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Razor Energy Corp.

Oil and Gas, Exploration and Production

Canadian Equity Research
30 May 2018

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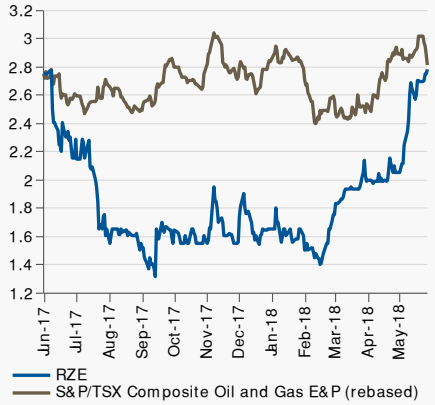
SPECULATIVE BUY
unchanged

PRICE TARGET	C$3.25↑
from C$2.50	
Price (30-May)	C$2.85
Ticker	RZE-TSXV

52-Week Range (C$):	1.25 - 2.95
Avg Daily Vol (M) :	0.02
Market Cap (C$M):	44.9
Dividend /Shr (C$):	0.00
Dividend Yield (%) :	0.0
Shares Out., Basic (M) :	15.8
Net Debt (Cash) (C$M):	45
NAV /Shr (C$):	7.86

FYE Dec	2017A	2018E	2019E
Total Production	3,813.0	4,982.5	5,482.1
EV/BOEPD (C$)	23,671	18,115	16,464
CFPS (C$)	0.52	1.35↑	1.63↑
Previous	-	*1.28*	*1.54*
EV/DACF	7.1	3.5	3.0



Source: FactSet

Priced as of close of business 30 May 2018

Razor Energy Corp. is a ~5,000 boe/d light oil producer focused on legacy light oil pools in Alberta, Canada.

Pricing assumptions (WTI & AECO):

2018: US$60.73/bbl & C$1.77/mcf

LT: US$60.00/bbl & C$2.50/mcf

Raising Target Price

Increasing price target to C$3.25 (from C$2.50); maintain Speculative BUY rating

In response to higher oil prices, we are increasing our target price for RZE to $3.25 from $2.50 to reflect a smaller discount to our NAV estimate. Our price target is now based on a 0.4x multiple of our CNAV estimate (vs. 0.3x previously) while our CNAV estimate is unchanged at $7.86/share. We maintain our Speculative BUY rating.

Margin expansion could spur re-rating

With WTI's recent move through US$65/bbl and the Canadian dollar staying low ($0.77), Razor's cash margins have grown five-fold in the past two quarters to ~$11.50/boe in Q1/18. We forecast a Q2/18 cash flow netback of ~$14/bbl at current oil prices, up +20% sequentially. Further, we believe that operating cost reductions in 2H/18 could drive additional margin expansion, which may warrant multiple re-rating on the stock.

RZE has significant torque to oil

The recent rally in oil prices has lifted RZE shares ~100% since mid-February. By virtue of its high oil weighting, thin (but improving) margins and higher debt leverage, RZE has higher than average torque to oil prices - both to the upside and downside. We estimate that a +$10/bbl move in WTI would drive a +40% increase in DACF.

PDP NAV of $4.43/share

Using our CG price forecast of $60.00/bbl (flat) and a $0.78 Canadian dollar, we calculate a PDP NAV of $4.88/share (with a 10% discount rate for comparability purposes). Even if we apply a 20% discount rate RZE still trades below our PDP NAV estimate (see our NAV sensitivity in Figures 4 and 5).

Estimate changes

We have revised our estimates to reflect actual Q1/18 results and our updated outlook (Figure 1). Our CFPS estimates are up 6% for 2018 and 2019 mainly due to higher processing revenues.

Valuation and price target

RZE trades at 3.5x 2018E EV/DACF, which is a 37% discount to junior E&P peers at 5.5x and a 64% discount to our CNAV estimate.

We are increasing our price target to $3.25 (from $2.50). Our price target is based on 0.4x our estimate of RZE's 2P NAV, up from a 0.3x multiple. We apply a discount to our CNAV estimate to reflect RZE's higher cost of capital, relatively less drilling upside, and higher debt leverage.

Reiterate Speculative BUY rating

We continue to rate RZE a Speculative BUY as we believe stronger margins should be a tailwind for the stock; however RZE's high leverage to oil could also result in significant losses if oil prices fall from current levels.

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For important information, please see the Important Disclosures beginning on page 6 of this document.

We have revised our estimates to reflect actual Q1/18 results and our updated outlook.

Figure 1: Estimate revisions

		New	Prior		New	Prior	
Production		**2018E**	**2018E**	**chg**	**2019E**	**2019E**	**chg**
Light oil	bbl/d	3,655	3,370	8%	4,246	3,943	8%
NGLs	bbl/d	736	1,002	-26%	645	905	-29%
Natural gas	mmcf/d	3.546	3.387	5%	3.551	3.404	4%
Total	**boe/d**	**4,982**	**4,936**	**1%**	**5,482**	**5,416**	**1%**
Realized pricing							
Light oil	$/bbl	$67.59	$67.58	0%	$69.00	$70.00	-1%
NGLs	$/bbl	$32.10	$31.19	3%	$30.97	$30.97	0%
Natural gas	$/mcf	$1.68	$1.57	7%	$2.30	$2.30	0%
Total	**$/boe**	**$59.44**	**$56.06**	**6%**	**$59.70**	**$58.31**	**2%**
Netbacks							
Sales	$/boe	$59.44	$56.06	6%	$59.70	$58.31	2%
Hedging	$/boe	($1.15)	($0.68)	n.a.	($0.06)	($0.09)	n.a.
Royalties	$/boe	($12.69)	($11.78)	8%	($14.64)	($14.40)	2%
Operating costs	$/boe	($27.89)	($26.36)	6%	($26.00)	($25.50)	2%
Operating netback	**$/boe**	**$17.71**	**$17.24**	**3%**	**$19.00**	**$18.33**	**4%**
G&A	$/boe	($3.19)	($3.25)	-2%	($3.25)	($3.25)	0%
Interest	$/boe	($2.80)	($2.32)	21%	($2.89)	($2.84)	2%
Other	$/boe	$0.01	$0.48	n.a.	$0.00	$0.00	n.a.
Cash flow netback	**$/boe**	**$11.70**	**$11.19**	**5%**	**$12.86**	**$12.24**	**5%**
Financials							
CFPS	$/sh	$1.35	$1.28	6%	$1.63	$1.53	6%
Cash flow	$mm	$21.3	$20.2	6%	$25.7	$24.2	6%
E&D Capex	$mm	$33.9	$33.0	3%	$24.0	$24.0	0%
Net debt	$mm	$47.7	$45.4	5%	$48.9	$48.1	2%

Source: Company Reports, Canaccord Genuity estimates

Comparative valuation

RZE trades at a 37% discount to the small cap peer group on an EV/DACF basis and a 64% discount to our CNAV estimate (Figure 2). We expect RZE to re-rate as higher oil prices and lower operating costs drive increased cash margins in 2H/18 and 2019.

Figure 2: Comparative valuation

May 30, 2018 Company	Ticker	Analyst	Rating	Target ($/share)	Price ($/share)	Market cap ($MM)	EV ($MM)	Base NAV ($/share)	P/NAV (x)	EV/DACF 2018E (x)	EV/DACF 2019E (x)	2018 Ev/boe prod ($/boe)	% Gas (%)	D/CF 2017A (x)	D/CF 2018E (X)
Abraxas Petroleum Corp.	AXAS	SR	BUY	US$3.50	US$2.77	US$459	US$584	US$2.66	1.0	5.0	3.6	US$49,523	24%	2.2	1.1
Chinook Energy Inc.	CKE	AP	SPEC BUY	$0.35	$0.21	$47	$56	$0.29	0.7	n.a.	4.6	$19,009	86%	0.2	5.8
Gear Energy Ltd.	GXE	SR	SPEC BUY	1.25	1.12	218	263	1.44	0.8	5.0	2.9	35,659	14%	1.0	0.9
InPlay Oil Corp.	IPO	SR	BUY	2.75	1.83	124	176	3.22	0.6	4.3	2.8	37,675	33%	n.a.	1.2
Iron Bridge Resources Inc.	IBR	AP	SPEC BUY	0.90	0.77	119	121	0.76	1.0	16.7	7.7	62,687	68%	n.a.	2.4
Journey Energy Inc.	JOY	SR	HOLD	2.00	1.92	74	199	7.11	0.3	5.0	3.5	18,899	54%	n.a.	3.7
Leucrotta Exploration Inc.	LXE	AP	HOLD	2.00	2.00	401	387	0.74	2.7	n.a.	18.2	105,668	71%	n.a.	n.a.
PetroShale Inc.	PSH	SR	BUY	3.00	2.30	361	501	2.08	1.1	7.6	3.1	91,379	23%	4.3	2.8
Razor Energy Corp.	RZE	SR	SPEC BUY	3.25	2.85	45	90	7.86	0.4	3.5	3.0	18,602	11%	3.4	2.2
Yangarra Resources Ltd.	YGR	SR	SPEC BUY	7.00	5.77	470	576	6.73	0.9	6.0	3.8	58,569	43%	1.8	1.1
Small Cap Average									**0.9**	**6.9**	**5.5**	**49,794**	**45%**	**2.6**	**2.4**
Razor Energy Corp.	RZE	SR	SPEC BUY	3.25	2.85	45	90	7.86	0.4	3.5	3.0	18,602	11%	3.4	2.2

Source: Company Reports, Canaccord Genuity estimates

Our 2P NAV estimate is based on the 2017 year-end Sproule report, adjusted for land value, net debt and option proceeds, discounted at 10%.

We calculate the following:

PDP NAV of $4.88

1P NAV of $5.61

2P NAV of $7.86

Pricing assumptions (WTI & AECO):

2018: US$60.00/bbl & C$1.77/mcf

LT: US$60.00/bbl & C$2.50/mcf

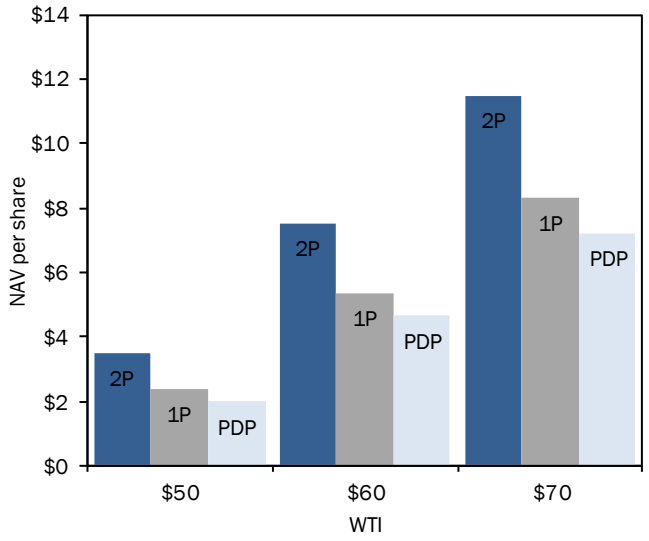
Figure 3: NAV summary

	Reserves (mboe)	Value ($/boe)	Value ($MM)	Value/Share ($)
Reserve Value				
PDP	14,525	$7.25	$105	$5.73
Proven	15,072	$7.87	$119	$6.45
Probable	5,255	$7.87	$41	$2.25
Proven + Probable	20,327	$7.87	$160	$8.70
Other Assets				
Land Value[1]			$1	$0.07
Other			$0	$0.00
Balance Sheet				
Net Debt[2]			-$27	-$1.47
Option Proceeds			$10	$0.55
2P NAV Value			**$145**	**$7.86**
1P NAV			*$103*	*$5.61*
PDP NAV			*$90*	*$4.88*
Shares Outstanding[3]				18,387

Notes
1. Land value at $50/undeveloped acre
2. 2017 year-end net debt
3. Fully diluted shares outstanding

Source: Company Reports, Canaccord Genuity estimates

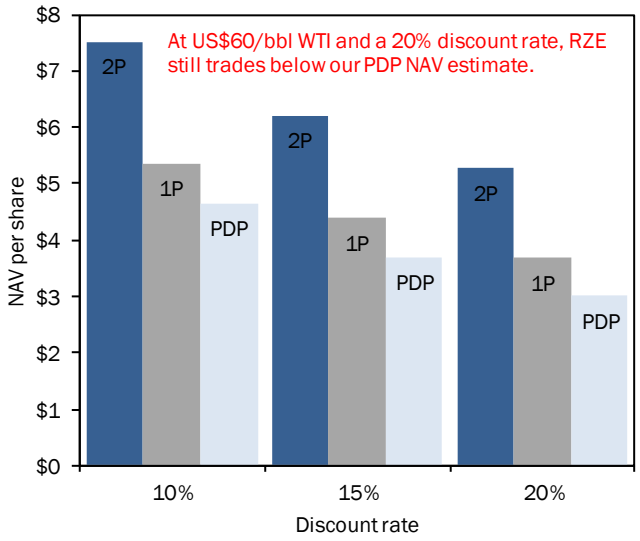
Figure 4: NAV sensitivity to WTI



Note: sensitivities based on a 10% discount rate

Source: Company Reports, Canaccord Genuity estimates

Figure 5: NAV sensitivity to discount rate



Note: sensitivities based on US$60/bbl WTI

Source: Company Reports, Canaccord Genuity estimates

Figure 6: Tear sheet

Razor Energy Corp.

Rating: SPEC BUY
Target: $3.25

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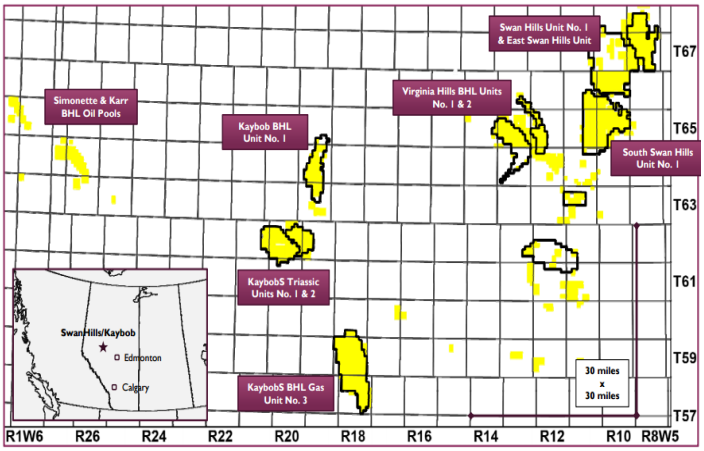
COMPANY STATISTICS

Price		$2.85
Shares outstanding (MM):		15.8
Shares fully diluted (MM):		18.6
Market capitalization (C$MM):		$44.9
Enterprise value (C$MM):		$90.3
52-Week trading range (C$):	$1.25	$2.95
Average daily trading volume (000) (150 Day):		19.8
Dividend Yield		0%
Projected 12-month return:		14%

OPERATING AREAS



PRODUCTION FORECAST

	2016A	2017A	2018E	2019E
Liquids (bbl/d)	n.a.	3,405	4,391	4,890
Natural gas (MMcf/d)	n.a.	2.448	3.546	3.551
Total production (boe/d)	n.a.	3,813	4,982	5,482
% Natural gas	n.a.	11%	12%	11%

Recent Events	Date
Year-end 2017 reserves and NAV	15-Feb-18
2018 capital budget and production guidance	22-Jan-18
Second Kaybob consolidating transaction, increased term loan	15-Jan-18

Management	Position	Ownership (F.D.)
Doug Bailey	President and CEO	5.9%
Frank Muller	SVP, COO	9.3%
Kevin Braun	CFO	0.7%
Lisa Mueller	VP New Ventures	0.3%
Devin Sundstrom	VP Production	1.0%
Stephen Sych	VP Operations	0.9%

FINANCIAL SUMMARY

	2016A	2017A	2018E	2019E
Cash Flow ($MM)	n.a.	$7.2	$21.3	$25.7
CFPS - basic	n.a.	$0.52	$1.35	$1.63
CFPS - fd	n.a.	$0.52	$1.35	$1.63
Capex inc M&A ($MM)	n.a.	$42.6	$38.5	$24.0
Dividend ($MM)	n.a.	$0.0	$0.0	$0.0
Dividend/share	n.a.	0.00	0.00	0.00
Net Debt (surplus) ($MM)	n.a.	$24.7	$47.7	$48.9
Trailing net debt/cash flow	n.a.	3.4	2.2	1.9
Term loan ($MM)	n.a.	$30.0	$45.0	$45.0

NETBACKS ($/boe)

	2016A	2017A	2018E	2019E
Revenue (post hedging)	n.a.	$52.15	$58.29	$59.64
Royalties	n.a.	$9.87	$12.69	$14.64
Operating Costs	n.a.	$29.41	$27.89	$26.00
Transportation Costs	n.a.	$0.00	$0.00	$0.00
Field Netback	n.a.	***$12.87***	***$17.71***	***$19.00***
G&A Costs	n.a.	$4.25	$3.19	$3.25
Interest/Taxes/Other	n.a.	$3.09	$2.81	$2.89
After Tax Netback	n.a.	**$5.52**	**$11.70**	**$12.86**

VALUATION

	2016A	2017A	2018E	2019E
P/CF	n.a.	5.4x	2.1x	1.7x
EV/DACF	n.a.	7.1x	3.5x	3.0x
EV/BOED	n.a.	$23,671	$18,115	$16,464
EV/2P BOE	n.a.	$5.53		
Base NAV	n.a.	$7.86		
P/NAV	n.a.	0.4x		
Target EV/DACF	n.a.	7.7x	3.8x	3.2x
Target EV/BOEPD	n.a.	$25,325	$19,381	$17,615
Target EV/2P BOE	n.a.	$5.91		
Target P/NAV	n.a.	0.4x		

COMMODITY PRICE ASSUMPTIONS

	2016A	2017A	2018E	2019E
WTI oil (US$/bbl)	$43.27	$50.84	$60.73	$60.00
NYMEX gas (US$/MMbtu)	$2.49	$2.95	$2.89	$3.00
Realized oil & NGL (C$/bbl)	n.a.	$61.15	$67.59	$69.00
Realized natural gas (C$/Mcf)	n.a.	$1.94	$1.68	$2.30

RESERVE DATA

	2016A	2017A
Liquids (mbbls)	14,389	18,327
Natural Gas (Bcf)	11,680	12,000
Total P+P (mboes)	16,336	20,327

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Source: Company Reports, Canaccord Genuity estimates

Figure 7: Model summary

		2016A	Q1/17 A	Q2/17 A	Q3/17 A	Q4/17 A	2017A	Q1/18 A	Q2/18 E	Q3/18 E	Q4/18 E	2018E	2019E
Days in period		366	90	91	92	92	365	90	91	92	92	365	365
Assumptions													
WTI	US$/bbl	43.27	51.86	48.28	48.08	55.46	50.84	62.95	60.00	60.00	60.00	60.73	60.00
NYMEX	US$/mcf	2.49	2.99	3.05	2.92	2.87	2.95	3.05	2.75	2.75	3.00	2.89	3.00
Foreign Exchange	US$/C$	0.76	0.76	0.74	0.80	0.79	0.77	0.79	0.78	0.78	0.78	0.78	0.78
Edmonton Par	C$/bbl	53.06	64.03	61.96	56.62	68.87	62.76	72.46	70.00	70.00	70.00	70.61	72.00
Lloydminster Blend	C$/bbl	38.81	49.43	49.66	47.76	54.99	50.56	47.98	49.03	52.90	54.19	51.05	54.19
AECO	C$/mcf	2.18	2.71	2.78	1.65	1.61	2.13	2.08	1.50	1.50	2.00	1.77	2.50
Realized Oil Price	C$/bbl		61.99	58.73	54.87	68.34	61.15	69.88	67.00	67.00	67.00	67.59	69.00
Realized Gas Price	C$/mcf		2.44	2.53	1.57	1.85	1.94	2.38	1.30	1.30	1.80	1.68	2.30
Production													
Oil & NGLs	bbls/d		2,753	2,933	3,711	3,984	3,405	3,806	4,178	4,687	4,880	4,391	4,890
Natural Gas	mmcf/d		1.93	1.38	2.98	3.30	2.45	3.29	3.44	3.73	3.72	3.55	3.55
Total Production	**boe/d**		**3,075**	**3,163**	**4,208**	**4,534**	**3,813**	**4,354**	**4,751**	**5,309**	**5,500**	**4,982**	**5,482**
% Gas	%		10%	7%	12%	12%	11%	13%	12%	12%	11%	12%	11%
YoY Growth	%		n.a.	n.a.	n.a.	n.a.	n.a.	42%	50%	26%	21%	31%	10%
Total Production	mboe		277	288	387	417	1,392	392	432	488	506	1,819	2,001
Netbacks													
Revenue (pre-hedging)	C$/boe		50.60	51.34	45.96	58.78	52.03	63.40	58.71	58.15	58.25	59.44	59.70
Heging Gains (Losses)	C$/boe		0.00	0.00	0.48	-0.09	0.12	-3.88	-1.22	-0.09	0.00	-1.15	-0.06
Revenue (post hedging)	**C$/boe**		**50.60**	**51.34**	**46.44**	**58.68**	**52.15**	**59.52**	**57.49**	**58.06**	**58.25**	**58.29**	**59.64**
Royalties	C$/boe		9.05	10.89	8.24	11.04	9.87	12.69	12.46	12.68	12.90	12.69	14.64
Operating Costs	C$/boe		30.92	29.19	30.86	27.56	29.41	29.68	27.75	27.25	27.25	27.89	26.00
Transportation Costs	C$/boe		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Field Netback	**C$/boe**		**10.64**	**11.26**	**7.35**	**20.08**	**12.87**	**17.15**	**17.27**	**18.13**	**18.11**	**17.71**	**19.00**
G&A Costs	C$/boe		3.20	4.72	3.44	5.14	4.25	2.99	3.25	3.25	3.25	3.19	3.25
Other Cash Costs	C$/boe		5.39	0.55	0.02	0.06	0.92	0.04	0.00	0.00	0.00	0.01	0.00
EBITDA Margin	**C$/boe**		2.05	5.99	3.89	14.88	7.70	14.12	14.02	14.88	14.86	14.51	15.75
Interest	C$/boe		2.68	2.63	1.99	1.82	2.18	2.69	2.98	2.78	2.77	2.80	2.89
Pre-Tax Net Back	**C$/boe**		-0.63	3.35	1.91	13.05	5.52	11.43	11.05	12.09	12.09	11.70	12.86
Cash Taxes	C$/boe		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
After-Tax Netback	**C$/boe**		**-0.63**	**3.35**	**1.91**	**13.05**	**5.52**	**11.43**	**11.05**	**12.09**	**12.09**	**11.70**	**12.86**
Royalties (as a % of pre-hedging revenue)			19%	23%	19%	21%	21%	22%	23%	23%	23%	23%	25%
Cash Flow Per Share Metrics													
CFPS (b)	$/share		-0.01	0.07	0.05	0.36	0.52	0.28	0.30	0.37	0.39	1.35	1.63
CFPS (f.d.)	$/share		-0.01	0.07	0.05	0.36	0.52	0.28	0.30	0.37	0.39	1.35	1.63
Production/Share	bbl/d/mm shares		306.0	241.6	264.3	292.5	278.1	276.9	301.3	336.7	348.8	316.2	347.7
Production/D.A. Share	bbl/d/mm shares		189.6	118.5	134.1	135.8	114.2	108.3	114.7	126.2	129.0	116.9	126.8
Payout Metrics													
Dividend	$/share		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Simple Payout	%		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
All-in Payout	%		n.a.	100%	519%	66%	137%	322%	136%	110%	106%	159%	93%
All-in w/ DRIP Payout	%		n.a.	100%	519%	66%	137%	322%	136%	110%	106%	159%	93%
Internal Capex / Cash Flow	x		n.a.	1.00	5.19	0.66	1.37	3.22	1.36	1.10	1.06	1.59	0.93
Cash Flows													
Cash Flow from Operations	$000		($115)	$970	$815	$5,520	$7,190	$4,477	$4,777	$5,908	$6,118	$21,279	$25,723
Investment Cash Flows - Internal	$000		(979)	(974)	(4,229)	(3,670)	(9,852)	(14,402)	(6,500)	(6,500)	(6,500)	(33,902)	(24,000)
Investment Cash Flows - M&A	$000		(17,089)	(11,471)	1,082	(5,272)	(32,750)	(4,641)	0	0	0	(4,641)	0
Dividend Payment	$000		0	0	0	0	0	0	0	0	0	0	0
DACF	$000		372	1,723	1,508	6,206	9,809	5,533	6,063	7,267	7,517	26,380	31,506
Cash From Equity	$000		0	15,530	(241)	0	15,289	0	0	0	0	0	0
Balance Sheet Metrics													
Net Debt	$000		19,906	16,923	20,792	24,746	24,746	42,872	45,320	46,638	47,745	47,745	48,922
Term loan	$000		30,000	30,000	30,000	30,000	30,000	45,000	45,000	45,000	45,000	45,000	45,000
Net Debt to Total Capitalization	%		19%	13%	17%	18%	18%	27%	28%	29%	29%	29%	28%
Debt/Cash Flow (trailing)	x		n.a.	19.8	12.5	3.4	3.4	3.6	2.9	2.3	2.2	2.2	1.9
Debt/Cash Flow (1 yr fwd)	x		1.7	1.1	1.0	1.2	1.2	1.8	1.8	1.8	1.9	1.9	n.a.
% Drawn	%		66%	56%	69%	82%	82%	95%	101%	104%	106%	106%	109%
Hedging (forecast values only)													
% of Oil Production	%								72%	64%	51%	62%	10%
% of Gas Production	%								0%	0%	0%	0%	0%
% of Total Production	%								63%	57%	45%	55%	9%

Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: May 30, 2018, 16:52 ET

Date and time of production: May 30, 2018, 16:53 ET

Target Price / Valuation Methodology:

Razor Energy Corp. - RZE

Our target price of C$3.25 is a 0.4x multiple to our CNAV and reflects a 2018E EV/DACF multiple of 3.8x.

Risks to achieving Target Price / Valuation:

Razor Energy Corp. - RZE

Key risks to achieving our target price include, but are not limited to, commodity prices, foreign exchange rates, project execution, geological uncertainty, inaccurate reserves evaluations, operational, environmental, regulatory, fiscal policy, key personnel, and the ability to obtain financing.

Distribution of Ratings:

Global Stock Ratings (as of 05/30/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	573	61.48%	41.71%
Hold	230	24.68%	24.78%
Sell	21	2.25%	19.05%
Speculative Buy	108	11.59%	64.81%
	932*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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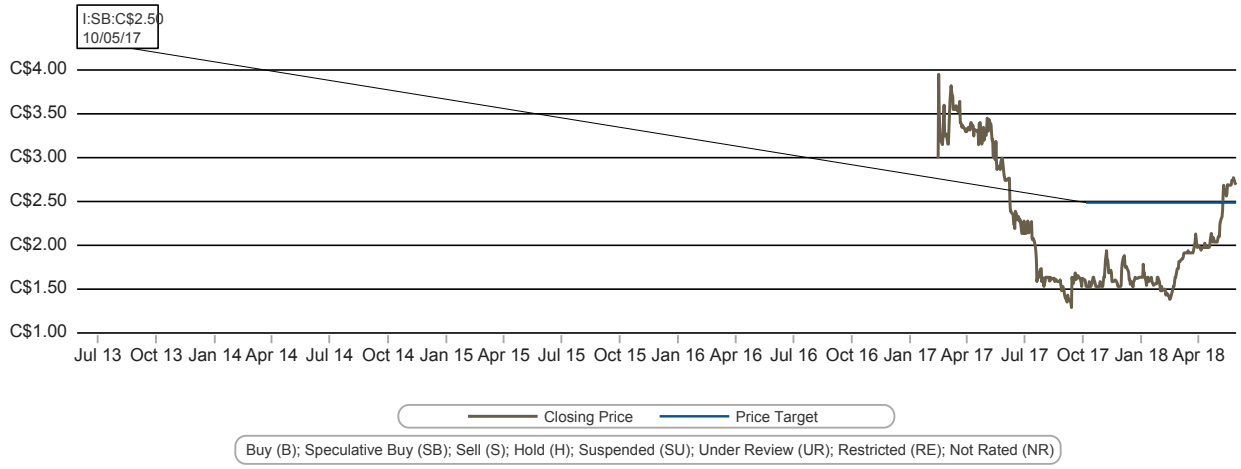
Razor Energy Corp. Rating History as of 05/29/2018



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