



February 4, 2013

AltaCorp Price Deck Update

Ticker	Rating			Target Price		
	New	Old	Chg	New	Old	Change
Small Cap						
PPY	OP	OP		\$14.00	\$14.00	
PNE	S	S		\$1.25	\$1.25	
PRY	OP	OP		\$2.25	\$2.50	-\$0.25
RMP	OP	OP		\$4.25	\$4.25	
RE	SP	OP	▼	\$1.60	\$1.60	
TVE	OP	OP		\$3.75	\$3.75	
TOL	OP	OP		\$4.25	\$4.25	
WDN	SP	SP		\$0.45	\$0.45	
YGR	S	S		\$0.45	\$0.50	-\$0.05
Mid-Cap						
NGL	OP	SP	▲	\$4.25	\$4.25	
BXE	OP	OP		\$7.50	\$7.50	
LEG	OP	OP		\$9.75	\$9.75	
LPR	S	S		\$1.50	\$1.50	
STE	SP	SP		\$1.50	\$1.50	
SGY	OP	OP		\$6.00	\$6.00	
Yield Names						
ARX	SP	SP		\$25.00	\$25.00	
BTE	OP	OP		\$52.00	\$52.00	
BNP	SP	SP		\$18.00	\$20.00	-\$2.00
BNE	OP	OP		\$60.00	\$57.50	\$2.50
CPG	OP	OP		\$44.00	\$44.00	
ECA	SP	SP		\$22.50	\$22.50	
ERF	OP	SP	▲	\$18.00	\$18.00	
FRU	UP	SP	▼	\$22.00	\$22.00	
PCE	SP	SP		\$4.00	\$4.25	-\$0.25
PGF	OP	OP		\$7.50	\$7.50	
PWT	SP	SP		\$13.00	\$13.00	
PBN	SP	SP		\$11.50	\$11.50	
PEY	SP	SP		\$28.00	\$28.00	
RPL	OP	OP		\$3.00	\$2.75	\$0.25
TET	OP	OP		\$37.00	\$35.00	\$2.00
TBE	SP	SP		\$2.45	\$2.60	-\$0.15
WCP	OP	OP		\$10.75	\$10.75	
VET	SP	SP		\$52.00	\$52.00	
Oil Sands						
STP	OP	OP		\$2.25	\$2.25	

Adjusting Our Outlook on Differentials

Updated Oil and Natural Gas Forecasts: In conjunction with our report on North American crude oil differentials entitled “Pressing the “Reset” Button on North American Crude Pricing Relationships”, we are revising our forecasts to reflect the current forward curves for Brent (now the global benchmark) and applying our revised views on crude differentials going forward. For a more detailed outline of our views on crude differentials, please see that report.

The Numbers: Our 2013 WTI forecast is up US\$7.00/bbl to US\$95.00/bbl with Canadian Par up \$4.00/bbl to \$85.00/bbl and WCS down \$4.00/bbl to \$60.00/bbl. For 2014, our WTI forecast is up US\$2.00/bbl to US\$91.00/bbl, while our Canadian Par estimate is down \$1.00/bbl to \$83.00/bbl and WCS is down \$7.00/bbl to \$64.00/bbl. For gas, we have made minor adjustments, with our forecast unchanged for 2013e and up approximately \$0.10/mcf for 2014e.

	2013e			2014e		
	New	Old	Change	New	Old	Change
WTI (US\$/bbl)	95.00	88.00	7.00	91.00	89.00	2.00
Cdn Par (C\$/bbl)	85.00	81.00	4.00	83.00	84.00	(1.00)
WCS (C\$/bbl)	60.00	64.00	(4.00)	64.00	71.00	(7.00)
FX (US\$/C\$)	1.00	1.01	(0.01)	1.00	1.00	0.00

	2013e			2014e		
	New	Old	Change	New	Old	Change
Henry Hub (US\$/mcf)	3.65	3.65	0.00	4.15	4.05	0.10
AECO (C\$/mcf)	3.25	3.25	0.00	3.75	3.65	0.10

Figure 1. AltaCorp Updated and Previous Oil and Gas Price Decks
Source: AltaCorp Capital Inc.

Implications and Opportunities for Covered Names: One of the key themes that we have seen play out in the equity markets over the past few years has been a noticeable “sell-Canada” trade which has led to the underperformance of the broader Canadian listed E&P space, relative to other global indices. While we are forecasting a fairly cautious outlook for Canadian crude differentials in 2013, and even into the early parts of 2014, we believe that there is enough clarity on infrastructure dynamics improving in the interim that we could begin to see the capitulation of investor’s disinterest in the space. The key caveat to this of course is that companies will need to be able to “weather the storm” over the near-term; however, for those that can, we are largely bullish on the broader Canadian E&P space, simply given the low valuations currently, and improved confidence that differentials will be resolved next year. We underscore several names that we believe are particularly compelling in the current environment. Among small-cap names, we highlight **Pinecrest (PRY-V)** and **TriOil (TOL-T)**; among the mid-cap names, we highlight **Bellatrix (BXE-T)**, **Enerplus (ERF-T)**, **Legacy (LEG-T)**, and **Southern Pacific (STP-T)**; among the large cap names we highlight **Cenovus (CVE-T|N)**.

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Target & Rating Changes

Targets: Figure 2 summarizes the changes to our key estimates, ratings and targets, where applicable.

Rating Changes: We have made the following rating adjustments:

Angle Energy (NGL-T); (Outperform, \$4.25 Target): We are upgrading Angle to Outperform from Sector Perform. In December we downgraded Angle, citing concerns about leverage and Street production estimates that we believed were too high (at the time, we were carrying 12.4 mboe/d for 2013e versus consensus estimates according to Factset of 14.0 mboe/d). Since then, production estimates have been cut in line with 2013e guidance suggesting range of 11.3-11.7 mboe/d, and the stock is trading almost 20% lower. While the company continues to face challenges (D/CF in the mid-2x range, no quick fix to improve netbacks), with the valuation now reset, we believe the stock offers better value, underpinning our upgrade.

Enerplus (ERF-T); (Outperform (was Sector Perform), \$18.00 Target): We are raising our rating on Enerplus from Sector Perform to Outperform as Enerplus offers one of the highest total returns in our coverage group. Though operations in the Marcellus have slowed owing to low natural gas prices, lack of infrastructure and lack of capital commitment by partners, we believe this has been reflected in the stock price. Enerplus has cut the dividend substantially, sold of some assets and reduced its leverage. With a cash yield of 8.2% and production per share declines estimated at a little under 1.0% (minimal return of capital), we think there are some dividends to be captured.

Freehold (FRU-T); (Underperform (was Sector Perform), \$22.00 Target): We are lowering our rating on Freehold from Sector Perform to Underperform as Freehold has surpassed our 12-month target. In addition, we consider a portion of Freehold's cash distribution (current cash yield of 7.2%) to be a return of capital, as we estimate production per share declines of 4.9% in 2013 and 4.5% in 2013. We believe Freehold has an excellent business model, with an very low risk profile owing to the collection of royalties from third party production, however, the combination of the high payout ratio (capex + dividend of 147%) coupled with the DRIP (reducing the payout ratio to 117%) creates a dilution effect on the company shares. We think it is time to switch into names providing better underlying value support. (BTE-T, ERF-T or for longer term investors, PGF-T. For investors wanting natural gas exposure, consider BNP-T)

Rock Energy (RE-T); (Sector Perform, \$1.60 Target): We reducing our rating to Sector Perform from Outperform. The rating change relates to the weak outlook for WCS for 2013/14 under our revised forecast and given recent strength in the stock. Rock has been delivering operationally of late, with an active and successful Mantario heavy oil drilling program building production. However, we expect that sustained wide heavy oil differentials will weigh on the stock, despite the operational momentum, and believe there may be a better entry point for investors upcoming.



Company Name	Ticker	Rating			Total Return	Target Price			CFPS						NAV		
		New	Old	Change		New	Old	Change	2013			2014			New	Old	Change
									New	Old	Change	New	Old	Change			
Small Cap																	
Painted Pony Petroleum Ltd.	PPY	OP	OP		38%	\$14.00	\$14.00		\$0.72	\$0.71	1%	\$0.92	\$0.94	-2%	\$9.61	\$9.47	2%
Pine Cliff Energy Ltd.	PNE	S	S		37%	\$1.25	\$1.25		\$0.07	\$0.07	3%	\$0.10	\$0.10	4%	\$0.49	\$0.45	10%
Pinecrest Energy Inc.	PRY	OP	OP		69%	\$2.25	\$2.50	-\$0.25	\$0.43	\$0.41	5%	\$0.48	\$0.49	-4%	\$1.46	\$1.39	5%
RMP Energy Inc.	RMP	OP	OP		21%	\$4.25	\$4.25		\$0.79	\$0.78	1%	\$0.92	\$0.93	-1%	\$1.77	\$1.62	10%
Rock Energy Inc.	RE	SP	OP	Downgrade	16%	\$1.60	\$1.60		\$0.37	\$0.34	10%	\$0.40	\$0.43	-5%	\$2.80	\$2.55	9%
Tamarack Valley Energy Ltd.	TVE	OP	OP		58%	\$3.75	\$3.75		\$1.09	\$1.08	1%	\$1.34	\$1.36	-2%	\$3.54	\$3.23	10%
TriOil Resources Ltd.	TOL	OP	OP		29%	\$4.25	\$4.25		\$0.73	\$0.73	0%	\$0.81	\$0.82	-2%	\$2.86	\$2.74	5%
Waldron Energy Corp.	WDN	SP	SP		25%	\$0.45	\$0.45		\$0.16	\$0.15	8%	\$0.13	\$0.12	4%	\$0.67	\$0.50	34%
Yangarra Resources Ltd.	YGR	S	S		61%	\$0.45	\$0.50	-\$0.05	\$0.20	\$0.24	-14%	\$0.25	\$0.31	-18%	\$0.53	\$0.59	-11%
Average					39%						2%						8%
Median					37%						1%						9%
Mid Cap																	
Angle Energy Inc.	NGL	OP	SP	Upgrade	56%	\$4.25	\$4.25		\$1.12	\$1.08	4%	\$1.16	\$1.16	0%	\$2.59	\$2.28	14%
Bellatrix Exploration Ltd.	BXE	OP	OP		44%	\$7.50	\$7.50		\$1.65	\$1.70	-3%	\$2.15	\$2.15	0%	\$5.72	\$5.19	10%
Legacy Oil + Gas Inc.	LEG	OP	OP		38%	\$9.75	\$9.75		\$1.66	\$1.53	8%	\$1.89	\$1.91	-1%	\$7.06	\$6.46	9%
Lone Pine Resources Inc.	LPR	S	S		20%	\$1.50	\$1.50		\$0.59	\$0.61	-3%	\$0.64	\$0.65	0%	\$1.95	\$1.55	26%
Santonia Energy Inc.	STE	SP	SP		17%	\$1.50	\$1.50		\$0.27	\$0.27	-1%	\$0.31	\$0.31	-2%	\$1.51	\$1.44	5%
Surge Energy Inc.	SGY	OP	OP		67%	\$6.00	\$6.00		\$1.55	\$1.53	1%	\$1.52	\$1.55	-1%	\$6.76	\$6.27	8%
Average					40%						1%						12%
Median					41%						0%						10%
Yield Names																	
ARC Resources Ltd.	ARX	SP	SP		11%	\$25.00	\$25.00		\$2.53	\$2.41	5%	\$2.67	\$2.66	0%	\$19.25	\$18.75	3%
Baytex Energy Corp.	BTE	OP	OP		18%	\$52.00	\$52.00		\$4.73	\$4.77	-1%	\$4.58	\$5.15	-11%	\$39.25	\$38.25	3%
Bonavista Energy Corp.	BNP	SP	SP		39%	\$18.00	\$20.00	-\$2.00	\$2.19	\$1.99	10%	\$2.34	\$2.33	0%	\$17.00	\$16.75	1%
Bonterra Energy Corp.	BNE	OP	OP		33%	\$60.00	\$57.50	\$2.50	\$6.32	\$5.88	8%	\$6.34	\$6.15	3%	\$36.56	\$35.03	4%
Crescent Point Energy Corp.	CPG	OP	OP		21%	\$44.00	\$44.00		\$4.46	\$4.34	3%	\$4.29	\$4.38	-2%	\$28.96	\$27.29	6%
Encana Corp.	ECA	SP	SP		21%	\$22.50	\$22.50		\$3.86	\$3.60	7%	\$5.42	\$5.19	4%	\$23.00	\$19.50	18%
Enerplus Corp.	ERF	OP	SP	Upgrade	45%	\$18.00	\$18.00		\$3.66	\$3.48	5%	\$3.89	\$3.82	2%	\$24.25	\$23.75	2%
Freehold Royalties Ltd.	FRU	UP	SP	Downgrade	1%	\$22.00	\$22.00		\$1.48	\$1.47	0%	\$1.44	\$1.51	-5%	\$16.25	\$16.00	2%
Pace Oil & Gas Ltd.	PCE	SP	SP		37%	\$4.00	\$4.25	-\$0.25	\$1.14	\$1.12	2%	\$1.03	\$1.06	-3%	\$4.56	\$4.53	1%
Pengrowth Energy Corp.	PGF	OP	OP		71%	\$7.50	\$7.50		\$1.15	\$1.14	1%	\$1.15	\$1.20	-3%	\$14.00	\$13.00	8%
Penn West Petroleum Ltd.	PWT	SP	SP		38%	\$13.00	\$13.00		\$2.06	\$2.04	1%	\$2.38	\$2.48	-4%	\$18.50	\$18.50	0%
PetroBakken Energy Ltd.	PBN	SP	SP		38%	\$11.50	\$11.50		\$3.26	\$3.02	8%	\$3.09	\$3.10	-1%	\$10.17	\$9.05	12%
Peyto Exploration Development Corp.	PEY	SP	SP		25%	\$28.00	\$28.00		\$3.15	\$3.06	3%	\$3.76	\$3.69	2%	\$14.50	\$12.75	14%
Renegade Petroleum Ltd.	RPL	OP	OP		36%	\$3.00	\$2.75	\$0.25	\$0.59	\$0.61	-3%	\$0.61	\$0.64	-6%	\$2.59	\$2.40	8%
Trilogy Energy Corp.	TET	OP	OP		32%	\$37.00	\$35.00	\$2.00	\$3.17	\$3.13	2%	\$3.55	\$3.57	0%	\$4.53	\$4.30	6%
Twin Butte Energy Ltd.	TBE	SP	SP		19%	\$2.45	\$2.60	-\$0.15	\$0.47	\$0.47	-1%	\$0.41	\$0.49	-16%	\$2.84	\$2.61	9%
Whitecap Resources Inc.	WCP	OP	OP		21%	\$10.75	\$10.75		\$1.73	\$1.73	0%	\$1.63	\$1.63	0%	\$6.78	\$6.78	0%
Vermilion Energy Inc.	VET	SP	SP		6%	\$52.00	\$52.00		\$5.64	\$5.64	0%	\$6.72	\$6.72	0%	\$48.00	\$48.00	0%
Average					28%						3%						5%
Median					28%						2%						4%
Oil Sands																	
Southern Pacific Resource Corp.	STP	OP	OP		86%	\$2.25	\$2.25		\$0.07	\$0.11	-39%	\$0.25	\$0.29	-16%	\$1.75	\$1.72	1%

Figure 2. Summary Changes in Ratings, Targets, Estimates

Source: AltaCorp Capital Inc.

