President:	Dale Miller	148K
Director:	John Brussa	795K
Funds:	Sprott Resource	20.1M
	non-voting	15.5M
Service Providers		
Bankers:	Scotia/National Bank	
Auditors:	Ernst & Young LLP	
Engineers:	Sproule Associates.	

Long Run Exploration Ltd.

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Company History & Management Info:

- Long Run is the successor company to a merger between Westfire Energy and Guide Exploration that occurred in October 2012. The initial company creating Westfire was an ABCA formed in September 1999. *The largest shareholder of the merged entity is Sprott Resource Corp. with 18.3% of the voting stock and 12.3% of the company in non-voting shares*. LRE has 124 full time employees and utilizes 13 consultants at head office. In addition it had 68 full time and 75 contract operators in the field at year end 2013.
- Management: Bill Andrew – CEO, Dale Miller – President, Corine Bushfield – CFO & VP Finance, Jana King – VP Explr. Jason Fleury – VP Business Development Dale Orton – Sr VP Eng. Devin Sundstrom – VP Production

Core Areas:

- Long Run currently holds land in 3 dominant core areas with a total undeveloped land position of >970k net acres. The core areas are Peace River Arch – 270k net acres (NW Alberta), Redwater – 88k net acres (East Central Alberta), and Boyer Area – 121.5k net acres (NW Alberta). LRE had exposure to 866 net oil wells and 1,399 net gas wells at the end of 2013. LRE is moving the company towards more liquids. LRE has commenced water injection programs in all its core areas and in 2015 should see volume growth in Girouxville/Normandville. Later this year they expect to see production increases at Redwater.

Key Impact Plays / Black Gold Wealth Creation:

- LRE's largest core is the **Peace River Arch area** with 2013 production of 10,256 boe/d. The horizontal wells for the Montney have on-stream costs of around $2M/well and utilize 25 stage fracs. IP rates over 30 days are 250 boe/d. Improved drilling time from 11 days to 8.5 days is driving improved economics and recent wells are exceeding the forecast type curve. Over time, they should be able to move to 10-12 wells per section from the current 6 wells. An important upside for LRE would be successfully introducing a water flood project that could materially add to reserves (>30MB). The first project is underway this year with response expected in 2015. In 2014, LRE will drill 44 net wells in this core area.
- At **Redwater/Cherhill,** 2013 production was 8,500 boe/d. LRE is using some of the same drilling and completion techniques used for the Montney for this play and initial results are exceeding forecast. The horizontal wells here have an on-stream cost of $1.2M, use 25 stage fracs and have 30 day IP rates of 65 boe/d. A water flood pilot project has also been implemented area this year with response expected in 2H/14. In 2014 LRE plans on drilling 36 net wells in this core oil area.
- In 2014 **LRE** will spend 10% of its capital budget on exploration. At Cherhill, they will conduct an extensive 3D program to add drilling locations and will look at one or two new areas to build up a land spread for future drilling.

Recent Operational & Financial Results:

- In Q4/13 LRE increased production by 7% to 27,003 boe/d from Q3/13 due to their drilling program and acquisitions ($86.3M – 1,800 boe/d) in their core areas. Cash flow came in at 45 cents in the quarter (below our forecast) as lower liquids prices impacted netbacks. The company was not a very active driller in Q4/13, drilling only 11.5 net wells versus 50.1 in Q3/13. The lower activity was due to their focus on integrating the core acquisitions. In 2013, the move to a dividend model lowered their exploration activity which saw only 2 wells drilled versus 127 development wells.
- LRE's last equity raise was in Jan/14 when it sold $75M of convertible debentures with a 6.4% coupon and a conversion price of $7.40/share. The converts mature in January 2019.
- **Our 12-month stock price target of $6.40 is based upon 3.2x (a material discount to the target multiple of the proven RLI of 6.4 years) 2014 annual cash flow of $1.97/share. The stock trades below our NAV of $7.85/share. We believe LRE is a very attractive purchase <$5.00/share. With the 3.35 cents per month dividend providing a base 8.0% yield, the upside to our target of $6.40 provides a very attractive total return of 35% return. The capital gain portion of the total return is expected in the second half of the year as production volumes increase and it becomes evident that LRE will be able to increase its dividend in 2015.**

Balance of Evidence

Growth Drivers	Limits to Growth
• LRE's management team is very focused on building a successful medium-sized, dividend-model, energy company. LRE is one of the lowest payout ratio dividend model entities. • The company is moving to lengthen its RLI to >10 years for 2P reserves and reducing its decline rates from 32% to below 30% by year end 2014. If the water flood programs are successful, the goal is to reduce the decline rates (over the next few years) to 25% which would be supportive of the dividend model. • We look for LRE to make contrarian purchases of assets, taking advantage of the bargains available in acquiring dry gas and heavy oil at this time. • We are becoming more bullish on the outlook for natural gas for winter 2014-2015 and LRE has significant upside volumes it could bring on in late 2014 for next winter. We have not included this in our forecast.	• With the stock trading near book value and materially below NAV, access to the equity capital markets would be very dilutive. Near term LRE should be able to grow volumes 4-5% via cash flow, non-core asset sales and debt availability. • The large ownership by Sprott may hold the stock back as the market is concerned about the sale of the non-voting shares over the coming quarters. • In 2014, LRE added materially to its hedge book and is now 64% hedged for natural gas and 62% for oil. These hedges were done before the winter price rise and therefore they have had losses on their hedges for the last 2 quarters. As they head into 2015 they should see higher netbacks as they grab better hedges to protect their capital program.

Sterling Resources Ltd. (SLG-V)

Maison Placements Canada

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March 20, 2014

SCHACHTER ASSET MANAGEMENT INC.

Sterling Resources Ltd. SLG $0.63

***RATING: 5**

Potential Upside 154% **Revised Target Price $1.60**

		2013 Forecast	2014 Forecast	2015 Forecast
Production				
	Oil & Liquids b/d	0	0	900
	Natural Gas mmcf/d	3.4	36.1	37.5
	Total 6:1	540	5,775	6,900
	Volume Growth	n/a	n/a	18%
	Per million shares	n/a	18.7	22.3
	Gross Wells Drilled	3	5	9
Volumes Mix %				
	Oil & Liquids	0%	0%	13%
	Natural Gas	100%	100%	87%
Financials				
	Cash Flow/Share	n/a	$0.36	$0.42
	Price/Cash Flow	n/a	1.8x	1.5x
	Net Capital Exp $M	$75	$90	$115
	Cash Flow $M	$2	$112	$132
	CapEx/Cash Flow	37.5x	0.8x	0.9x
Commodity Prices (SAMI forecasts)		SAMI Est.	SAMI Est.	SAMI Est.
US$/b	Brent	$100.00	$95.00	$95.00
C$/mcf	UK	$10.00	$10.00	$10.00

Quarterly Results

	Production (b/d)			Cash Flow per Share		
	2013F	2014F	2015F	2013F	2014F	2015F
Q1		5,000	6,200		0.08	0.09
Q2		5,400	6,800		0.09	0.11
Q3		6,200	7,000		0.09	0.10
Q4	540	6,500	7,600	0.00	0.10	0.12

***RATINGS**: **5** - Strong Buy **4** - Buy, **3** - Hold, **2** - Sell, **1** - Strong Sell

Reporting Periods		
Year-end:		December 31st
Next report:	Q4	15/04/14
Shares O/S		
Basic M:		309.6
Fully diluted M:		319.2
Financial Data		
Market Cap $M:		195.0
Enterprise Value $M:		421.1
Enterprise Value per 2014 Avg production:		$72,918
Reserve Life Index (years)		2013 est
Breagh	Proven:	8.6
	P+P:	11.7
NAV	$1.22	Q2/13
BV	$0.86	Q3/13
Debt	*Senior secured bond Q3/13*	
	Debt Line $M:	$226.1
	Debt Utilized $M:	$226.1
Insider Ownership		<1%
Chairman:	Jacob Ulrich	1.0M
COO:	John Rapach	0K
CFO:	David Blewden	50K
	Inst. Ownership:	>60%
Ingalls (34.8M), Vitol (48.8M)		
Service Providers		
Bankers:	RBC Royal Bank	
Auditors:	Ernst & Young LLP	
Engineers:	RPS Energy Group Plc.	

Sterling Resources Ltd.

Suite 1450, 736-6th Ave SW Calgary AB T2P 3T7Tel 403 237-9256 Fax 403 215-9279

Website: www.sterling-resources.com

Company History & Management Info:

- Sterling was created in 1997 to explore internationally for oil and natural gas.
- Management: Jacob Ulrich - Chairman and CEO; John Rapach – COO; David Blewden – CFO; David Findlater – VP Exploration; Sherry Cremer – Treasurer and Corp. Sec

Core Areas:

- Sterling (SLG) has an exploration/development focus offshore in the UK and Romania with projects in the Netherlands (offshore) and in France (onshore). Total land exposures are >3.9M gross acres (1.9M net).

Key Impact Plays / Black Gold Wealth Creation:

- **United Kingdom:** SLG has interests in 27 blocks in the U.K. North Sea. **Southern North Sea (Gas Focus):** Sterling holds a 30% interest in the greater **Breagh** area (2P reserves >600Bcf). RWE Dea AG (RWE), a German utility, has been the operator with a 70% interest. On March 16th, RWE sold its energy subsidiary RWE Dea to Letterone Group a subsidiary of Russia's Alfa Group for a total of US$7.1B. This new partner is very well financed after selling its 25% stake in TNK-BP to Rosneft for US$13.9B (March 2013). The deal may take some time to close but once it does, a more proactive and knowledgeable partner should help to optimize performance and upside. The Advisory Board at Letterone includes such UK North Sea experts as John Browne (former CEO of BP plc) and Jim Hackett (former Anadarko). One platform, Alpha, is now operational with 6 wells hooked up to a sub-sea pipeline tie-back with 400Mmcf/d capacity. The existing onshore train can handle 200Mmcf/d and we see this volume goal being reached in 2017. The next well in the program A7 will be hydraulically stimulated to see if production can exceed the modeled 20Mmcf/d/well. Thereafter A8 will be drilled and tied in. The Ensco 70 Jackup rig returns from upgrade and inspection in mid-April and a 3 well program (A7, A8 and Cosgran) will occur. If Cosgran is a success, then sufficient reserves should justify building the Bravo platform with the eastern Breagh and Cosgran reserves being produced starting in late 2017. This could lift production net to SLG of 60Mmcf/d. The Alpha platform (covering the west side of the project) has 12 well slots of which 6 are currently used and a total of 8 should be on-stream by Q3/14. In 2015 the partners could drill up to 4 more wells to fully utilize the facilities available. SLG is currently modeling in 2 more wells in 2015 (A9 and A10) which should offset depletion. If more wells are drilled then there could be more volume growth in 2015 than we are assuming in our forecast. They need to acquire a rig for this program (for an extensive program, rig availability should not be an issue) and this should be part of the discussion with their partner once the new owners have themselves installed. There are quite a few exploration wells to be drilled to add to reserve potential and to extend the life of the project with the most meaningful drills at Crosgan (2014) and Lochran, Ossian Niadar and Darach (2015). **Northern North Sea: Cladhan,** Block 210 (13.8% WI, operator TAQA). This oil discovery has received field development approval (April 2013) and should be on stream during Q1/15. We have modeled in 1,200 b/d net to SLG starting Q2/15. The project will be developed initially with 2 producers and one water injector well. **Central North Sea: Beverly,** SLG has farmed down this prospect to Shell and will be carried for a 20% interest in this oil target which should be drilled in 2H/14. The prize could be 20Mb gross.
- **Romania: Offshore, Black Sea:** Sterling (65% - 4 blocks) drilled a number of successful gas wells in the Doina/Ana area which now have contingent resources of >300Bcf. SLG has a data room open and hopes to obtain a well-funded partner who could come in and operate and bring the project on stream by 2017, fully carrying SLG to first production. A well at Muridava (40% SLG) and Luceafarul (50% SLG) will be drilled by operator Petroceltic in Q2/14. The targets are>100Bcf gross each.
- **Other Areas:** SLG has prospects in France and Holland for both conventional and shale opportunities. We view these assets as non-core and hope that SLG provides only minimal required funding or farms them out.

Recent Operational & Financial Results:

- **Our 12 month target of $1.60 is based upon 4x our annualized cash flow estimate for Q4/14 (below our proven RLI of 8.6). Our target does not include any current value to offshore Romania or the current exploration program, effectively giving you this exposure for free.**
- To fund Breagh and provide more financial flexibility versus their bank borrowings, SLG arranged a US$226M senior secured bond issue in April 2013. The yield to maturity was 10.3%.
- SLG's last equity issue was in March 2013 when it raised $59M net, via the sale of 84.3M shares at 75 cents/share.

Balance of Evidence

Growth Drivers	Limits to Growth
▪ With additional slots on the Alpha platform, the partners should drill additional wells to drain the eastern, western and northern sides of the field and defer the second platform until sufficient new reserves are found in the area. ▪ We have assumed production of 1,200 b/d from Cladhan and this could be much higher >2,000 b/d in 2015 if the Tern platform modifications are maxed out and the second carry terms prevail. ▪ SLG is exposed to 1Tcf gross reserves of natural gas from future exploration in the UK North Sea and offshore Romania.	▪ SLG has lowered initial production guidance for Breagh from 170Mmcf/d to 129Mmcf/d gross. In addition the delays and the cost overruns in the start-up have caused great concern about the partner's management of the project. ▪ SLG need a well-financed partner to develop their Romanian Black Sea assets. A new 3D program should help to highlight the drilling upside and attract a partner in late 2014. ▪ Approvals from the government in Romania have been very slow, impeding deal closures. An election this fall hopefully will resolve this uncertainty.

4. *Top Picks:* No Domestic Picks This Month

5. *Recommended Buy List:*

Maison Placements Canada

Junior & Intermediate Energy Companies

Recommended Buy List
March 21, 2014

SCHACHTER ASSET MANAGEMENT INC.

Company	Sym	March 21, 2014 Stock Price $	Target Price $*	APPRECIATION % Present Price	APPRECIATION % On the Week	Capitalization $M
Domestic E&P						
Long Run Exploration Ltd.	LRE-T	5.11	6.40	25%	1.4%	644.6
Tamarack Valley Energy Ltd.	TVE-V	5.45	6.50	19%	8.6%	328.1
International E&P						
DualEx Energy International Inc.	DXE-V	0.225	0.50	122%	-4.3%	23.1
Longreach Oil & Gas Ltd,	LOI-V	0.29	1.25	291%	-9.4%	23.4
Niko Resources Ltd.	NKO-T	2.25	8.00	256%	-7.4%	201.8
Petromanas Energy Inc.	PMI-V	0.215	0.60	179%	2.4%	149.1
Sea Dragon Energy Inc.	SDX-V	0.075	0.24	220%	-6.3%	28.2
Sterling Resources	SLG-V	0.64	1.60	150%	-1.5%	303.7
WesternZagros Resources Ltd.	WZR-V	0.91	1.50	65%	9.6%	432.3
						Week's Δ
			TSX Energy Index		**288.50**	**2.6%**
			WTI		**99.53**	**0.5%**
			Nymex		**4.31**	**-2.5%**
			AECO (C$/mcf)**		**4.71**	**1.9%**

* 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., March 21, 2014

6. Research Coverage List

Research Coverage List - 21 March, 2014

Maison Placements Canada

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

SCHACHTER ASSET MANAGEMENT INC

Companies Covered	Symbol	Stock Price $ Mar/21/14	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
*Domestic E&P**												
Delphi Energy Corp.	DEE-T	2.77	U.R.	n/a		153.3	424.6	118.6	543.2	28%	3.58	1.62
Long Run Exploration Ltd.	LRE-T	5.11	6.40	25%	5	127.9	653.6	499.0	1152.6	52%	7.85	4.91
Questerre Energy Corp.	QEC-T	1.25	1.20	-4%	2	263.9	329.9	0.0	329.9	73%	0.65	1.04
Tamarack Valley Energy Ltd.	TVE-V	5.45	6.50	19%	4	60.2	328.1	71.8	399.9	60%	5.92	3.20
*International E&P**												
Bankers Petroleum Ltd.	BNK-T	5.50	NR	n/a		255.5	1405.3	98.1	1503.4	100%		2.13
DualEx Energy International	DXE-V	0.225	0.50	122%	3	98.5	22.2	(2.7)	19.5	n/a	n/a	0.045
Gran Tierra Energy Inc.	GTE-T	8.45	U.R.	n/a		283.0	2391.4	(428.0)	1963.4	97%	6.48	5.05
Longreach Oil & Gas Ltd.	LOI-V	0.29	1.25	331%	4	80.8	23.4	(29.6)	(6.2)	n/a	n/a	0.51
Niko Resources Ltd.	NKO-T	2.25	8.00	256%	5	90.4	203.4	340.0	543.4	6%	15.63	9.68
Petromanas Energy Inc.	PMI-V	0.215	0.60	179%	4	693.7	149.1	(47.0)	102.1	n/a	n/a	0.185
Sea Dragon Energy Inc.	SDX-V	0.075	0.24	220%	4	376.5	28.2	0.6	28.8	92%	0.18	0.09
Sterling Resources Ltd.	SLG-V	0.64	1.60	150%	5	309.6	198.1	226.1	424.2	0%	1.22	0.86
Sonde Resources Corp.	SOQ-T	0.52	NR	n/a		62.3	32.4	(24.6)	7.8	30%		2.43
WesternZagros Resources Ltd.	WZR-V	0.91	1.50	65%	4	475.1	475.1	(71.1)	404.0	n/a		0.90

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

Source: SAMI March 21, 2014

UR = Under Review
NR = Not Rated

Commodity Price Assumptions	2012A	2013E	2014E
WTI US$/b	$94.21	$90.00	$85.00
NYMEX-US$/mcf	$2.79	$3.53	$4.00
AECO -C$/mcf	$2.40	$3.12	$3.50

Symbol	% Insider Ownership	Production 6:1				% Production Growth 2013	Enterprise Value Latest Q /boe Production	Cash Flow/share 2013 $	Cash Flow Multiple 2013 est	P RLI	$M Cash Flow 2013 est	$ Capex est 2013	Last Report Date
		Latest Quarter	2012A	2013E	2014E								
DEE-T	6%	8,988	8,276	8,241	10,500	0%	$60,441	0.26	10.7	7.6	39.1	82.3	Nov/28/13
LRE-T	4%	27,003	13,189	25,094	26,200	90%	$42,683	1.83	2.8	6.4	230.1	385.3	Mar/18/14
QEC-T	9%	880	675	1,010		50%	$374,858	0.06	20.8	9.1	14.0	46.0	Aug/22/12
TVE-V	12%	4,336	2,166	3,276	5,500	51%	$92,226	1.09	5.0	5.4	36.6	104.6	Nov/22/13
BNK-T	7%	18,332	14,808	18,169	19,600	23%	$82,007	1.10	5.0	33.0	260.0	225.0	
DXE-V	11%	n/a	n/a	n/a		n/a	n/a	n/a	n/a	n/a	0.8	7.0	Oct/1/12
GTE-T	5%	21,556	16,897	22,267	23,800	32%	$91,081	1.25	6.8	5.2	353.0	315.0	Aug/15/13
LOI-V	<10%	n/a	n/a	n/a		n/a	n/a	n/a	n/a	n/a	n/a	24.0	April 18/13
NKO-T	<10%	18,034	26,190	17,680	21,000	-32%	$30,132	0.85	2.6	7.0	60.0	1145.0	Sept/20/13
PMI- V	14%	n/a	n/a	n/a			n/a	n/a	n/a	n/a	n/a	30.0	Sep/05/12
SDX-V	8%	1,916	1,147	1,900		66%	$15,051	0.00	n/a	8.7	5.8	7.0	Jan/02/13
SLG-V	1%	0	0	540	5,775	n/a	n/a	n/a	na/	8.6	2.0	75.0	Mar/20/14
SOQ-T		2,155	2,800	n/a		n/a	$3,618	n/a	n/a	n/a	0.0	30.0	
WZR-V	7%	n/a	n/a			n/a	n/a	n/a	n/a	n/a	n/a	132.9	

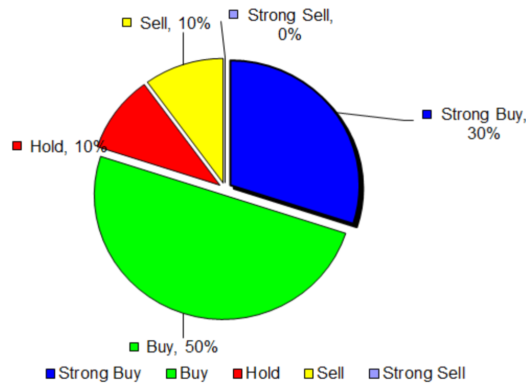
Source: SAMI March 21, 2014

Analyst Disclosure

Rating:

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

Company Name	Trading Symbol	*Exchange	Disclosure Code	Rating
Bankers Petroleum	BNK	T		**N.R..**
Delphi Energy	DEE	T		**U.R.**
DualEx Energy	DXE	V	4,5	**3**
Gran Tierra Energy	GTE	T		**U.R.**
Long Run Exploration	LRE	T		**5**
Longreach Oil & Gas	LOI	V		**4**
Niko Resources	NKO	T		**5**
Petromanas Energy	PMI	V		**4**
Questerre Energy	QEC	T		**2**
Sea Dragon Energy	SDX	V	1	**4**
Sonde Resources	SOQ	T		**N.R.**
Sterling Resources	SLG	V		**5**
Tamarack Valley Energy	TVE	V		**4**
WesternZagros	WZR	V		**4**



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

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Disclosures

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