

Recommendation: Buy (S)
Target Price: \$1.25

♦Stikine Energy Corp. (SKY-TSX-V)
Initiating Coverage – Life's A Beach, If You Own The Sand

Current Price	\$0.42	Shares Outstanding (MM)	
52 Wk High	\$0.52	Basic	87.7
52 Wk Low	\$0.18	Fully Diluted	109.4
Cash (MM)	\$4.9	Mngt. & Dir.	9%
Net Debt (MM)	\$(5.0)	Market Cap. (MM)	\$36.8
NAV (PV10)	\$2.57	Float (MM)	\$33.6
P/NAV	0.16x	EV (MM)	\$31.8

Fiscal YE Feb. 28	2011E	2012E	2013E
Production (000 tonnes)	0	0	250
Frac Sand Price (\$/tonne)	\$250	\$250	\$250
OpEx (\$/tonne)	\$0	\$0	\$125
Revenue (\$MM)	\$0	\$0	\$63
EBITDA (\$MM)	\$(3)	\$(5)	\$21

Fiscal YE Feb. 28	2014E	2015E	2016E
Production (000 tonnes)	500	1,000	1,000
Frac Sand Price (\$/tonne)	\$250	\$250	\$250
OpEx (\$/tonne)	\$125	\$125	\$125
Revenue (\$MM)	\$125	\$250	\$250
EBITDA (\$MM)	\$53	\$115	\$115

Unless otherwise denoted, all figures shown in C\$

Investment Thesis:

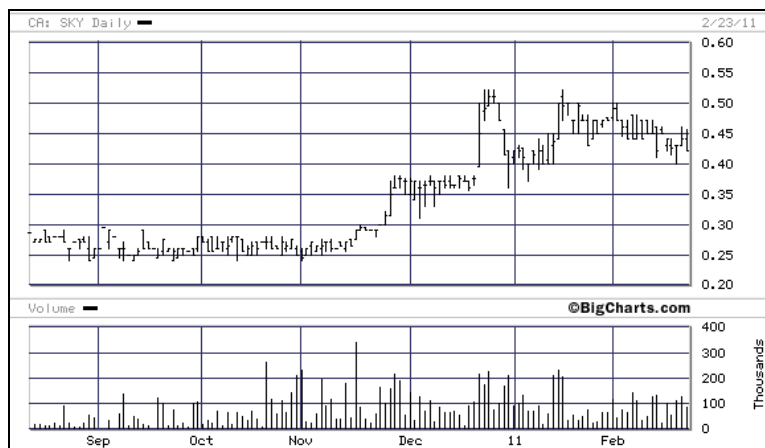
Increases in horizontal drilling and fracture intensity per well has led to increasing requirements for frac sand used as a proppant. Stikine's two proposed fract sand mines are located in Northeast B.C. and would make it the closest source of frac sand for both the Horn River and Montney basins, and with transportation costs representing up to 80% of delivered price for frac sand, the Company's two mine locations would give it a distinct cost advantage.

Highlights:

- **We are Initiating coverage of Stikine Energy Corp. with a Buy (S) rating and \$1.25 target price.**
- **Low Cost Supplier**
 The proposed locations of Stikine's two frac sand mines, near the Horn River and Montney basins, allow for substantial savings on transportation costs to the well sites, which can account for up to 80% of the delivered price.
- **Frac Sand Demand**
 Increased levels of horizontal drilling, with an increasing number of fracturing stages per well, has resulted in increasing demand of frac sand. We estimate that close to 1 MM t of frac sand were used for both the Horn River and Montney basins in 2010, and as development ramps up, we expect the requirement for frac sand will increase accordingly.
- **Valuation**
 We are initiating coverage of Stikine with a Buy (S) rating, and a target price of \$1.25, based on a 0.5x multiple to our NAV.

Company Description:

Stikine Energy Corp. intends to become a primary supplier of frac sand to producers in both the Horn River and Montney Basins through its two proposed mine locations located in Northeast B.C. The Company is in the midst of pilot scale testing to determine quality of the sand.



Source: BigCharts.com, February 23, 2011

♦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 Stikine Energy Corp.

Our disclosure statements are located at the end of this report

Investment Highlights:

- **Low Cost Supplier:** Stikine should benefit from the locations of its proposed mine sites, which would be the closest frac sand mines to both the Horn River Basin and the Montney Basin. While the mining costs alone would not produce significant savings over competitor mines, the location of the mines would save substantially on transportation costs for frac sand, which can run upward of 80% of delivered price.
- **Increasing Frac Sand Demand:** Recent increases in horizontal drilling and technological advances in hydraulic fracturing techniques have led to the development of unconventional resource plays such as the Horn River Basin and the Montney Basin. To unlock the resource from the basins, hydraulic fracturing is being used, with an increasing number of fracturing stages per well, requiring increasing amounts of frac sand. We estimate that over 1 MM t of frac sand was used in both basins during 2010, and as development ramps up, we expect the requirement for frac sand will increase accordingly.
- **Large Resource Size:** With a potentially very large deposit at both proposed mine sites, Stikine estimates it has enough resources to supply the Horn River and Montney basins for the entire development cycle.
- **Indications of Interest:** The Company has been in contact with industry players (i.e. pressure pumping companies and E&P companies active in the regions) and has garnered interest in its product. In order to finance the development of the mines, we believe Stikine has options to enter into a joint venture agreement or forward sales agreement with one or several industry players.
- **Pilot Plant Testing:** A 430 t sample from the Company's Nonda property is currently undergoing testing at the Company's pilot plant, located in Abbotsford, BC. The sample has already undergone lab testing (conducted by an independent lab) and met or exceeded both API and ISO characteristics for frac sand. The pilot plant is currently undergoing its optimization phase, and will continue to test the remainder of the Nonda sample. Permitting to extract a sample from the Angus location is complete, with testing at the pilot plant from that resource planned over the next three months.
- **Extensive Management Experience:** Stikine's management team has a strong track record in mine construction and operation in BC, each with 20+ years experience in the mining industry. President & CEO, Scott Broughton, has spent 25 years in exploration, mine design, mine development and operations. CFO, David Skerlec, has spent 20 years in exploration, mining and mining finance, and Bob Chambers, VP – Environment & Sustainability, has 25 years experience in site assessment, geotechnical design and environmental aspects of tailings, mine rock and water management for mining projects. Most recently this management team was responsible for seeing the development of the MAX Molybdenum Mine in BC, which was the first new primary molybdenum mine in Canada and BC's first new metal mine in over a decade.

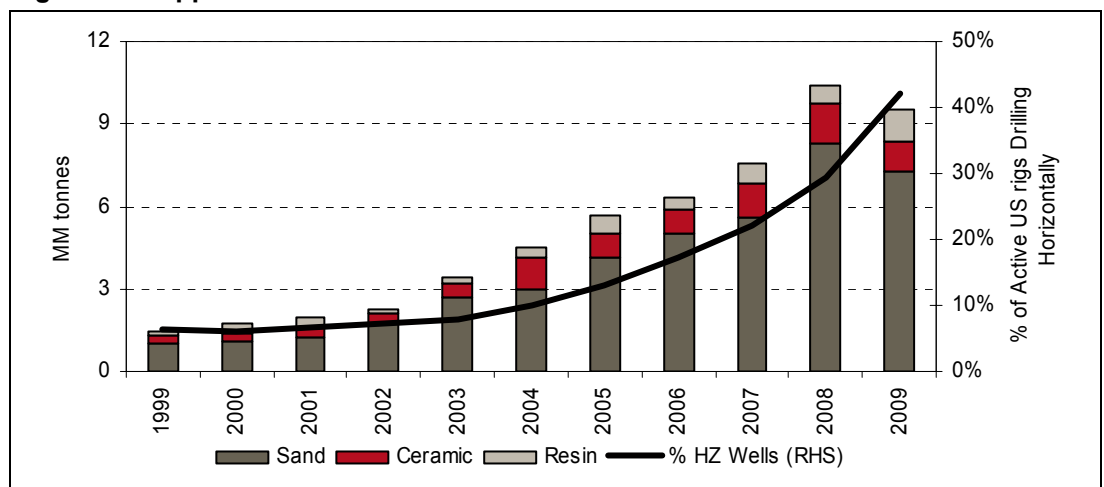
In addition to management experience, Cleve Graham, who is a director with the company, brings 35 years experience, focussed on oil and gas well completions, most recently concentrated on horizontal and unconventional aspects of the business in the Horn River Basin.

- **Current Price / NAV:** Assuming both mine sites are developed, we estimate a net asset value per share of \$2.57 for Stikine. At its current share price of \$0.42, it is trading at a Price/NAV of 0.2x, resulting in significant upside, should our production and mine cost estimates be met.

Frac Sand Industry:

- The shift to more horizontal wells and multi-stage fracturing has increased the need for proppants, which are used in the fracturing process. Processed sand is the most common proppant, used in over 70% of fracturing treatments. The sand is suspended in a solution and pumped into the wellbore, under high pressure, during the fracturing treatment. After the well has been fractured, the sand particles are deposited in the newly created fissures, ‘propping’ open the fracture and allowing hydrocarbons to flow through the opening and into the wellbore.
- Frac sand comprises washed and graded, high silica quartz sand, which is chemically inert and has a specific roundness (sphericity), crush resistance and size. Common sizes, in industry terms, are 20/40 mesh – measuring 0.425 mm to 0.850 mm, 40/70 mesh – measuring 0.212 mm to 0.425 mm, and 100 mesh – measuring 0.106 mm to 0.212 mm. Roundness of the frac sand is important and ensures conductivity of the hydrocarbons, as they are not able to be packed as tightly as irregular shaped sand.
- Proppant made from ceramics, or by coating particles with either a resin or polymer is also used, which can increase crush resistance, temperature sensitivity and roundness, however, pricing can be more than 20 times that of processed sand.
- Frac sand historically was produced as a by-product during mining operations with very little sourced from frac sand specific mines, which led to supply shortages during 2008. The supply squeeze drove delivered frac sand prices up to \$450/t in 2008, before declining to \$325/t in 2009 and \$250/t in 2010. With a more balanced market due to increased supply from frac sand specific mines we are forecasting a long term delivered price of \$250/t. Given the high level of transportation costs embedded in the delivered price we see \$200/t as cyclical low price.
- As the following exhibit shows, demand for frac sand has been on the rise, in line with increases in horizontal drilling and increases fracture intensity per well. Demand peaked in 2008 before declining, in line with the drilling industry in 2009. While data for 2010 is not available, we believe the drilling activity rebound that occurred in 2010 likely lead to record demand for fracturing proppant and fracturing sand. With our forecast for drilling activity to remain robust in 2011 and the trend toward horizontal wells continuing we expect further demand growth for fracturing sand.

Figure 1: Proppant Demand



Sources: Company Reports, Baker Hughes

Frac Sand Supply:

- Producers in the Horn River and Montney basins are currently sourcing frac sand supplies primarily from mines in Alberta and Saskatchewan, however some supply is sourced as far away as Texas.
- The Canadian Silica mine located in the Peace River area of Alberta is currently the closest supply of frac sand to the two basins and has a annual capacity of 500,000 t. The Canadian Silica mine produces both 100 mesh and 20/40 mesh frac sand.
- The next closest supply comes from the Winn Bay mine in Saskatchewan, which has annual capacity estimated at 150,000 t of 20/40 mesh frac sand, however the reserve life is estimated at 7–8 years.
- The close proximity of both Stikine’s proposed mines makes them ideal to service the Horn River and Montney basins, with the Nonda property located 150 km west of the Horn River Basin, it would make the potential mine site the closest source of proppant for the basin (see Figure 5).

Horn River Basin:

- The Horn River Basin is a shale resource play located in Northeast B.C., estimated to hold roughly 250 tcf of natural gas, of which 10–20% is expected to be recoverable.
- Fracturing treatments in the area have grown to average between 14 and 25 fracture stages per well, using between 200 t to 300 t per stage. As figure 2 indicates, we expect 100 wells to be drilled in 2011, with proppant requirements in the basin expected to be nearly 500,000 t.
- As development of the basin ramps up, potential proppant requirements could be as high as 3 MM t by 2014.

Montney Basin:

- The Montney Basin is a shale resource play located in Northeast B.C., south of the Horn River Basin, and extending into Northwest Alberta. Natural gas reserves in the basin have been estimated at 50 tcf.
- Fracture treatments in the Montney have been averaging between 5 and 14 stages per well, utilizing between 100 t and 200 t of proppant per stage. With expectations for roughly 550 wells to be drilled in the basin in 2011, we are forecasting proppant requirements to exceed 700,000 t.
- As development in the Montney continues over the next several years, we could see proppant requirements double from current levels by 2014.

Figure 2: Proppant Requirements By Basin

Formation	Frac Stages Per Well	Proppant Used Per Stage (tonnes)	Wells Drilled		Average Proppant Required	
			2010E	2011E	2010E (tonnes)	2011E (tonnes)
Horn River	14 - 25	200 - 300	125	100	575,000	460,000
Montney	5 - 14	100 - 200	450	550	540,000	715,000
Total					1,115,000	1,175,000

Sources: Company Reports, Cormark Securities

Proposed Mine Sites:

Stikine has a 100% interest in roughly 90,000 hectares of mineral claims in Northeast B.C. The area covers prospective quartz-pure sandstones, containing ideally sized grains, which have the potential to be processed into frac sand.

Stikine's resource differs from competitors in that the frac sand is 'embedded' in a quartz-pure sandstone that is greater than 98% silica with over 89% of grains in size appropriate for frac sand that can be readily liberated by a simple process. Yields in lab testing have been as high as 65%.

Competitors mines use quartz poor resource (high in impurities such as clay, feldspars, coatings and organics) with silica i.e. frac sand already liberated, which produce yields as low as 10%.

Stikine would employ off the shelf technology to liberate frac sand from sandstone, with an operating pilot plant demonstrating low operating costs. The liberation technique would employ both a primary and secondary crushing process, which would liberate the bulk of the frac sand with attrition scrubbing being the final stage of liberation. Density separators would sort frac sand into appropriate size and remove tailings. The equipment would be mobile making it ideal for an open pit mining scenario.

The two properties with the greatest development opportunities are the Nonda and Angus properties described below.

Figure 3: Property Summary

Nonda (150 km west of Horn River Basin)

- * Quartz-pure sandstone in 40/70 and 100 mesh sizes
- * Large outcrop >11.5 km x 1 km, very homogeneous
- * Lab process testing demonstrates high quality
- * Bulk sample testing in progress shows API/ISO quality
- * Permitting and pre-feasibility in 2011
- * Target market is Horn River, Montney and North America

Sources: Company Reports, Cormark Securities

Angus (200 km south of Montney Basin)

- * Quartz-pure sandstone in 20/40, 30/50, and 40/70 mesh sizes
- * Large outcrop >5 km x 1 km
- * Lab process evaluation in progress
- * Bulk sample testing expected to commence in Q1/11
- * Drill coring to be completed in Q2/11
- * Target market is Montney and North America

Nonda Property:

- Stikine's Nonda property, located 150 km west of the Horn River Basin in Northeast B.C., spans an area roughly 11.5 km long by 1 km wide and contains quartz-pure sandstone in grain sizes ideal for the Horn River and Montney Basins - 20/40, 40/70 and 100 mesh sizes.
- The rocks are 98% silica, which contain 89% ideally sized quartz grains, and are exposed at the surface, lending the project to open pit mining with minimal development required. The resource at Nonda appears to be unique to the area, with the idyllic size of the quartz grains, coupled with the lab scale and pilot results to date showing that the grains are readily liberated from the rock.
- Nonda's location would make it the closest frac sand mine to the Horn River Basin, with the next closest located near Peace River, Alberta, over 600 km away, taking 10 hours to deliver by truck.
- The company performed a nine hole drill test to confirm the continuity and quality of the rock in late 2009 and in July 2010, a 430 t sample was drilled and blasted. The sample was transported (by helicopter and truck) to its pilot plant located in Abbotsford, B.C. in September 2010 for primary crushing. In late 2010, Stikine started feeding the bulk sample through its pilot plant with approximately half the sample currently completed. The sand is being sorted into sizes, dewatered and bagged for further testing.

- Lab testing conducted in November 2010, by Stim-Lab Inc. (an independent lab facility located in Oklahoma) indicated the frac sand from the Nonda property was of high quality, complying with American Petroleum Institute (API) and International Standards Organization (ISO) standards for frac sand, and long term conductivity of the 40/70 and 100 mesh sand was found to be higher than most in North America.
- Testing of frac sand processed through the company's pilot plant has also met the criteria for its 100 mesh sand, while testing is underway for its 20/40 and 40/70 mesh sand. The Company is currently optimizing its processes to improve efficiencies.
- For the remainder of 2011, Stikine will infill drill to define the full resource at its Nonda site, while continuing with its environmental permitting. Engineering work, including mine design and access is being done concurrently with the environmental work, with a pre-feasibility study to be completed by the end of 2011 or early 2012. Application to develop the site is expected to be made in 2012, with a minimum nine month review process to follow. Assuming approval of the application, construction of the mine is expected to begin in 2013 and is expected to cost roughly \$300 MM, as infrastructure, including a road into the site, will be needed. Initial frac sand production would be expected to begin during the construction phase in mid-2013.

Angus Property:

- Stikine's Angus property, located 200 km south of the Montney Basin in Northeast B.C., spans an area roughly 5 km long by 1 km wide and contains Quartz-pure sandstone in 20/40, 30/50 and 40/70 mesh sizes, ideal for the Montney Basin. Similar to the Nonda resource, the Angus resource is 98% silica and exposed at the surface.
- Lab testing is currently underway for samples taken from the Angus property. Initial results on the samples were positive, with properties well within the prescribed characteristics for proppant. The company has obtained a permit to extract a bulk sample from the site, which is expected to be taken in mid-March, for testing at the pilot plant in Abbotsford, BC.
- The Angus project has ready access to infrastructure, with a highway, power and rail all less than 20 km from the site, and previously existing logging roads into the site. The location of the planned mine makes it an ideal source of proppant for the Montney Basin.
- Intentions are to initiate the environmental permitting processes for the Angus site this year, with the expectation that the mine development application will be submitted in 2012, along with the Nonda application. With most infrastructure in place, we would expect the capital costs to develop the site to be roughly \$180 MM.

The Stikine Advantage – Mine Proximity:

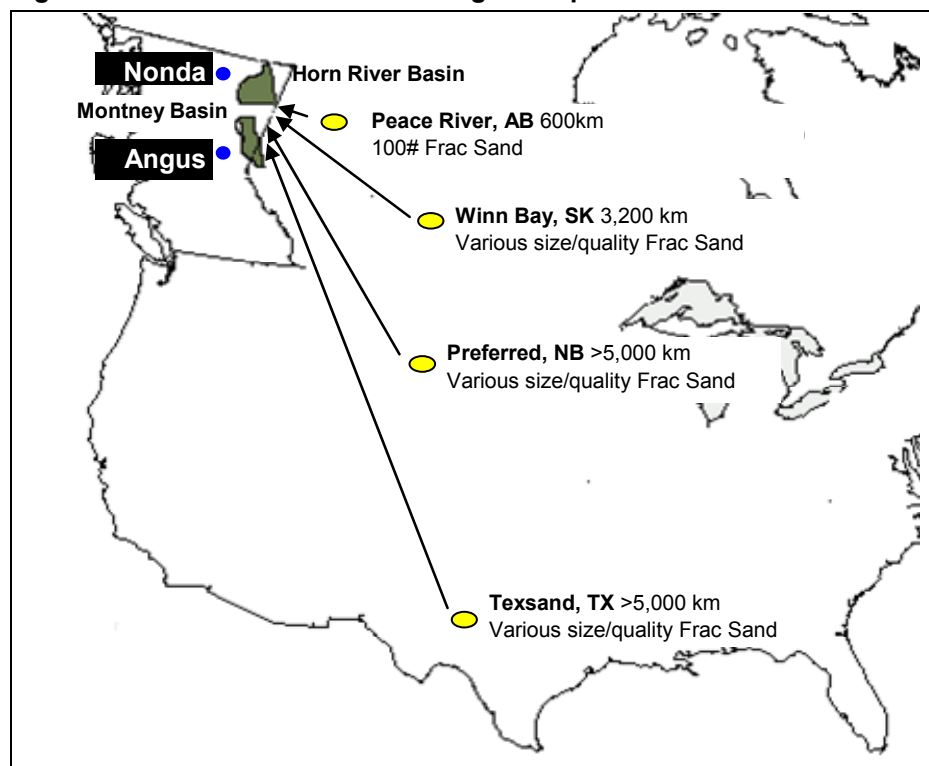
- We expect product costs for the company’s frac sand to be in line with other suppliers at approximately \$50/t, however as the following figure shows, transportation costs are the single largest cost in the delivered price of frac sand to the Horn River and Montney basins, and can represent over 80% of total costs. The close proximity of Stikine’s proposed mine sites allows for a distinct cost advantage over other suppliers.

Figure 4: Margin Comparison By Mine Location

	Stikine (US\$/tonne)	Alberta (US\$/tonne)	Saskatchewan (US\$/tonne)	Texas (US\$/tonne)	Nebraska (US\$/tonne)
Mine					
Mining & Processing Costs	\$50	\$65	\$50	\$50	\$40
Mine Margin	N/A	\$10 - \$25	\$24 - \$39	\$18 - \$48	\$10 - \$29
Mine Cost	\$50	\$75 - \$90	\$74 - \$89	\$68 - \$98	\$50 - \$69
Transportation					
Freight To Ft. Nelson	\$25	\$100	\$96	\$165	\$171
Handling To Well Site	\$50	\$50	\$63	\$59	\$59
Transportation Costs	\$75	\$150	\$159	\$224	\$230
Total Delivered Cost	\$125	\$225 - \$240	\$233 - \$248	\$292 - \$322	\$280 - \$299
Delivered Price	\$250	\$250	\$258	\$332	\$309
Implied Margin	\$125	\$10 - \$25	\$10 - \$25	\$10 - \$40	\$10 - \$29

Source: Company Reports

Figure 5: Location Of Nonda And Angus Properties



Source: Company Reports

Capital Structure:

- Stikine trades on the S&P/TSX Venture exchange under the symbol SKY. The Company currently has 87.7 MM shares outstanding, and a further 21.7 MM in warrants and options, for a fully diluted share count of 109.4 MM. Management and directors of the company hold roughly 7.9 MM of the outstanding shares, representing 9.0% of the basic shares outstanding.
- Stikine's recent financing (December 30, 2010), which generated gross proceeds of \$5.9 MM will be used for working capital and general corporate purposes, which we expect will be sufficient to cover 2011 expenses.

Figure 6: Capital Structure

	MM
Shares Outstanding - Basic	87.7
Warrants	13.1
Options	8.6
Shares Outstanding - Fully Diluted	109.4
Cash	\$5.0
Debt	\$0.0

Sources: Cormark Securities, Company Reports

Valuation:

- We are initiating coverage of Stikine with a Buy (S) rating, and a target price of \$1.25, based on a 0.5x multiple to our PV10 NAV. Our discount to NAV reflects the early development of the Company. The Speculative qualifier relates to the funding requirements, outstanding technical risks and long-lead time to development.
- Our net asset value analysis assumes the Nonda and Angus sites are developed and begin producing in mid-2013 at a total capital cost of \$480 MM, with mine production reaching 1.0 MM t annually by 2015.
- Our estimates also forecast a sales price for frac sand of \$250 per tonne, and cash costs at the mines to be \$125 per tonne (\$50 mining and processing costs and \$75 transportation cost). The details of our analysis are set out below.

Figure 7: NAVPS

	FCF NPV (\$000)	Cash On Hand (\$000)	NAV (\$000)	FD Shares (000)	FD NAV Per Share
NPV ₁₀	\$275,808	\$5,000	\$280,808	109,419	\$2.57
NPV _{7.5}	\$409,509	\$5,000	\$414,509	109,419	\$3.79
NPV _{12.5}	\$175,121	\$5,000	\$180,121	109,419	\$1.65

Sources: Cormark Securities, Company Reports

- Below we provide a scenario analysis, in which we provide alternate valuations that would result from a change in some of our assumptions. We note that the valuation for Stikine is highly susceptible to changes in the sale price for frac sand, mine operating costs, as well as production rates at the mines.

Figure 8: Stikine Energy Corp. – Scenario Analysis

		Nonda Production (000 tonnes)				
		300	400	500	600	700
Angus Production (000 tonnes)	300	-\$0.36	\$0.37	\$1.10	\$1.84	\$2.57
	400	\$0.37	\$1.10	\$1.84	\$2.57	\$3.30
	500	\$1.10	\$1.84	\$2.57	\$3.30	\$4.03
	600	\$1.84	\$2.57	\$3.30	\$4.03	\$4.76
	700	\$2.57	\$3.30	\$4.03	\$4.76	\$5.49

		Nonda Capital Cost (\$MM)				
		\$250	\$275	\$300	\$325	\$350
Angus Capital Cost (\$MM)	\$120	\$3.36	\$3.18	\$3.00	\$2.82	\$2.64
	\$155	\$3.11	\$2.93	\$2.75	\$2.57	\$2.39
	\$180	\$2.93	\$2.75	\$2.57	\$2.39	\$2.21
	\$205	\$2.75	\$2.57	\$2.39	\$2.21	\$2.03
	\$230	\$2.57	\$2.39	\$2.21	\$2.03	\$1.85

		Frac Sand Sales Price / tonne				
		\$200	\$225	\$250	\$275	\$300
Mine Operating Cost / tonne	\$75	\$2.57	\$4.03	\$5.49	\$6.95	\$8.42
	\$100	\$1.10	\$2.57	\$4.03	\$5.49	\$6.95
	\$125	-\$0.36	\$1.10	\$2.57	\$4.03	\$5.49
	\$150	-\$1.82	-\$0.36	\$1.10	\$2.57	\$4.03
	\$175	-\$3.28	-\$1.82	-\$0.36	\$1.10	\$2.57

Sources: Cormark Securities, Company Reports

Figure 9: Stikine Energy Corp. – Free Cash Flow Estimates

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2017E	2018E	2019E	2020E
Frac Sand Sales Price (\$/tonne)	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250
<u>Nonda Mine</u>											
Production (000 tonnes)	0	0	125	250	500	500	500	500	500	500	500
Waste (000 tonnes)	0	0	0	0	0	0	0	0	0	0	0
Strip Ratio	N/A	N/A	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Recovery	N/A	N/A	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Nonda Production (000 tonnes)	0	0	125	250	500	500	500	500	500	500	500
Total Nonda Revenue (\$MM)	\$0.0	\$0.0	\$31.3	\$62.5	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0
Cash Costs (\$/tonne)	\$0	\$0	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125
Cash Costs (\$MM)	\$0.0	\$0.0	\$15.6	\$31.3	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5
<u>Angus Mine</u>											
Production (000 tonnes)	0	0	125	250	500	500	500	500	500	500	500
Waste (000 tonnes)	0	0	0	0	0	0	0	0	0	0	0
Strip Ratio	N/A	N/A	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Recovery	N/A	N/A	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Angus Production (000 tonnes)	0	0	125	250	500	500	500	500	500	500	500
Total Angus Revenue (\$MM)	\$0.0	\$0.0	\$31.3	\$62.5	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0
Cash Costs (\$/tonne)	\$0	\$0	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125
Cash Costs (\$MM)	\$0.0	\$0.0	\$15.6	\$31.3	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5	\$62.5
Revenue (\$MM)	\$0.0	\$0.0	\$62.5	\$125.0	\$250.0	\$250.0	\$250.0	\$250.0	\$250.0	\$250.0	\$250.0
Cash Costs (\$MM)	\$0.0	\$0.0	\$31.3	\$62.5	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0	\$125.0
Expenses (\$MM)	\$3.2	\$5.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0
EBITDA (\$MM)	-\$3.2	-\$5.0	\$21.3	\$52.5	\$115.0	\$115.0	\$115.0	\$115.0	\$115.0	\$115.0	\$115.0
CAPEX (\$MM)	\$0.0	\$240.0	\$240.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0
Free Cash Flow (\$MM)	-\$3.2	-\$245.0	-\$218.8	\$42.5	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0	\$105.0

Sources: Cormark Securities, Company Reports

Investment Risks:

- **CAPEX:** Stikine's future operations are heavily dependent on its ability to raise financing. We expect it needs to raise roughly \$480 MM in capital to build both its Nonda and Angus properties. We expect that with the additional infrastructure required at the Nonda site, capital cost will be roughly \$300 MM, and for the Angus site, we expect capital costs of roughly \$180 MM.
- **Industry Contracts:** Stikine currently has no sales contracts with pressure pumping companies, and would need to build out its sales platform as the mines go into production.
- **Nearby Deposits:** There is the potential for alternate silica deposits near the Company's sites, which would diminish Stikine's competitive advantage in regards to transportation costs.
- **Price Sensitivity:** Stikine's valuation is highly sensitive to both frac sand sales price and mine operating costs. Should pricing be depressed for a prolonged period, or operating costs increase above expectations, the Company's financial position would be negatively affected.
- **Natural Gas Markets:** Should the natural gas market remain weak, drilling activity in both the Horn River Basin and the Montney Basin could see a pullback, which would negatively affect demand for frac sand in the area.
- **Regulatory Environment:** Any regulation that curtails the production of oil and natural gas, or the fracturing industry could have a materially negative effect on Stikine's financial position.

Management and Directors:

- Management and Directors collectively own or control approximately 9.0% of the outstanding shares.

Figure 10: Stikine Energy Corp. - Management And Directors

Management

Position	Name	Biography	Share Holdings	% Of Total
President and CEO	Scott Broughton	<ul style="list-style-type: none"> ▶ CEO of Stikine since 2003 ▶ CEO of Roca Mines Inc. since Sept. 2002 ▶ Professional Engineer 	2,794,000	3.2%
CFO	David Skerlec	<ul style="list-style-type: none"> ▶ CFO of Stikine since 2003 ▶ CFO of Roca Mines since March 2003 	2,458,642	2.8%
VP, Environment & Sustainability	Bob Chambers	<ul style="list-style-type: none"> ▶ VP of Stikine since 2010 ▶ Professional Engineer ▶ 25 years experience as site assessment, geotechnical design and environmental aspects for mining projects 	250,000	0.3%
Total			5,502,642	6.3%

Directors

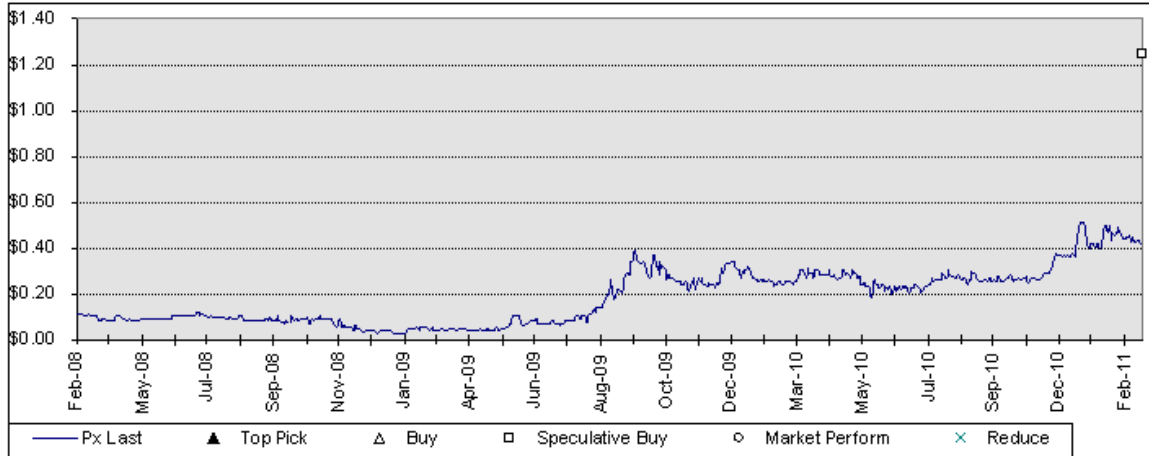
Director Since	Name	Principal Occupation	Share Holdings	% Of Total
2000	Scott Broughton	President and CEO - Stikine Energy Services	2,794,000	3.2%
2003	David Skerlec	CFO - Stikine Energy Services	2,458,642	2.8%
2005	John Baker	Mining and Drilling Consultant	1,270,000	1.4%
2010	Cleve Graham	Oil and Gas Consultant	1,164,786	1.3%
Total			7,687,428	8.8%

Source: Company Reports

We, Jeff Mochoruk and Stephen Kammermayer, 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.

Stikine Energy Corp.

*Source: Cormark Securities Inc.



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During the last 24 months, has Cormark received or is expected to receive compensation for Yes No having provided investment banking services to this issuer?

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If YES
 1) Is it a long and/or short position?
 2) What type of security is it?

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If the material operations of this issuer were viewed in the past 12 months, were any travel expenses paid or reimbursed by the issuer? N/A Yes No

Does the analyst or Cormark and / or one or more entities affiliated with Cormark have any other material conflict of interest with the issuer? Yes No

*Cormark has this percentage of its universe assigned as the following:

Buy or Top Pick	75%
Market Perform	20%
Reduce	1%
Not Rated	4%

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Buy or Top Pick	57%
Market Perform	26%
Reduce	33%

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Recommendation / Target Chg

Date	C\$
24-Feb-11	1.25 (B-S)

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

Updated February 23, 2011

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Top Pick	our best investment ideas, the greatest potential value appreciation
Buy	expected to outperform its peer group
Market Perform	expected to perform with its peer group
Reduce	expected to underperform its peer group

Our ratings may be followed by "(S)" which denotes that the investment is *speculative* and has a higher degree of risk associated with it.

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