BOE Report Weekly Round-up

April 11th, 2025

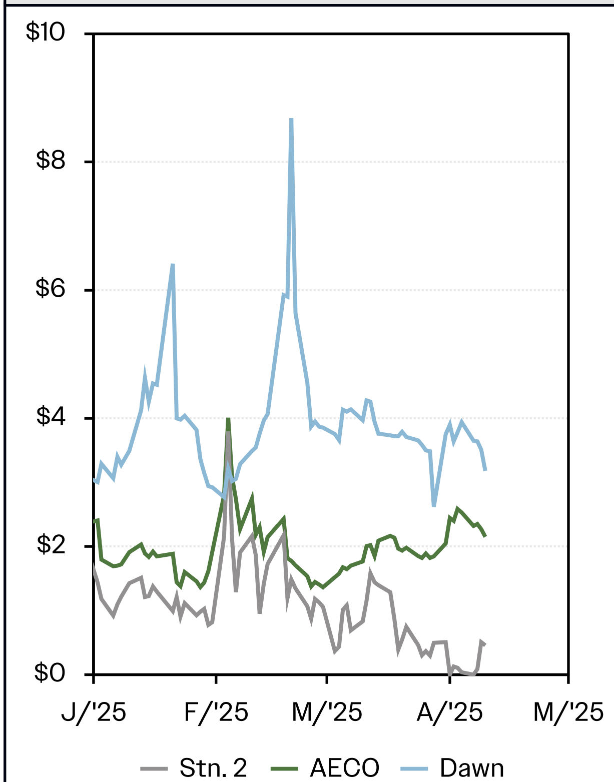
This week highlights why it's so important to prefer low-volatility predictable assets that, despite the ever-evolving threats of escalating trade wars and global conflict, stand firm. For this, our preference is Station 2 gas, which has held extremely steady at approximately zero this year. Speaking of worthless Station 2 gas, the curious Cutbank Montney land block on the BC border (reported on here) attracted a $1MM/section bid, for a total bonus of ~$31MM. Recall, Paramount paid ~$275K/section for their offsetting asset in Alberta. We do not think Paramount, Birchcliff, or Ovintiv represent the buyer; which was aliased under Cougar Creek Land. In a prior note (here), we have detailed what to expect from the South Montney, and how to gauge early results.

While this week was a seriously stomach-churning – a tariff-motivated US$60/Bbl WTI feels a whole lot different than a COVID-caused US$30/Bbl WTI environment. COVID wasn't going to reverse overnight. Meanwhile, we've had multiple tariff reversals just this week. And while we are certainly not bullish US production, we do think the industry consistently underestimates how sticky it can be. Nonetheless, we continue to prefer Canada. Compared to more mature US shale operators, the PDP decline rates for our favorite Canadian operators, and the oil sands peer group; are materially lower than the mid-cap shale players. In 2 years, shale PDP declines by ~65%, while in Canada, that 2-year PDP decline is in the 20-40% range – driven by a mix of high-quality legacy assets, and undercapitalized unconventional assets (which, is really a good thing in this price tape).

Besides a strict valuation factor, we think proper exposure should be a healthy mix of both exploration opportunities and development projects, while maintaining balance sheet defensiveness with a strict quality threshold, strong technical teams, and management teams that are held in high regard.

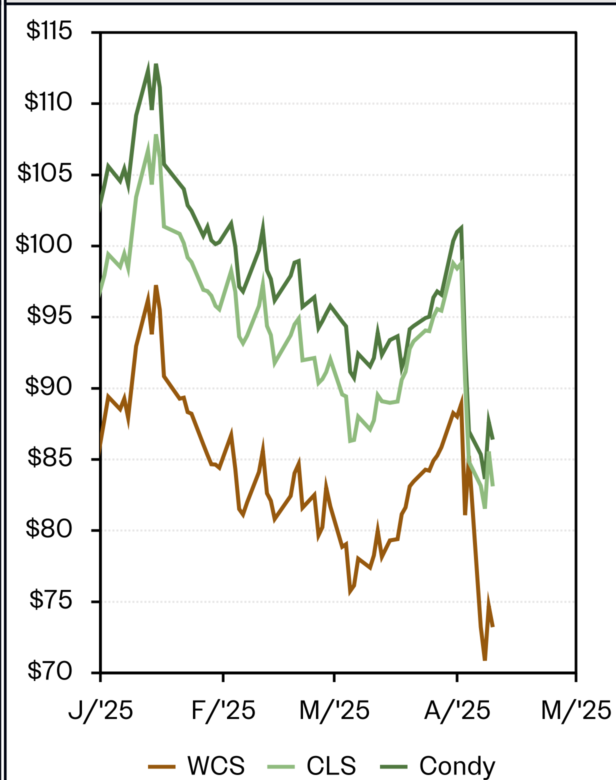
In the immortal words of Shania Twain – "OK, so you're a 77% free cashflow yield? That don't impress me much".

4-11.1: Gas Price Netbacks by Hub ($/GJ)



Source: NGI, HTM Research, generated April 10th, 2025
Note: Gas netbacks assume Gordondale plantgate, with long-haul tolls assumed at minimum FT-R rates

4-11.2: Spot Alberta Crude Pricing ($/Bbl)



Source: Bloomberg, HTM Research, generated April 10th, 2025
Note: Thursday pricing shown as Bloomberg assessed, and may not be reflective of actual settlement data

HTM Energy Research

So, What's Happening Up at Peace River?

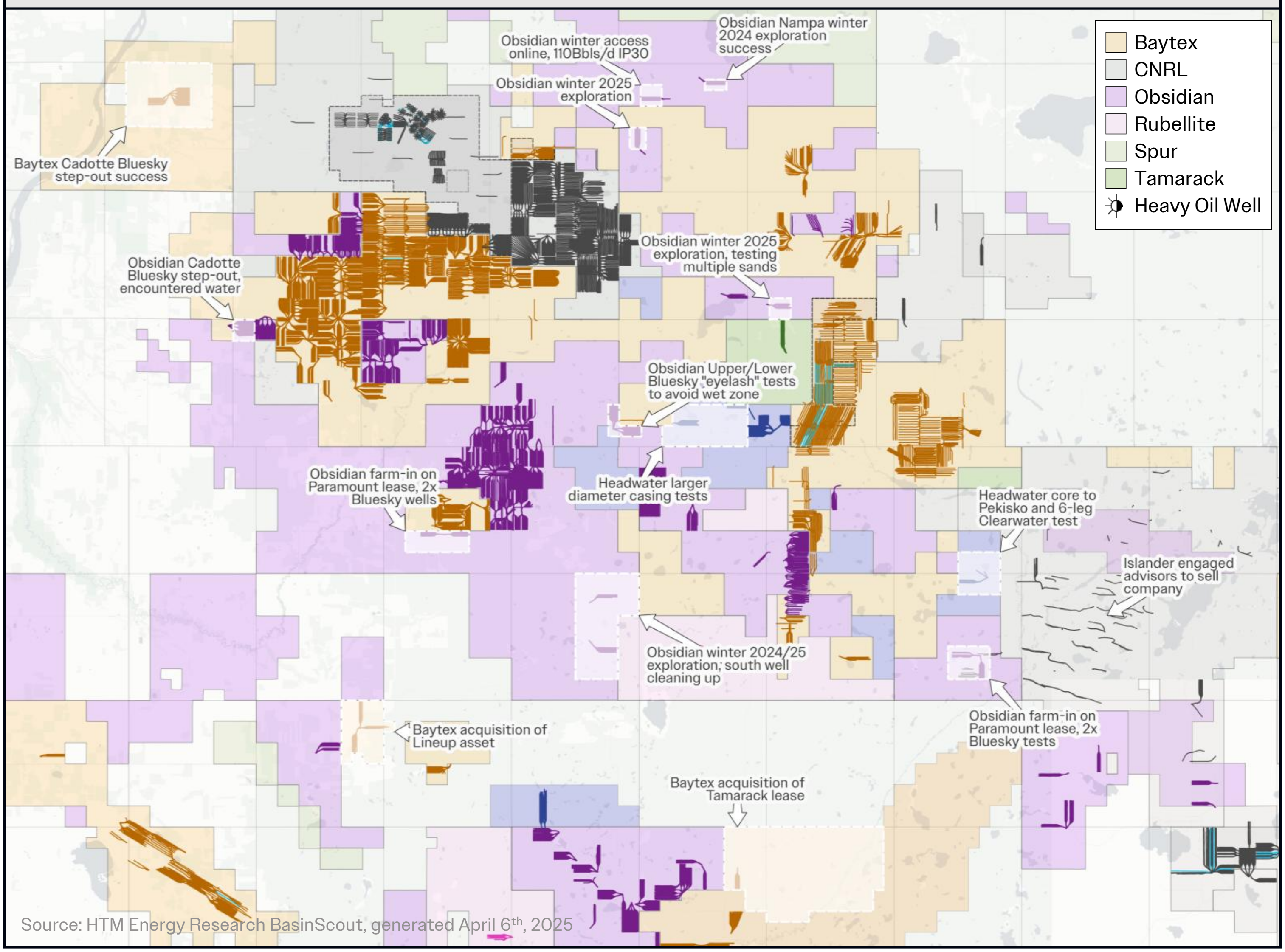
Multiple Small Deals, Chunky Assets For Sale, Exploration – It's All Going Down!

With all eyes in the basin intently fixated on Truth Social, waiting with bated breath for the next Trump post – we fear folks may have missed the more important lead – Baytex's phenomenal Bluesky wells to the northwest of Cadotte. Actually, there has been a lot of activity in the greater Peace River area. Obsidian has completed their Nampa winter exploration program with very good early-time results – they also farmed in on Paramount (4 wells drilled to date).

Baytex acquired a small Lineup asset to the west of Peavine, and Tamarack's lease offsetting their core Peavine area (according to Tamarack, they swapped for some Pipestone area acreage). This brings Baytex to 680 gross sections at Peace River, trailing Obsidian by ~10 sections after their Paramount farm-in.

On the private side, Islander is now for sale, and it will be interesting to see if a local producer (even the Marten Hills peers) purchase them. We think Islander is an interesting first foray into applying heat as a form of enhanced recovery, something that the heavier Clearwater oil will be very amenable to – recall Islander develops heavy oil filled Pekisko 'mounds'. They had filed with the AER to implement cyclic steam recovery in one of their legacy mounds. If a local operators buys Islander, we'd hope (and expect) to see broader modular heat implementation – hugely bullish!

4-11.3: Select Peace River Heavy Oil Area HTM BasinScout Alerts

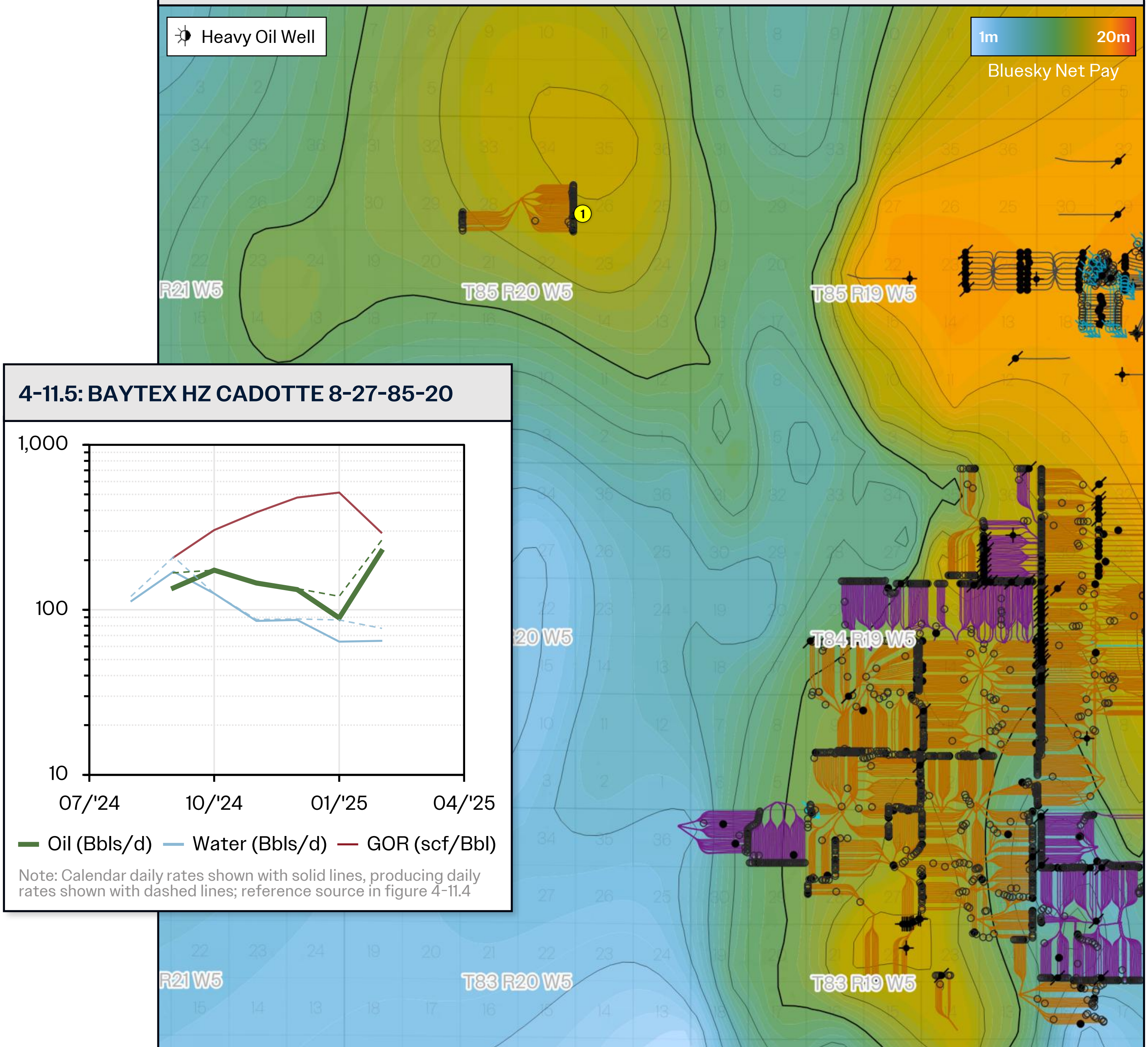


Source: HTM Energy Research BasinScout, generated April 6th, 2025

HTM Energy Research

Most notably on the public side, Baytex seems to be seeing strong results to the northwest of Cadotte, where they began drilling wells and constructing a battery mid-last-year. We had previously attributed this lease to Grizzly, so we're unsure if these wells are 100% working interest, though their initial well has been very strong, reaching a new high oil rate of 225Bbls/d in February (27MBbls CTD). Baytex has continued to drill here, moving inter-leg spacing slightly tighter on their second generation of wells. Concurrently, Baytex has since upsized their original battery which was fit to handle 1,250Bbls/d of bitumen and 1,250Bbls/d of water, to handle ~1,600Bbls/d of both oil and water. We think this strong execution by the Baytex and showcases their heavy oil exploration strength. We look forward to further data with March's Petrinex release.

4-11.4: Greater Peace River Bluesky Net Pay Contour Map



Source: HTM Energy Research BasinScout, generated April 10th, 2025
Note: HTM Research's definition of net pay may vary from other operators' definition of net pay, and may not be comparable

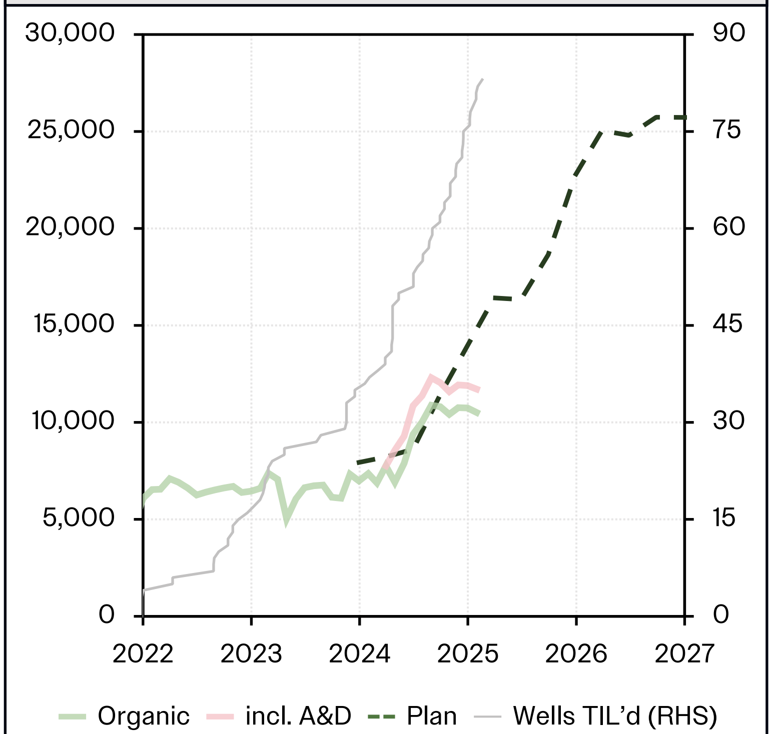
While Obsidian is the largest gross landholder in the area (counting recent farm-ins), they have yet to meet the growth targets outlined in the "3 Year Plan" introduced to the market in Q3 of 2023. Obsidian's 3-year plan, which they published in 2023 (link here), has the company producing ~23,000BOE/d from their Peace River property by Q2 2026 (that's 12 months from now). To date, Obsidian has delivered volumes trailing their forecasts (shown in 4-11.6), on both an organic, and M&A-adjusted basis – though note that Woodcote was using debt. Backing out M&A, their organic DCE&T CAPEX has come in under-budget; though there has been no follow up discussion that addresses the construction of a Walrus central treatment facility, which we think would have closed the gap between budgeted CAPEX in late-2023, and 2024 actuals.

What has been excellent this year are results from the Dawson Clearwater wells offsetting Baytex Peavine. Recall with the September 2023 3-year plan presentation (link here), Obsidian introduced 2 type curves; a Bluesky and Clearwater type, at 287MBOE and 134MBOE EURs respectively. Below in 4-11.7, we show Obsidian's communicated Bluesky type curve in red, and the Clearwater in green. Bluesky results from Walrus have been performing far below the Bluesky type curve, and ironically in-line with Clearwater expectations. On the flip-flop, the Dawson Clearwater wells have far outperformed the Clearwater type curve, and are on-pace to see EURs closer to Bluesky expectations. While Obsidian's original plan saw growth from the Bluesky first, it makes sense as to why they have slowed drilling at Walrus and focused on Dawson – which has much lower water risk, and better results.

The lower-quality, lower-pressured sands in the greater Peace River Bluesky, which often present permeability and water challenges, haven't delivered the results that Obsidian expected – and likely why Obsidian has stuck to only Harmon Valley with for their development programs. Ultimately, on aggregate, we think that Obsidian's exploration and development program at Peace River will deliver value, though not in the size and scale, and with the speed that was communicated in the 3-year plan introduced in late 2023. It's been well over a year now, and we think broader market expectations have correctly adjusted downwards, and in-line to where they should have been in the first place. Obsidian will delineate economic oil-weighted inventory, and grow NAV, but the lower-impact and inconsistent inventory they do have isn't amenable to growing in a straight line to 25,000BOE/d at Peace River.

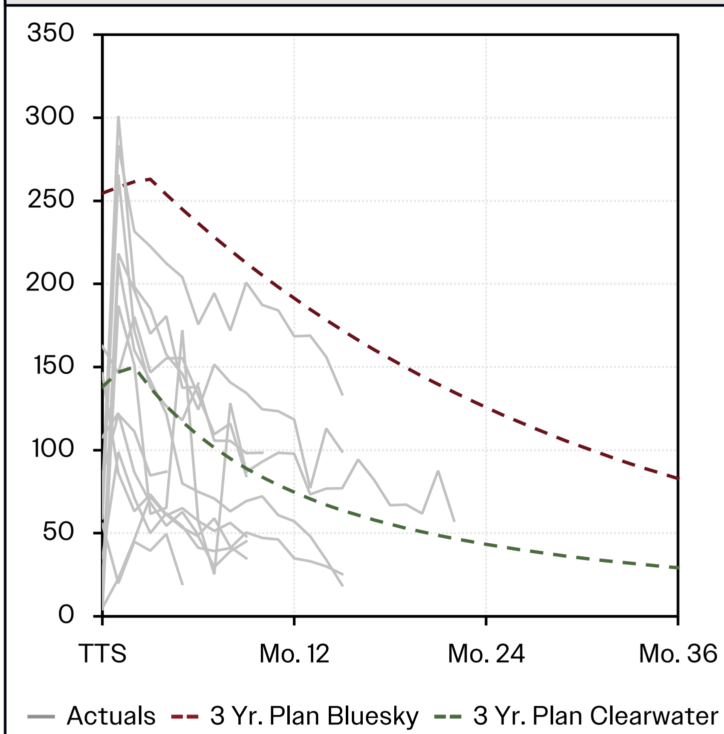
We liked Obsidian's Cardium disposition; and are excited for the Spirit River (Clearwater) sands they are focusing on at Nampa in 2025, instead of the Bluesky to the south. Even without the promised growth, we think Obsidian is in a better spot today than they were exiting 2023 – even if we aren't dying to get a piece of the action.

4-11.6: Obsidian Peace River Performance (BOE/d)



Source: HTM Energy Research BasinScout, generated April 11th, 2025
Note: Cumulative TILs shown as all wells on sales since COVID

4-11.7: Obsidian Walrus Field Oil Results (Bbls/d)



Source: Company Reports accessed April 10th, 2025, HTM Energy Research BasinScout, generated April 10th, 2025,

What Does “Better Balance Sheets” Really Look Like?

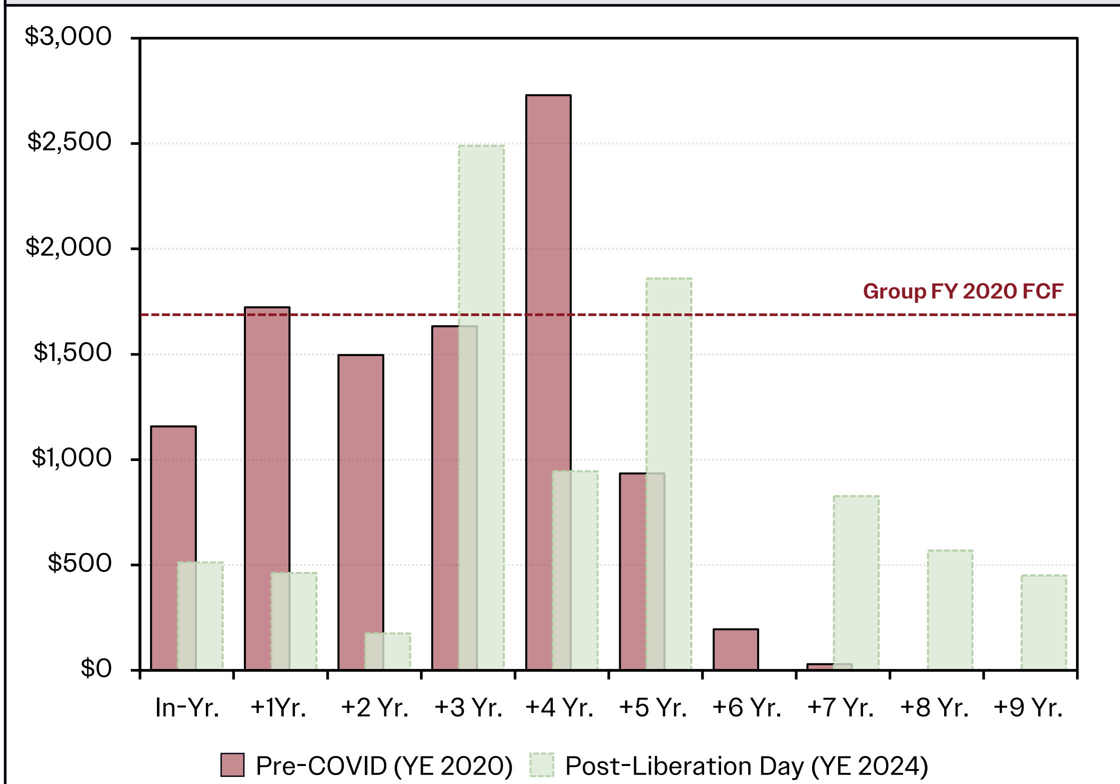
No Maturity Concerns, Lower Leverage Ratios, Higher Credit Quality

At this point the phrase “better balance sheets” sounds more like a trope, than a truth. But when we take a broad survey of our coverage, nobody feels *particularly at risk*, and the companies that are in a bad spot represent a very small percentage of the cumulative industry market cap. Ultimately, we think that <$5Bn of cumulative market cap is at risk in our coverage, which is healthily less than 10% of total SMID/junior equity capitalization. Companies in a notably bad spot are fairly obvious, and mostly there for 2 reasons – legacy assets, or overindulging acquisitions.

But despite little to no free cashflow and high leverage, most of these ‘at risk’ companies have solidly termed debt, with no immediate maturities to danger the equity stack. For example, Bonterra recently termed out $135MM of debt to 2030; Saturn the same, with ~$900MM maturing in 2029, and Baytex’s weighted maturity is into the 2030s. This makes desperate M&A tougher, but also likely means that equities don’t react like they did in 2020. For those hoping the best acquirers of the past will be able to reload again shortly – we think it’s unlikely. Companies with any cost of capital advantage (or, even, without one!) have generally made an effort to pay the price required to enter quality parts of the basin. We think most of the assets worth owning are now in very resilient producers.

Below, we show the current maturity schedule for a number of our coverage SMIDs, and compare that to the same group’s maturity schedule going into COVID. It’s not even a fair comparison. Balance sheets are truly better. The group below generated >$3Bn in FCF in 2024, while pre-COVID that number was just $1.6Bn. The next major maturity wall for the SMID cap group is 2028, and that cash call is <1x the FCF generated by the group in 2024. Compare this to 2020, where annual maturities were consistently 0.8-1.2x annual FCF. So while credit markets/interest rates may be slightly less favorable – the greater debt capital position among Canadian SMID cap producers is meaningfully better than it was before COVID, and likely in the best place it has ever been.

4-11.8: Canadian SMID Producer Debt Maturity Schedule ($MM)



Source: Bloomberg, Company Reports, FactSet, HTM Energy Research, generated April 10th, 2025
Note: Represents cumulative debt across the following companies; ATH, BNE, BTE, BXE (now SDE), CPG (now VRN), OBE, SGY, TOG (now WCP), VET & WCP; net cash was net off of the earliest maturity, USD$ debt converted at $1.35

Buying Proven Management Teams Below PDP Value

Certain Factors Aren't Reflected in a Multiple, Though Are Arguably More Important

If you had the chase to choose Leon Draisaitl – but as a last round pick – in hindsight it'd be fairly obvious. Meanwhile, in the equity markets, the Leon Draisaitl-equivalent CEOs are being prices below their PDP $PV_{10\%}$ blowdown values (and that's not even using the 3CA price deck)! Sure – "price is what you pay, value is what you get" – but management stewards everything, and ultimately dictates the trajectory of value (aren't all markets just second derivatives now?)

Buying quality management teams below blowdown value provides both a valuation cushion, but also a quality cushion that doesn't appear in any spreadsheet anywhere. We ask and score 218 questions to generate corporate report cards. We won't publish the extensive data, but these questions are easily answerable, and we believe a great starting point to determine – outside of a valuation – what a company brings to the table. Below we've selected key questions, along with one or two companies that fit the ethos of what we're trying to discover with each point.

Key Report Card Question	What We're Looking For & Why	Notably Well Positioned
CEO and/or key management members have had a prior successful WCSB M&A exit?	Successful management teams enjoy better access to financial and human capital, with a "proven track record".	SDE Storm
Has CEO and/or CFO been an investment banker (or similar) throughout their career?	While it's not a steadfast rule, we think that technically-led companies offer better returns over the long-term.	PEY LGN
Is DAPPS higher today, than it was between 2010 through 2014, and 2016 through 2019?	While CFPS is an important metric, we want to see company's growing PV, or volumes for equity holders consistently.	NVA
Does the company and/or key management have a local reputation for creating value?	We think it's important that local capital markets take each operator seriously, and respect working with them.	KEL
Were company deals executed 2016-2019 actually accretive when looking back today?	While many deals can look accretive on a first-year basis, we want to see M&A that rationalizes on a long-term basis.	SCR WCP
Next 2-year collar/swap/premium basis net post royalty gas volumes hedged.	n.m.f.	PEY
Management communicated growth on a "remaining-cycle" basis is funded <US$50/Bbl.	Everyone looks like a hero at high prices, ensuring growth is economic is important to weather volatility like this.	ATH MEG
Well defined growth projects below industry incremental cost curve they haven't sanctioned?	This tells us that the company occupies the bottom of their respective cost curve (i.e. have a longer duration than peers).	ARX POU
Is there true secondary interval or spacing upside that is unbooked in reserves?	Much like Paramount didn't underwrite the Lower Montney at Karr, we want to see geological upside, not just valuation.	Spur
How much physical transport away from AECO, post-royalties, preferring non-LTFP volumes?	While we think gas producers can make money at AECO, we believe a good marketing book is also fundamental to success.	KEC PEY
Does the company have operatorship over their best plays, can they control CAPEX there?	It's important that each operator can control the pace of development, to maximize PV across cycles.	PEY TOU
Would the market react positively/would banks support a big equity issue today?	Having access to capital across the cycle is key to seize good opportunities as they arise.	ARX TOU
Have recent deals repositioned the company into scalable resource plays?	We don't agree with the "cheap PDP" trend, and want to see operators actively working to upgrade their portfolio.	WCP BNE
Communicated margin improvement projects underway (excl. growth)?	We like to see more than brute-force growth, these projects show finesse and commitment to long-term sustainability.	PEY
Dollar weighted corporate M&A has taken place when WTI/AECO was...	We look for counter-cyclical buyers, not companies that tend to acquire whenever capital is available to them.	CNRL

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