

BOE Report Weekly Round-up

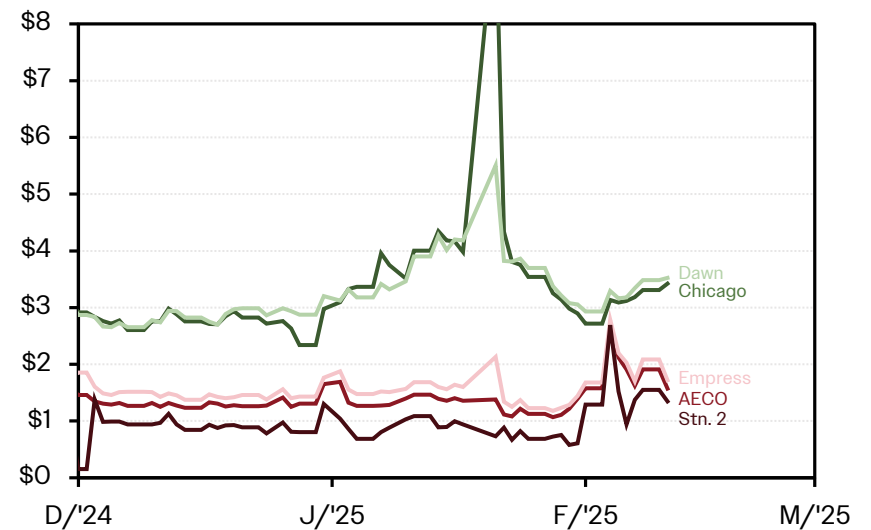
February 21st, 2025

This week saw a large, core US shale deal set a new high watermark for quality inventory in the US. While Diamondback's acquisition of Double Eagle IV was unarguably pricy, it's notable in the fact that on an inventory basis, the \$/Loc was ~2x that of previous Midland focused deals. While the Midland Basin is certainly high quality, the economics are second to the Delaware to the west, where inventory has typically traded at a slightly higher valuation. We think this sets a distinct M&A tone – that core locations are more important than price... for now.

When the HTM Canada team visited the States earlier this year, we learned some interesting things – multiple US E&Ps told us they looked at the Hammerhead Montney and Chevron Duvernay deals (and that they liked them); but didn't want to be the first ones to transact in Canada. Notably, one E&P was seriously considering the Chevron asset opposed to another asset in the US they ended up purchasing. Similarly, the secondary market makers (i.e. mineral buyers, play assemblers) were more crudely worried about Canada in the sense they felt they may not be able to get capital out of the country.

Despite our view that US E&Ps won't flock to Canada in droves, rather exhaust all their options in the US first (and the valuation for just a handful of 'good' sticks would tend to confirm that), the jarring amount of money that Diamondback shelled out for DE IV may incentivize the larger Canadian companies to hurry up and acquire core Canadian inventory while it's cheap. After all, we have it on good authority that CNRL was "surprised" with the quality of the Duvernay, and how well it competes for capital within their portfolio. If the US E&Ps aren't knocking on Canada's door, there is certainly opportunity for a huge inventory carry trade by large operators, like CNRL, and even Tourmaline or ARC.

Gross Gas Sales Prices by Hub (US\$/MMBtu)



Note: Gas netbacks assume Gordondale plantgate, long-haul tolls assumed at minimum FT-R rates
Source: Bloomberg, NGL, HTM Data Suite

Weekly Headlines

[PEY releases 2024 results, provides reserves update](#)

[WCP releases 2024 financial results](#)

[CVE releases 2024 financial results](#)

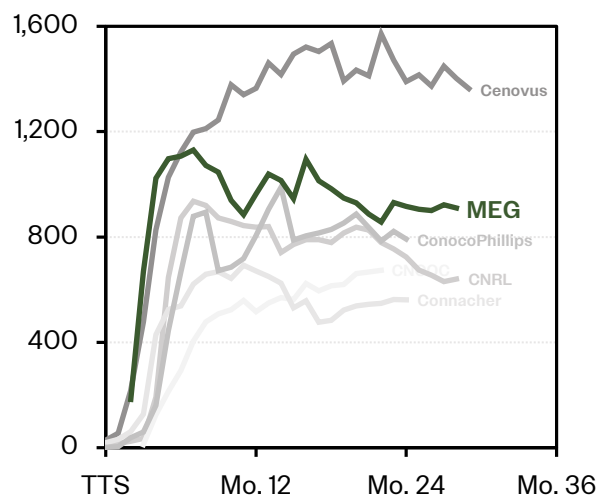
[SDE releases 2024 results, provides reserves update](#)

[TCW releases 2024 financial results, increases dividend](#)

[IPO announces the acquisition of Cardium assets](#)

[OBE announces the disposition of Cardium assets](#)

2-21.1: Avg. Well Pair Rates (Bbls/d)



MEG Continues Operational Excellence at Christina Lake

Despite the broader market upset at MEG's growth intentions, it's both moderated growth and fully defensible at ~US\$60/Bbl WTI. This is where growth should happen – with almost no debt, on a Tier 1 asset. While the threat of US tariffs has rippled through the heavy oil complex, given MEG's service on both the TMPL, and Flanagan South, we think in a tariff scenario (however unlikely), MEG can manage their net-differential impact to <US\$4/Bbl; with FX and WTI largely offsetting the loss.

At times, we believe that MEG's capital efficiency (and thus, underlying asset quality) may be obscured, as over the past few years they have focused on improving Christina Lake without incremental steam capacity or major facility expansions, focusing on adding "O SOR" barrels through infill drilling; key for a steam-constrained operation. Moving forward, we continue to expect operational excellence. Production from non-infill wells in the Christina Lake area shown to the left, MEG dominates, beat only by Cenovus. With M&A taking a distinct focus on core assets that are priced in-line with their average quality peers, MEG certainly stands out as having rock that is better than the rest.

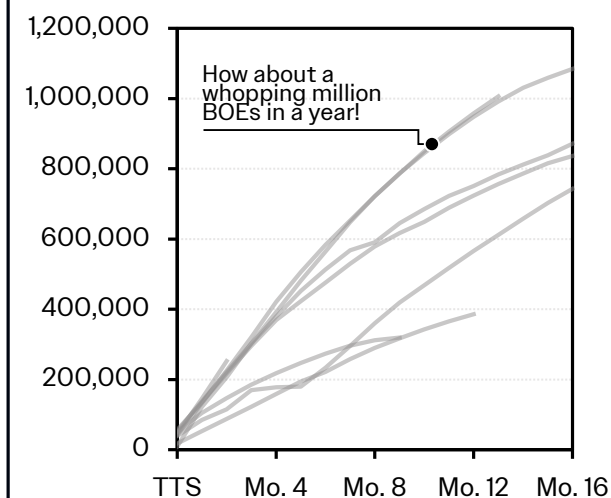
2-21.2: Dawson Larger Frac Trial Map



Tourmaline Tries Increased Tonnage Across the BC Montney

Tourmaline is in a league of their own when it comes to costs, with their average Montney well costing below \$6MM, while the rest of the industry averages closer to \$9MM. Part of that is depth – though a major factor in Tourmaline's lower well costs is relatively less sand placed per well. Slowly, over the past few quarters, Tourmaline has tried bigger fracs with more sand and water at Town, Laprise, and Dawson. At Town, they have trialed bigger fracs with lagged development and intra-bench wine-rack spacing, a fairly large change over their historical spacing and completion design. At Dawson, in 2024 they extended laterals and increased frac intensity materially (>100% increase in H₂O/ft according to our estimates using preliminary regulator data). We think that Tourmaline's hesitance to increase frac intensity historically, as the industry has trended higher – is attributable to their laser focus on F&D costs. Now, a new sand transload terminal in Fort St. John has allowed them to be playing around with more proppant. Early time production results are promising at Dawson, with 15MBbbls more condensate produced through 6 months on production compared to lateral-adjusted offset wells in the Lower Montney, delivering absolute production improvements that are also defensible on an F&D basis.

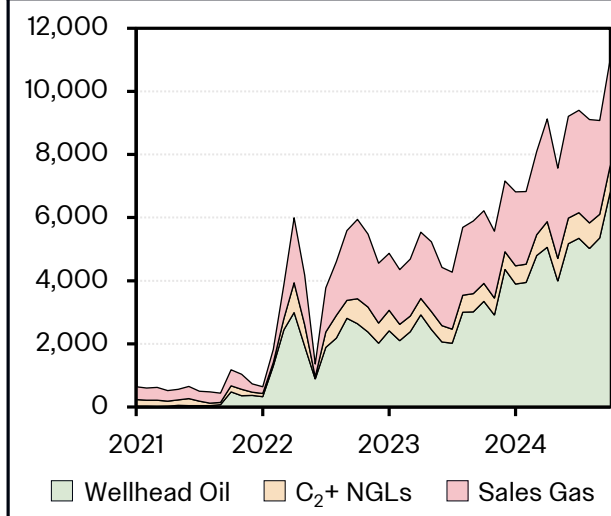
2-21.3: Wapiti Falher Cumes (BOE)



These Falher Wells Are Crazy... Some of the Best in the World?

OK, best in the world may be a stretch, but these Wapiti Falher wells both have insane gas rates, and some serious liquids production. You can get 45MMcf/d (7,500BOE/d) all day long in the Haynesville, but no liquids. The wells to the left are 30% liquids (15% excl. C₂)! Canadian unconventional gas is unique, because it's almost all liquids rich. If you stripped the liquids, our breakevens would look pretty similar to the US, worse, even, but those juicy NGLs pay the bills. Lots of opportunities like this throughout the basin that we see. Just like the Central Alberta Glauconite play. There are tons of pre-2010 vertical wells that were "technical successes" (i.e. encountered hydrocarbons), but the reservoir wasn't permeable enough to produce. Now, enter fracking, and we've seen some insane wells in that exact area. Same deal here, commingled verticals were ~500Mcf/d IP₃₀, but the unconventional wells – 50x better! Take Tourmaline's Cow Lake project for example, as we've discussed, their new Glauconite horizontals had IP₃₀ rates >10MMcf/d, with the vertical well at the toe just 0.2MMcf/d. The Falher at Wapiti, and Kakwa continues to impress. Recall, Peyto recently brought 2 Falher wells online in the Kakwa area with IP_{30PD} rates of ~14MMcf/d. These sandstones are supercharged!

2-21.4: Archer Production (BOE/d)



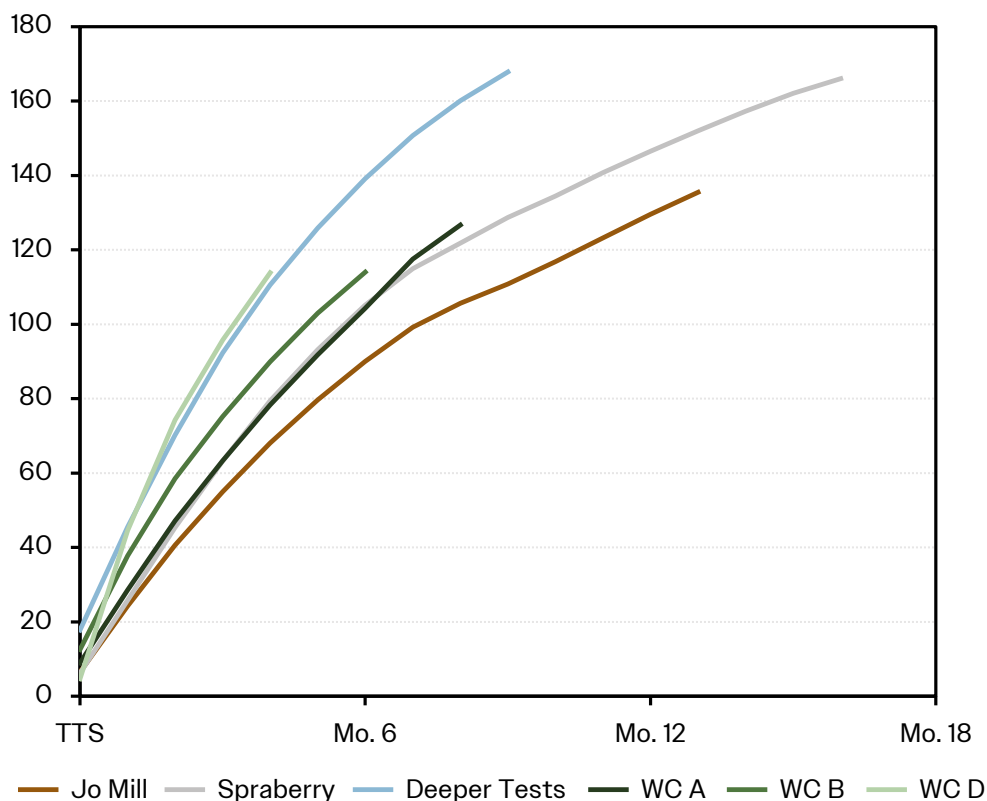
Archer is Back Above 10,000BOE/d, Primed for a Sale?

After their sale of the Charlie Lake to Tamarack, the Archer team is back up above 10,000BOE/d on the retained assets. Notably, word is they were the ones that purchased the Surge Valhalla package that was on the market ([link to disposition news release](#)) – not sure if they are going for the infrastructure (Surge did have some plant capacity and an expansion option), or maybe looking for that Montney turbidite juice? Either way, impressive work here from Archer. Notably, Archer still controlling most of the good Charlie Lake inventory. The Charlie Lake Pipestone results have been very strong, and in many cases, the Charlie Lake has been outperforming the Montney on an IP₃₆₅ oil/condensate basis, especially in the Wembley, Pipestone, and Valhalla areas – with the Charlie Lake taking the double-win when considering the relatively lower DCE&T costs. The non-Montney Triassic, and Cretaceous plays have seen a revitalization in the area as operators revisit with bigger fracs at longer laterals, with Archer now consistently drilling wells that are 3 miles long! CNRL has seen tons of success with bigger fracs too; in the Dunvegan at Karr after ~tripling stage counts over vintage wells, CNRL is now bringing on wells with oil IP₃₀ rates above 1,000Bbls/d. Epic!

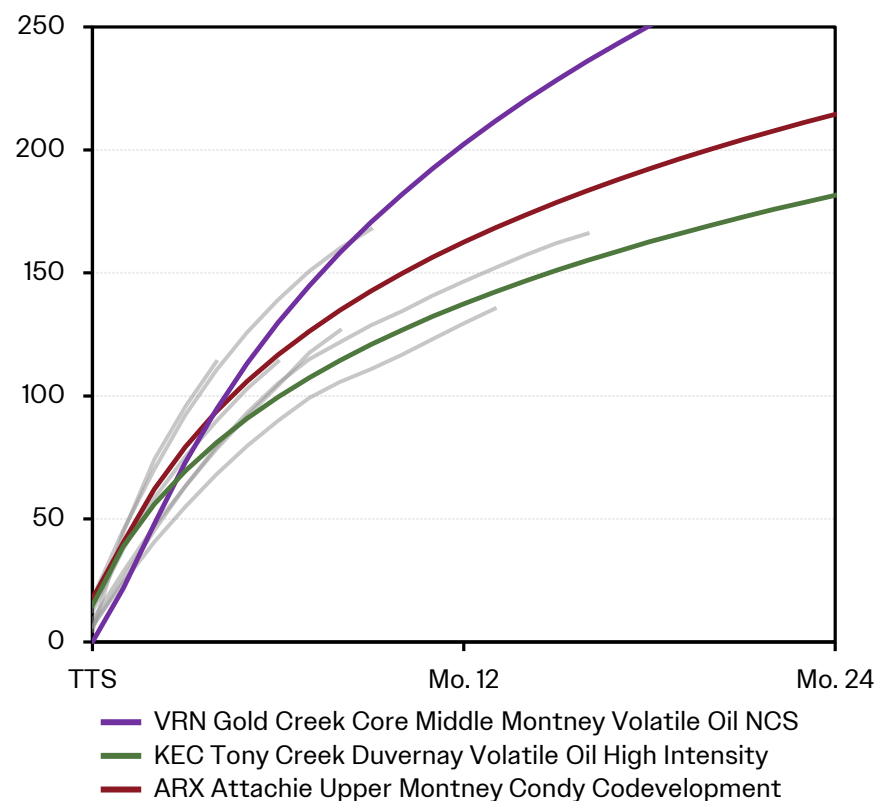
Double Eagle IV M&A Illuminates Value of Quality Canadian Inventory

This week, Diamondback paid US\$7.1MM per risked drilling location in their Double Eagle deal. That's C\$10.2MM per location. Even just including Permian-competitive inventory, at C\$10.2MM per stick some of the Canadian E&Ps look extremely attractive, with further upside to organic inventory expansion in Canada that the Permian lacks at scale. Below we show cumulative oil results from the Double Eagle wells that Diamondback acquired sorted by target bench. Even the best wells are in-line with the Pembina Duvernay. This continues to reinforce our distinct bullish stance towards Canadian unconventional inventory. On the right, we show a handful of Canadian type curves compared to Double Eagle's wells – economics in Canada are further bolstered by a more favorable royalty regime, and better land tenure terms. It's only a matter of time before Canadian inventory becomes a necessity for US shale E&Ps.

2-21.5: Double Eagle Core Midland Oil Cumes by Bench (MBbls)

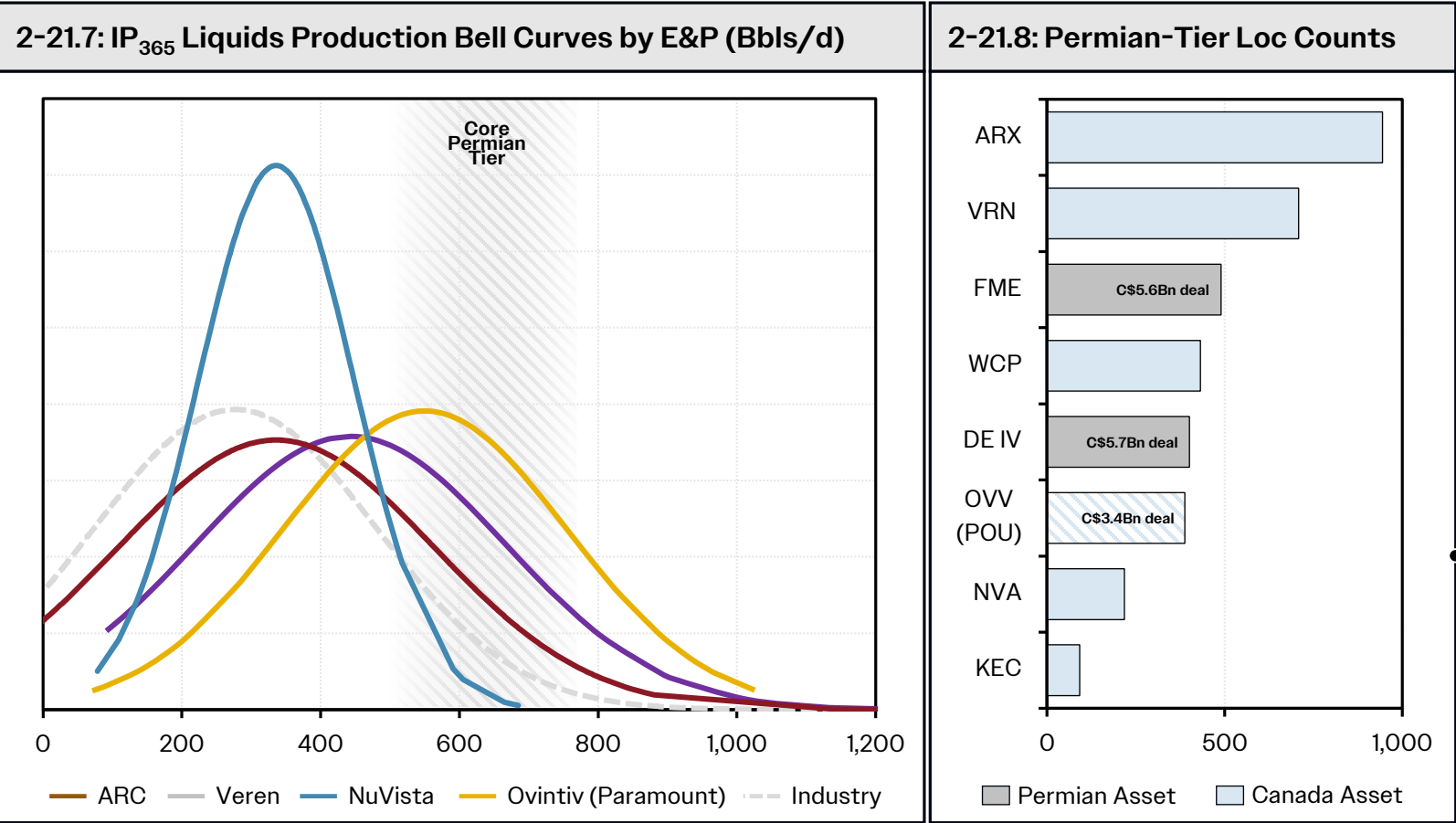


2-21.6: Canadian Type Curves vs. DE IV Cumes (MBbls)



Canadian Issuers Offer Bounties of Core Permian-Tier Inventory at Reasonable Prices

Canadian well economics are helped by the C* royalty regime, but on an absolute production basis, are still equally competitive with the Permian (as discussed last week). Take Franklin Mountain Energy, a private Delaware Basin company acquired last year. On an IP₃₀ basis, their wells are incredible, but on an IP₃₆₅ basis, they only clock in at ~625Bbbls/d of oil, and 650-740Bbbls/d including NGLs – extremely strong, though certainly beatable within the WCSB. Plotting operator bell curves, recent top-quartile wells from Veren, ARC, and Oviniv (formerly Paramount) have been in-line with Franklin Mountain on an IP₃₆₅ basis, while being better on both an IRR and P/I_{10%} basis. With favorable land tenure in Canada (a single, non-producing vertical well, could theoretically hold a 10,000-acre tract for 9 years), if US E&Ps don't come to Canada, we think that Canadian peers accumulating inventory at the very least, may drive M&A.

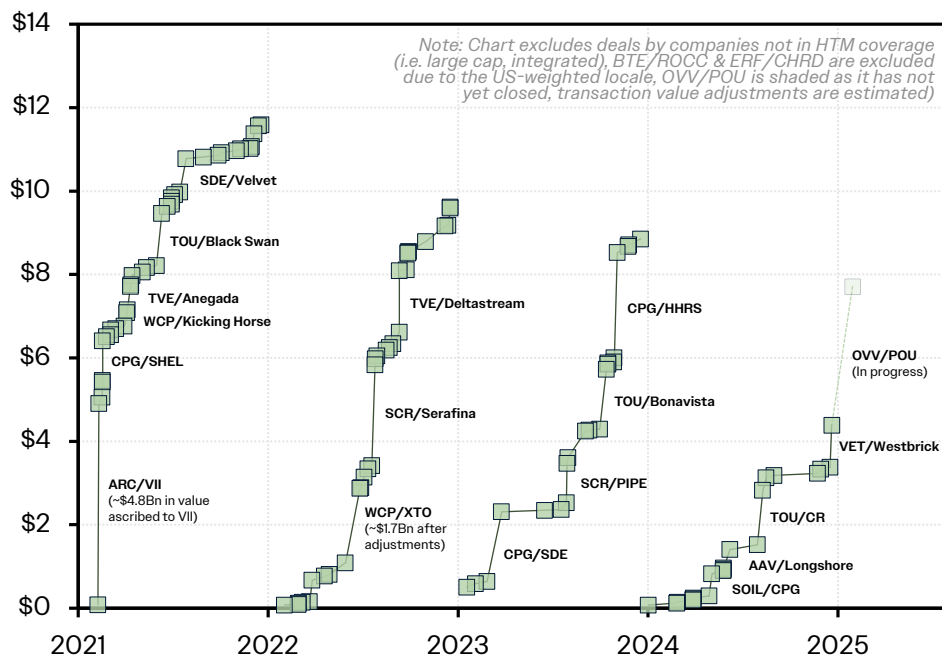


With HTM's Data Suite, we automatically generate a geologically-derived type curve for every future drilling location in an operator's inventory. Here, we are showing inventory counts only including locations where we expect the well will be competitive with the core of the Permian Basin, on a lifetime production basis

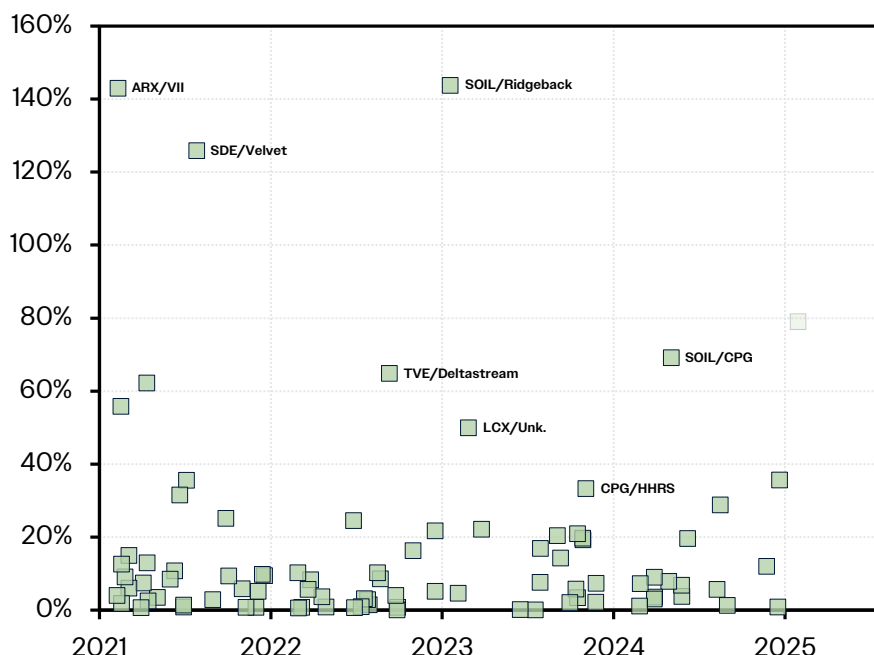
Despite High Quality Inventory, M&A in Canada Continues to Stagnate

M&A in Canada is consistently less-meaningful (represented on a relative EV basis) and less frequent. The only meaningful deals in Canada that have repositioned portfolios have been executed by VRN and TVE. Take AMPY for example, in January they announced a deal that was ~0.75x the size of their pre-deal market cap! The US E&Ps consistently execute deals in size – just in 2023/24 alone, APA, MTDR, SM, VTLE, EQT, DEC, CHRD, CRGY, FANG, CRC, CRK (EXE) & TALO all did deals that were >35% their pre-deal market cap. In Canada, SOIL & VET were the only ones. The reason OVV bought POU Montney is because they “couldn’t find anything to buy” – perhaps this is why the US peer group are constantly thought of as higher risk compared to other industries, but also why the upper quartile US E&P mid-cap returns have dominated Canadian mid-caps. In Canada, meaningful acquirers of good assets (ARX, TVE, PEY) have outperformed in a serious way once digesting their deals. Compared to the US, in theory, Canadian peers should also have more technical ability to deal, with less leverage than their L48 counterparts (Canada <0.5x vs. US ~1x). Perhaps the event that catalyzes those able to consolidate low-risk, and high-quality unconventional inventory, is the abrupt realization that US E&Ps are willing to pay extreme valuations for core assets – we certainly hope that upstream Canada sees more activity in 2025!

2-21.9: Cumulative Canadian Coverage M&A by Year (\$Bn)



2-21.10: TEV Relative to Surviving Entity's Pre-Deal EV



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