

Recommendation: Buy
Target Price: \$4.00

◆ Cuda Oil and Gas Inc. (CUDA-TSXV) Positive Reserve Update

Current Price	\$1.40	Target	\$4.00	
52 Wk High	\$5.50	Proj. Return	186%	
52 Wk Low	\$0.70	Basic Sh. (O/S)	22.0	
NAV	\$12.15	FD Sh. (O/S)	26.7	
P/NAV	0.1x	Mngt. & Dir.	7.0	
Net Debt - 19E (MM)	\$47.2	- Pct. of basic	32%	
D/EBITDA - 19E	3.2x	Mkt. Cap. (MM)	\$30.7	
DPS	NA	Float (MM)	\$27.4	
Dividend Yield	NA	EV (MM)	\$78.0	
Fiscal YE Dec.	2018E	2019E	2020E	
Production (BOE/d)	Q1	nmf A	968	2,435
	Q2	nmf A	1,198	2,549
	Q3	162 A	1,675	2,668
	Q4	875	2,393	2,743
	FY	261	1,563	2,600
% Gas	38%	24%	16%	
Growth	nmf	nmf	66%	
Diluted CFPS	Q1	nmf A	\$0.03	\$0.21
	Q2	nmf A	\$0.06	\$0.22
	Q3	(\$0.14) A	\$0.12	\$0.23
	Q4	\$0.00	\$0.21	\$0.24
	FY	(\$0.28)	\$0.41	\$0.90
NYMEX WTI (US\$/Bbl)	\$65.05	\$56.31	\$57.28	
HH Gas (US\$/MMBtu)	\$3.07	\$2.88	\$2.73	
Net Debt/EBITDA	nmf	3.2x	1.6x	
EV/EBITDA		5.2x	2.7x	
EV/BOE/d		\$49,900	\$29,940	

Unless otherwise denoted, all figures shown in C\$

Investment Thesis:

Near term, vertical development of the Shannon zone provides low-risk cash flow growth while deeper zones provide more meaningful upside with horizontal development and miscible gas flooding provides additional optionality longer term.

Highlights:

• Investment Summary

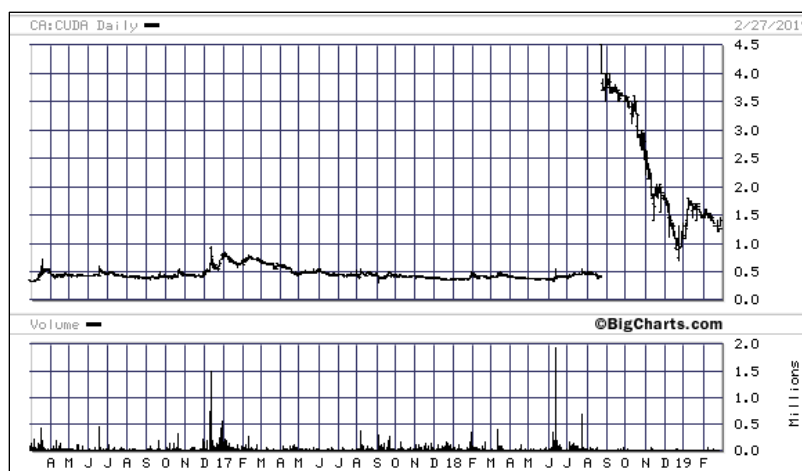
Yesterday before the open, CUDA provided a positive reserve update, showing a meaningful increase in reserves from the February 2018 timeframe. CUDA remains a name with large oil-weighted exposure and no differential issues given its focus in the Powder River Basin. More importantly, given the low risk, shallower Shannon zone vertical development taking place, multiple deeper horizontal opportunities, and the miscible flood plans for the Barron Flats Unit, we believe that this stock offers some of the most resource upside relative to the current production base, especially compared to most of its Canadian peers. While the pace of development will depend on the amount of capital/cash flow available for spending, we believe that the current stock price essentially reflects acreage value only suggesting minimal downside. The risk/reward remains attractive with meaningful upside materializing as visibility improves on spending/production growth.

• Recommendation

We maintain our Buy rating and one-year target price of \$4.00 (4.6x 2020 strip EV/EBITDA) on Cuda.

Company Description:

Cuda Oil and Gas Inc. is a Calgary-based, small-cap E&P with a diversified portfolio of assets in Wyoming, Alberta, and Quebec. Its near-term focus is on developing its Powder River Basin acreage in Wyoming.



Source: Bigcharts.com, February 27, 2019

◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Cuda Oil and Gas Inc.

Our disclosure statements are located on the second last page of this report

Reserve update. 1P reserves increased from 3 MMBOE (February 2018 update) to 4.9 MMBOE at YE2018 (84% liquids). The 2P reserves are 14.5 MMBOE. RLI is over 15 years for 1P and 45 years for 2P reflecting the large underlying resource base that the company is sitting on. Development capital to achieve the 1P is \$40 MM and \$95 MM for 2P reserves. Factoring in the above reserves in our NAV, our updated NAV at strip is shown below.

Figure 1: CUDA Net Asset Value (Strip Pricing)

Net Asset Value Summary			Unrisked		Risked		
Cuda Oil and Gas Inc.	(MMBOE)	(\$/BOE)	(\$MM)	(\$/sh)	Risk (%)	(\$MM)	(\$/sh)
PDP	1.2						
PNP	0.3						
PUD	3.4						
Proved	5.0	\$15.75	\$78.0	\$3.55			
Probable	9.6	\$11.84	\$114.0	\$5.19			
Est. YE2018 2P Reserve	14.6	\$13.17	\$192.0	\$8.74			
Net Debt (YE19E)			\$(47.2)	\$(2.15)			
2P NAV			\$144.8	\$6.59			
Miscible Flood Upside			\$0.0	\$0.00	33%	\$0.0	\$0.00
BFU - Shannon	2.4	\$9.95	\$23.9	\$1.09	50%	\$11.9	\$0.54
BFU - Frontier 1	17.8	\$4.77	\$84.7	\$3.86	33%	\$28.0	\$1.27
BFU - Frontier 3	13.3	\$5.03	\$67.1	\$3.06	33%	\$22.1	\$1.01
Cole Creek - Frontier 2	9.4	\$4.97	\$46.9	\$2.13	33%	\$15.5	\$0.70
Cole Creek - Dakota	4.5	\$4.87	\$21.8	\$0.99	33%	\$7.2	\$0.33
Niobrara	20.0	\$4.65	\$93.0	\$4.23	10%	\$9.3	\$0.42
Quebec	4.8		\$28.9	\$1.32	97%	\$28.0	\$1.28
Unbooked Upside	72.2	\$5.07	\$366.3	\$16.68	33%	\$122.0	\$5.56
Total	86.8	\$5.89	\$511.1	\$23.27		\$266.8	\$12.15

Source: Cormark Securities Inc., Company reports

Implied land value minimizes downside. Looking at this another way, the current market cap is \$30.7 MM and net debt is \$34.1 MM, resulting in an enterprise value of \$64.8 MM. Estimated PDP reserve value is \$20.5 MM at strip prices, leaving \$44.3 MM in implied value for the upside opportunity on the 12.5k net acres to CUDA. This implied value suggests an implied price of \$3,500/acre or US\$2,700/acre, relative to recent acreage transaction values of US\$2,500-3,700/acre. As a result, the stock is only reflecting acreage value with industry activity expected to increase acreage value over the year. More importantly, planned Shannon vertical drilling, Frontier horizontal wells, and start of a miscible flood all suggest meaningful upside as the timing for these development opportunities is firmed up.

Figure 2: Operations Summary, Income Statement, and Cash Flow

	2018E	2019E					2020E				
(In \$MM, except where noted)	2018E	Q1E	Q2E	Q3E	Q4E	2019E	Q1E	Q2E	Q3E	Q4E	2020E
Operations Summary											
Daily Production (MBOE/d)	0.3	1.0	1.2	1.7	2.4	1.6	2.4	2.5	2.7	2.7	2.6
% Natural Gas	38%	34%	27%	23%	20%	24%	17%	16%	16%	16%	16%
Benchmark Prices - Strip											
WTI (US\$/B)	\$65.05	\$53.91	\$55.99	\$57.38	\$57.94	\$56.31	\$57.84	\$57.50	\$57.08	\$56.69	\$57.28
NYMEX (US\$/MMBtu)	\$3.07	\$2.87	\$2.82	\$2.89	\$2.97	\$2.88	\$3.06	\$2.58	\$2.60	\$2.69	\$2.73
AECO-C (\$/Mcf)	\$1.50	\$2.53	\$1.34	\$1.30	\$1.93	\$1.77	\$2.24	\$1.31	\$1.40	\$1.75	\$1.68
Realized Prices (Excl. Hedging)											
Natural Gas (\$/Mcf)	\$2.10	\$1.75	\$1.90	\$2.09	\$2.32	\$2.05	\$2.64	\$2.22	\$2.25	\$2.33	\$2.35
Income Statement											
Total Revenue	\$5.2	\$4.2	\$6.0	\$9.1	\$13.6	\$32.9	\$13.8	\$14.4	\$15.2	\$15.5	\$58.9
Royalties & Prod. Taxes	\$1.4	\$1.3	\$1.9	\$2.9	\$4.3	\$10.4	\$4.4	\$4.6	\$4.8	\$4.9	\$18.7
Operating & Trans. Costs	\$1.1	\$0.8	\$1.0	\$1.4	\$2.0	\$5.1	\$2.0	\$2.1	\$2.2	\$2.3	\$8.5
Cash Operating Expenses	\$2.5	\$2.1	\$2.9	\$4.3	\$6.3	\$15.5	\$6.3	\$6.7	\$7.0	\$7.2	\$27.2
Interest	\$2.4	\$0.8	\$1.0	\$1.1	\$1.2	\$4.1	\$1.2	\$1.3	\$1.3	\$1.3	\$5.1
G&A	\$3.6	\$0.6	\$0.6	\$0.6	\$0.6	\$2.4	\$0.6	\$0.6	\$0.6	\$0.6	\$2.4
Others	-	-	-	-	-	-	-	-	-	-	-
Cash Non-Operating Expenses	\$6.0	\$1.4	\$1.6	\$1.7	\$1.8	\$6.5	\$1.8	\$1.9	\$1.9	\$1.9	\$7.5
DD&A	\$2.4	\$2.1	\$2.6	\$3.7	\$5.3	\$13.8	\$5.3	\$5.6	\$5.9	\$6.1	\$23.0
Other Non-Cash Expenses	\$1.6	\$0.2	\$0.2	\$0.2	\$0.2	\$1.0	\$0.2	\$0.2	\$0.2	\$0.2	\$1.0
Other Non-Cash Expenses	\$4.0	\$2.3	\$2.9	\$4.0	\$5.6	\$14.8	\$5.5	\$5.9	\$6.2	\$6.4	\$23.9
Current Taxes	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	(\$0.5)	(\$0.4)	(\$0.3)	(\$0.2)	(\$0.0)	(\$1.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Income Taxes	(\$0.5)	(\$0.4)	(\$0.3)	(\$0.2)	(\$0.0)	(\$1.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	(\$6.9)	(\$1.2)	(\$1.0)	(\$0.6)	(\$0.1)	(\$2.9)	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1
EPS (Diluted)	(\$0.52)	(\$0.05)	(\$0.04)	(\$0.02)	(\$0.00)	(\$0.11)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.01
CFPS (Diluted)	(\$0.28)	\$0.03	\$0.06	\$0.12	\$0.21	\$0.41	\$0.21	\$0.22	\$0.23	\$0.24	\$0.90
Diluted Shares Outstanding	25.0	26.7	26.7	26.7	26.7	26.7	26.7	26.7	26.7	26.7	26.7
Cash Flow											
Cash Flow	(\$4)	\$1	\$2	\$3	\$5	\$11	\$6	\$6	\$6	\$6	\$24
Capital Expenditures	\$6	\$4	\$6	\$7	\$7	\$24	\$7	\$7	\$5	\$5	\$24
Dividend	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	(\$10)	(\$3)	(\$4)	(\$4)	(\$2)	(\$13)	(\$1)	(\$1)	\$1	\$1	\$0
EBITDAX	(\$1)	\$2	\$3	\$4	\$7	\$15	\$7	\$7	\$8	\$8	\$29

Source: Cormark Securities Inc., Company reports

Figure 3: Balance Sheet, Netbacks, Hedging, and Metrics

	2018E	2019E					2020E				
(In \$MM, except where noted)	2018E	Q1E	Q2E	Q3E	Q4E	2019E	Q1E	Q2E	Q3E	Q4E	2020E
Balance Sheet											
Current Assets	\$8.9	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3	\$7.3
Net PP&E	\$62.5	\$64.3	\$67.7	\$71.0	\$72.6	\$72.6	\$74.3	\$75.7	\$74.8	\$73.6	\$73.6
Other Assets	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2	\$42.2
Total Assets	\$113.5	\$113.8	\$117.2	\$120.5	\$122.1	\$122.1	\$123.8	\$125.2	\$124.2	\$123.1	\$123.1
Current Liabilities	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2
Long Term Debt	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5
Other Non-Current Liabilities	\$43.9	\$45.6	\$50.0	\$53.9	\$55.4	\$55.4	\$56.8	\$58.0	\$56.7	\$55.3	\$55.3
Deferred Income Tax	(\$0.5)	(\$0.9)	(\$1.3)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.4)	(\$1.4)
Total Liabilities	\$53.0	\$54.3	\$58.4	\$62.1	\$63.5	\$63.5	\$65.0	\$66.1	\$64.9	\$63.5	\$63.5
Shareholders' Equity	\$60.6	\$59.6	\$58.8	\$58.4	\$58.6	\$58.6	\$58.8	\$59.1	\$59.4	\$59.7	\$59.7
Netbacks (\$/BOE)											
Revenue (Excl. Hedges)	\$51.58	\$48.75	\$54.86	\$58.97	\$61.73	\$57.69	\$62.85	\$62.17	\$61.79	\$61.44	\$62.03
Hedging	-	-	-	-	-	-	-	-	-	-	-
Royalties & Prod. Taxes	\$14.91	\$15.24	\$17.14	\$18.72	\$19.60	\$18.23	\$19.95	\$19.74	\$19.62	\$19.51	\$19.70
Operating & Trans. Costs	\$11.44	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00
Operating Netback	\$25.23	\$24.52	\$28.72	\$31.25	\$33.13	\$30.46	\$33.89	\$33.43	\$33.17	\$32.94	\$33.34
G&A	\$38.20	\$6.88	\$5.50	\$3.89	\$2.73	\$4.21	\$2.74	\$2.59	\$2.44	\$2.38	\$2.53
Interest Cost	\$25.02	\$9.74	\$9.01	\$7.13	\$5.45	\$7.24	\$5.66	\$5.51	\$5.32	\$5.05	\$5.37
Cash Netback	(\$38.00)	\$7.89	\$14.21	\$20.23	\$24.95	\$19.02	\$25.50	\$25.34	\$25.40	\$25.51	\$25.44
Metrics											
Net Debt	\$34.1	\$37.4	\$41.8	\$45.7	\$47.2	\$47.2	\$48.6	\$49.8	\$48.5	\$47.1	\$47.1
FCF	(\$9.8)	(\$3.3)	(\$4.5)	(\$3.9)	(\$1.5)	(\$13.2)	(\$1.4)	(\$1.1)	\$1.2	\$1.4	\$0.1
EV/EBITDA	nmf	11.1x	7.2x	4.5x	2.9x	5.2x	2.9x	2.8x	2.6x	2.5x	2.7x
Net Debt/EBITDA	nmf	6.1x	4.1x	2.7x	1.8x	3.2x	1.8x	1.7x	1.6x	1.5x	1.6x

Source: Cormark Securities Inc., Company reports

We, Amir Arif and Michael Mueller, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Cuda Oil and Gas Inc.

Updated February 27, 2019

Price Chart and Disclosure Statement

*Information updated monthly on or about the 5th of each month.



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<i>Reduce</i>	2%	<i>Reduce</i>	63%
<i>Not Rated</i>	22%		

Recommendation / Target Chg	Date	C\$
	22-Jan-19	4.00 (B)

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