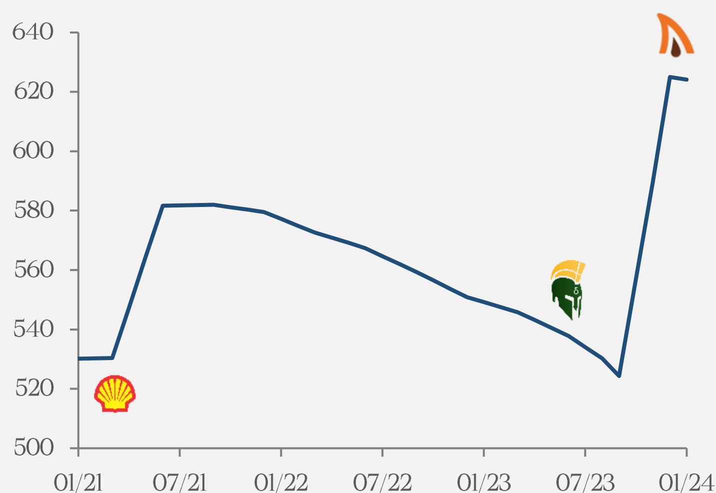
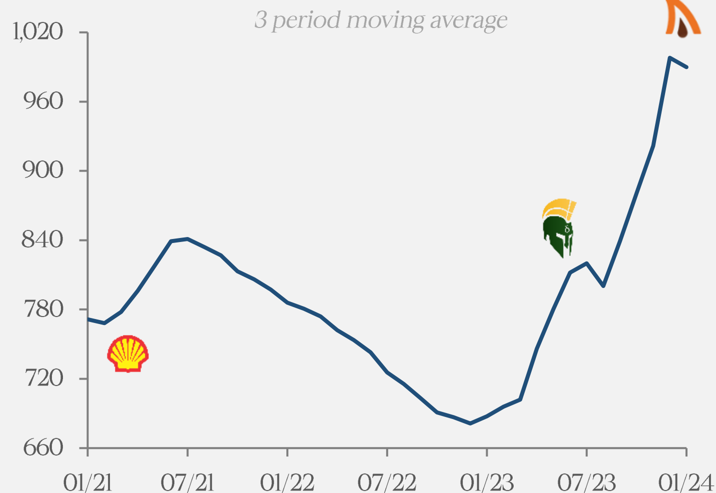
Weekend Alternative Narrative

Crescent Point Dealing, *The Good* – November 12th, 2023

It's easy to rag on a poor performer, especially one that has a history of disappointing investors – and even easier to pile onto a company issuing equity in a tough tape to make a chunky deal. Crescent Point is certainly going against the grain of everything energy investors are praying for – E&Ps to quietly pay a dividend, limit growth, repurchase shares, and not take liberties. Given Crescent Point themselves sees 2028 exit production being 80% weighted (200KBOE/d of 250KBOE/d) towards assets that have been acquired in the last ~2.5 years – it's safe to say they have bucked the trend of not making a splash. Though when you really consider the transformation Crescent Point has been through, you can appreciate how management has totally repositioned the portfolio into modern resource, plays and are now in a better position to take advantage of the bull cycle we're all hopeful of.

While the deal couldn't come at a worse time, with a hung equity issue, we do sympathize with management. After months progressing the deal, they had no idea oil would make such a dramatic move downwards right after announcing the transaction. The hung deal will almost certainly be repriced Monday, and that will weigh on sentiment, but thin capital market conditions don't change the fact that owning Hammerhead, makes Crescent Point materially better. Since issuing 50MM shares to acquire Shell's Kaybob Duvernay in 2021, Crescent Point has repurchased the entire issuance, and then some. Their Spartan Delta deal came with no new stock, and though Hammerhead adds ~100MM fresh shares to the register, Crescent Point's extremely consistent buyback execution post-COVID leads us to believe they will continue to slowly repurchase, and cancel the stock associated with this deal. Really, Crescent Point has been extremely consistent since COVID, and while people may fault them for getting "up to old tricks", we take a different view – a dilutive deal was perhaps the most bullish thing Crescent Point could have done. Sell-side research that is circulated once the syndicate is off restriction will certainly emphasize *"increased dividend capacity"*, we frankly don't care about the dividend, and would instead emphasize the quality of Crescent Point's new portfolio, and how hopeless they'd have been without entering the Duvernay or the Montney.





Source: Bloomberg, Company Reports, FactSet, HTM Analysis & Estimates

HTM Energy Research

There's no doubt that the Crescent Point of old has discouraged potential buyers from owning the Crescent Point of new, and while issuing stock, after consistently buying back shares (and executing very well on their NCIB efforts may seem defeatist), we would highlight the discrete flow of the equity markets, versus the stochastic nature of the asset transaction market. You can acquire often if you'd like, and there are many such examples of E&Ps acquiring often because they *can*, though acquiring often because you *should*, is rarer – and our initial reaction to this deal was Crescent Point *should* own the asset, the timing may have been less than ideal, but the business is better.

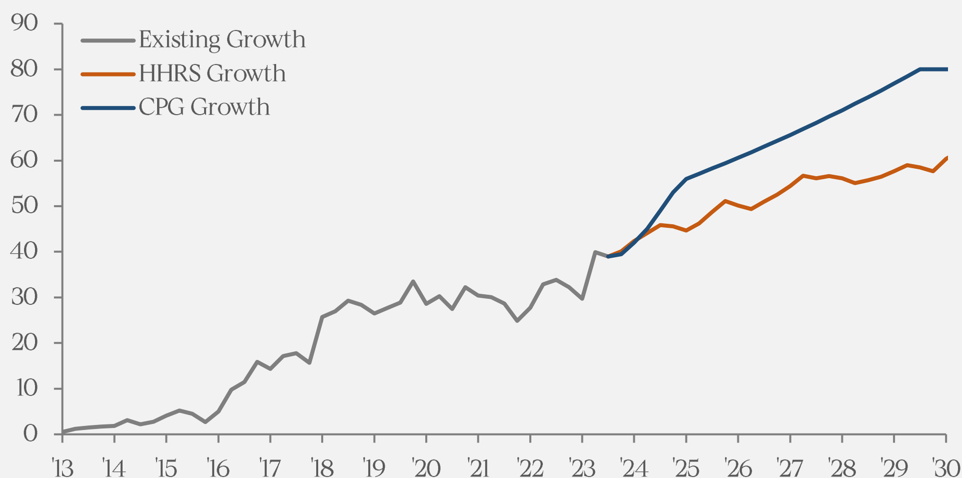
While buybacks don't create value, they concentrate future value creation among shareholders that believe in management, and the story. Crescent Point is certainly a story stock, akin to Tamarack Valley perhaps, though on a much larger scale. The 5% distance between NCIB execution price, and equity issuance price is just something that you'd be foolish to be upset about, and foolish is perhaps a nice way of describing those angry at the spread. Simply put – Crescent Point can buy back their stock any day. It's not every day you can acquire 100K acres of premium Montney rights, directly offsetting your existing position, with a completed infrastructure build, and multi-zone development optionality. In fact, it's likely one of the few assets in the basin, with such exceptional qualities, that may ever transact again. Sure, it may sound editorialized, but we'd challenge readers to suggest alternatives. Buybacks can compound earnings per share, but they will never add incremental acreage, locations, or reserves, and importantly, we now think Crescent Point stock is even more appealing for them to buyback.

If you look at an Alberta Montney map, in the liquids rich and volatile oil window, quality positions are moving fast, with the only large assets offsetting the Crescent Point Gold Creek and Karr area (besides Hammerhead) being NuVistaCC, and Paramount – though neither of those assets offer significant development upside, with Paramount's Wapiti and Karr assets producing ~70KBOE/d, and NuVista having filled infrastructure capacity, and lacking the mass of locations that Hammerhead offered. To the north, Kelt has a sizeable asset at Wembley, and between Kelt and Crescent Point lies the Strathcona (formerly Pipestone) acreage, though besides the acquired Hammerhead land (which was directly offsetting Crescent Point), we don't see obvious chunky sellers in the area, besides Kelt's Wembley asset (at current we'd assign a $1.2Bn M&A value to Wembley). Hammerhead made sense for Crescent Point.

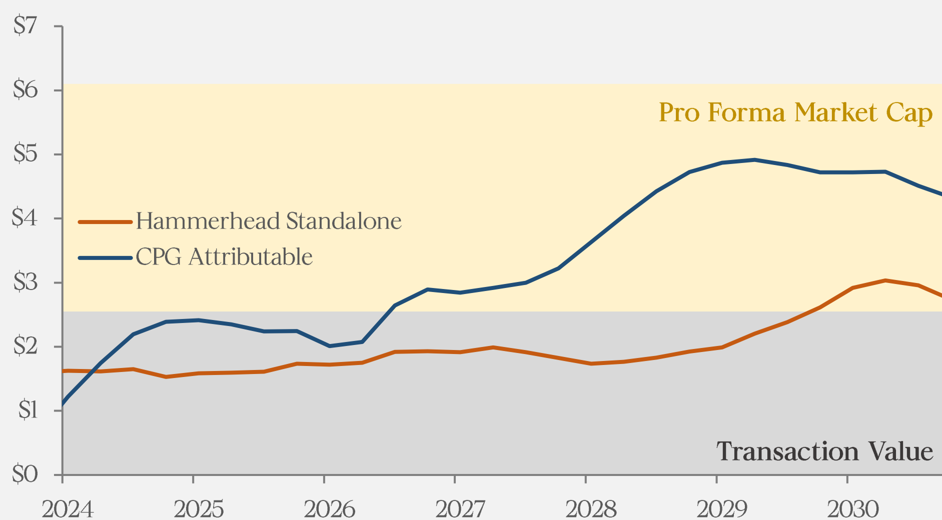
Given their now dominant position in the fairway, we see future optionality for smaller acquisitions – similar to what Tourmaline has done over the past 2 years. Sinopec holds >100K potential acres split between Elmworth and the Duvernay, both complementary to Crescent Point's acreage. Concourse Petroleum offsets the pro forma block at both Simonette, and Gold Creek, with ~40K acres, Shell holds 50K acres at Wapiti though it's understood they are reserving that acreage to fill LNG Canada volumes. CNRL also holds ~60K offsetting acres at Karr. There's certainly lots of transaction opportunity in the immediate vicinity. The unfortunate (to some) truth is that Crescent Point will transact again – it's one of the levers management has to create value, so they *obviously* will – though owning large contiguous positions, and now complementary infrastructure and processing agreements, make it easier to do in piecemeal going forward, and/or when the opportunities come to be.

We are now more inclined to believe companies that say, after their 2019-2023 acquisition spree, this is their final form – the stark difference in resource quality compared to Saskatchewan, or eastern Alberta suggests to us those that consciously repositioned in poor market sentiment, genuinely are taking a longer-term view on the basin. On previous conference calls, Crescent Point management said – "don't expect us to go outside our sandboxes. Our sandbox is extremely well-defined" – and we tend to support this theme, *do what you want, in your sandbox*. While inserting conference call quotes about an E&P coyly saying they won't acquire is one of the most ironic things an analyst can do, we do seriously think that Crescent Point has been transparent with their long-term plans – with the primary goal being upgrading their inventory, and have the foundations to being executing technically.

(Fig. 3) Hammerhead Montney Asset Production (KBOE/d)



(Fig. 4) Asset Value Using Parent DAFCF Multiple ($Bn)



Source: Bloomberg, Company Reports, FactSet, HTM Analysis & Estimates

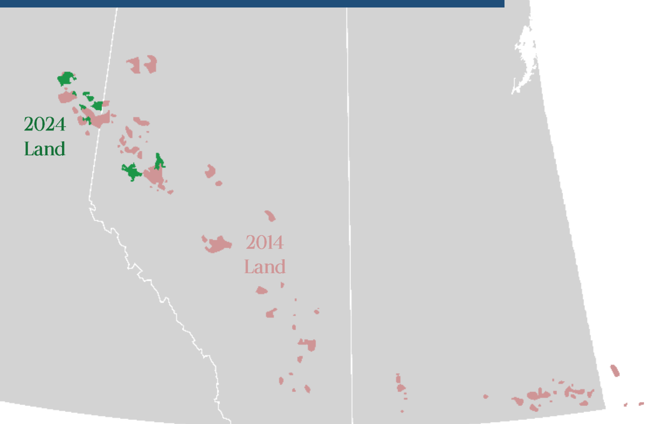
Adapting a Hammerhead growth plan from our full development model, influenced by pre-SPAC guidance, we think that Crescent Point will exit the decade producing ~20,000BOE/d more than the Hammerhead plan. It's quite the aggressive path, and while historically, Crescent Point has fallen short of their aggressive targets, as discussed below, those misses have been with a different leadership team, and an entirely different ideology driving the longer term vision of the company.

Shown to the left in fig. 4, at a high level, we don't see this deal being accretive until early 2025 at the earliest, and not comfortably accretive until their winter 2025/2026 drilling program is complete. Though, the inflection is in later 2027, when the asset passes 70KBOE/d. Do we think Crescent Point can execute at this scale? It remains to be seen, but we've been always pleasantly surprised with Crescent Point and are inclined to generally give them the benefit of the doubt here. The assets they've acquired have all been delineated, and the development success rate is much higher than prior-era conventional. Above, in fig. 4, we take the cashflow we expect the asset to generate using our HTM price deck, minus HTM DCET CAPEX, annualize the result, and multiply by the respective entity's current free cashflow multiple. Crescent Point crawls above the $2.55Bn mark in 2026, while pressing above $5Bn in 2028. This doesn't account for changes in multiples, and we'd posit that had Hammerhead continued to deliver consistent growth, while transitioning to generating significant free cashflow, a future purchase price may have been much more than the $2.55Bn they sold for last week.

On a sum of the parts basis, the Hammerhead asset certainly has the capability to grow to a NAV worth ~70% of today's market cap. If Crescent Point can do that, is another discussion we can have in the "not so good" part of our thoughts on this deal – though for now we will say Crescent Point's historical ability to deliver has been acutely correlated with oil price, with the new team showing signs of bucking that trend in mid-2019 with their massive push to dispose of non-core assets, and the subsequent share repurchase program, then the very disciplined, and on-message acquisitions the company has made since. We haven't seen much deviation from their *new story*.

"Trust me, I've changed" is a line that has gotten many men into a lot of trouble – it's equally doubtful coming from an oil and gas producer. Crescent Point is certainly a tough name to own as an institution, especially one that has perhaps been burned by them before, but for those bemoaning Crescent Point falling back into their old ways as a serial acquirer with little regard for shareholders – we'd point out that little remains from the Crescent Point Energy Trust area, other than their name. The entire board has been refreshed since 2016, and besides their general counsel, and controller, the entire management cheap has churned since 2016 as well, with the CEO appointed in 2018.

(Fig. 5.1) ARC Resources Portfolio Reorientation



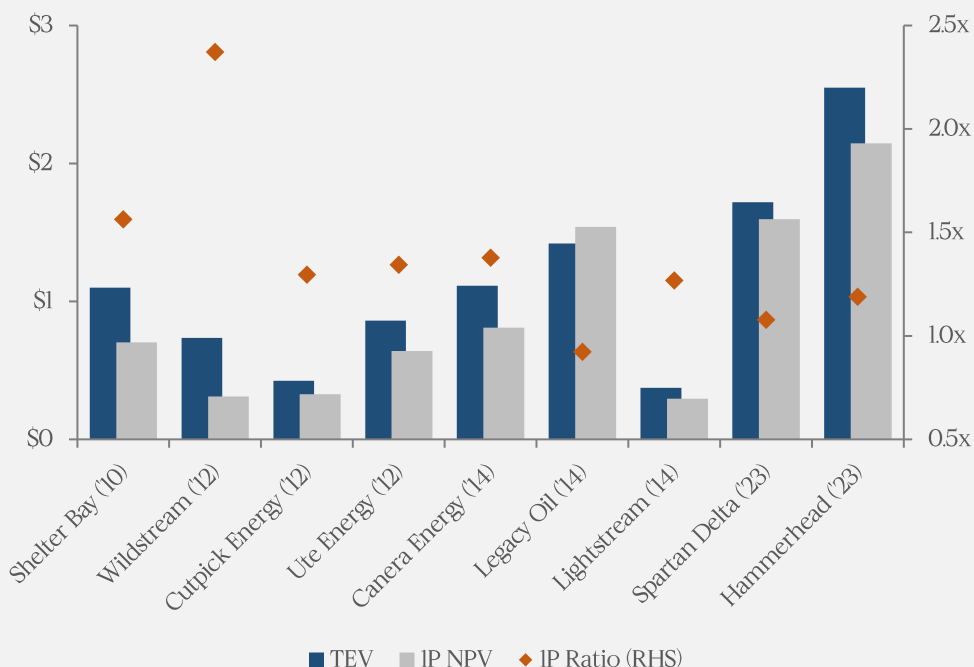
New to the board – are Myron Stadnyk, who led the divesture of ARC Resource's non-core portfolio, and John Dielwart, a co-founder of ARC Resources, and Partner at ARC Financial (who was CEO before Myron took over). Together they repositioned ARC from something similar to Crescent Point, into the Montney powerhouse it is today. Along with all the other highly skilled individuals on the board, and in management, we do think that Crecent Point has a new vision that is ultimately what modern shareholders **will** want – eventually.

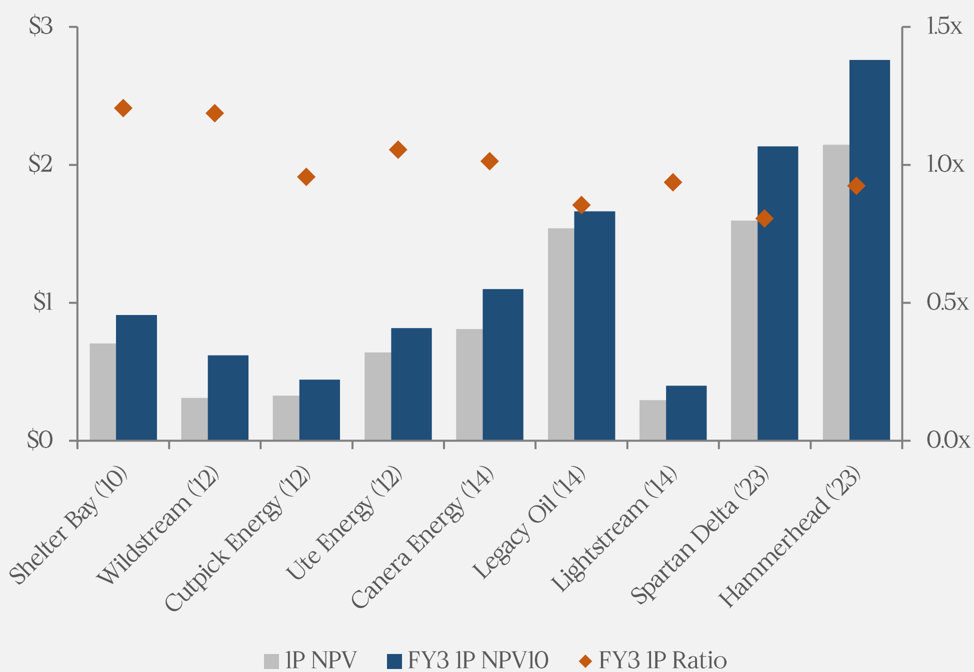
The issue – the equity will likely struggle for a while, until when, we're not sure – maybe tomorrow the market realizes what Crescent Point has done (we doubt it), but in the meantime, we do believe they will continue to execute on a longer-term reorganization strategy that most energy tourists are not yet wise to. The problem with being a retail heavy name, is your decisions are judged on a demented rubric.

(Fig. 5.2) Crescent Point Management & Board Reconfiguration

	Current Role	Joined	Promoted	Formerly	Other Boards
Craig Bryksa	President & CEO	2006	2018	VP Engineering (internal)	n/a
Ryan Gritzfeldt	COO	2006	2018	VP Marketing (internal)	n/a
Ken Lamont	CFO	2005	2016	VP Finance (internal)	n/a
Justin Foraie	VP Operations & Marketi	2009	2019E	VP US Operations (internal)	n/a
Mark Eade	SVP General Counsel	2004	2015	Legal Partner (various)	n/a
Garret Holt	SVP Corporate Developm	2019	2019	Director IB (JP Morgan)	n/a
Rob Fiorentino	VP Production	2015	2023	VP Operations (promoted 2020)	n/a
Mike Blair	VP Geosciences	2009	2023	VP Exploration (promoted 2018)	n/a
Shelly Witwer	SVP Business Developme	2007	2023	VP Land (promoted 2016)	n/a
Michael Politeski	VP Finance	2015	2015	Controller (Enerplus)	n/a
Katie Anne MacInnis	VP Engineering	2023	2023	Various roles (Ovintiv)	n/a
Shant Madian	VP Capital Markets	2015	2018	Director Equity Sales (NBF)	n/a
Barbara Munroe	Board Chair	2016	n/a	SVP Corporate Services (WestJet)	ENMAX, AB Cancer Foundation
James Craddock	Gov./Nom, EHS, Reserves	2019	n/a	CEO (Rosetta), COO (BPI)	Templar Energy, TXRRC (both formerly)
John Dielwart	EHS, Reserves	2019	n/a	CEO (ARC Resources), Partner (ARC Financial)	n/a
Mike Jackson	Audit, Gov./Nom.	2016	n/a	MD IB (Scotiabank)	n/a
Jennifer Koury	Gov./Nom., HR/Comp.	2019	n/a	VP HR (BHP)	Calgary Zoo
Francous Langlois	Audit, EHS, Reserves	2018	n/a	VP Exploration (Suncor)	Governor (CAPP)
Myron Stadnyk	Audit, EHS, HR/Comp.	2020	n/a	CEO (ARC Resources)	USask., Vermilion Energy
Mindy Wight	Audit, HR/Comp.	2022	n/a	Legal Partner (MNP LLP)	CDO (Nch'Kay Development)

Source: Bloomberg, Company Reports, LinkedIn, HTM Analysis & Estimates





Source: Bloomberg, Company Reports, Enverus, geoSCOUT, HTM Analysis & Estimates

Historically, Crescent Point would pay a 1P premium for assets with little development upside, even when you did allocate appropriate growth CAPEX, historically Crescent Point's deals rarely moved within 1x TEV in the first 3 years. For both Spartan Delta, and now Hammerhead, Crescent Point has paid slightly more than Proved NPV_{10}, and looking 3 years out, we see the 1P reserves attributable to both assets, as being >100% of the TEV (including CAPEX spent). On the Hammerhead and Spartan Delta assets, there's a very clear line of sight to growth moving the 1P, and DACF multiples lower.

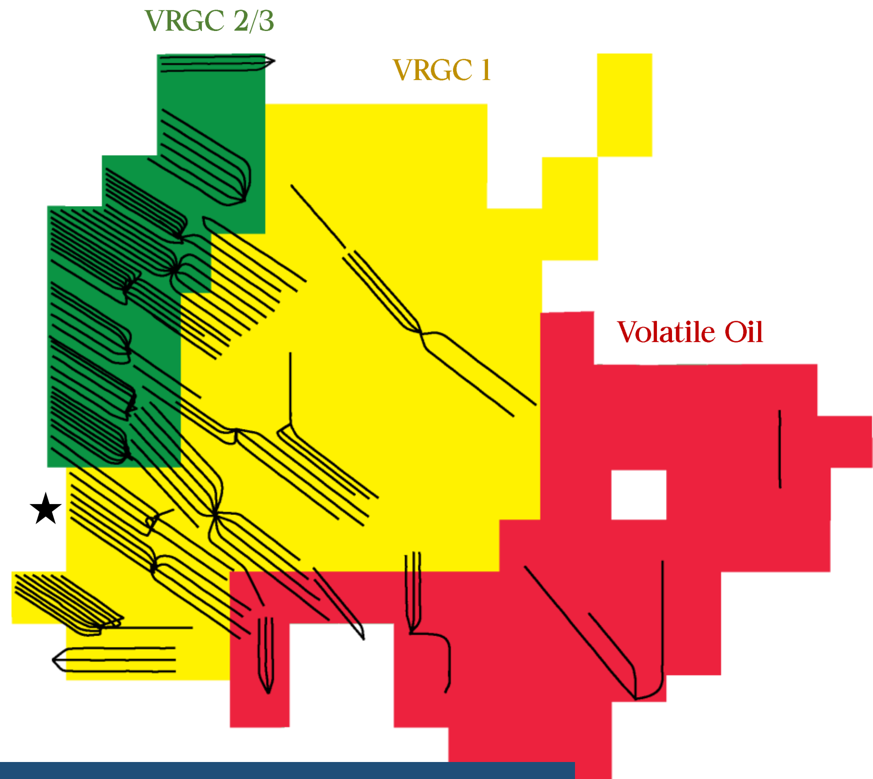
Discussed previously, there's an appreciable difference between the resource plays of today, and the resource plays of old. All of Crescent Point's previous acquisitions lacked any real development upside. Shelter Bay was a good deal in the Shaunavon, with the waterflood still cash flowing today, but otherwise, you were just buying *barrels*, you weren't really acquiring anything bigger. It's tough to really appreciate, and even tougher to explain. Developing pools, you're acquiring know OOIP, developing shales you're acquiring almost endless resource. No, we're not about to ask subscribers to participate in a $300MM round funding our Alpine High DrillCo, but we are excited about the Montney and Duvernay in Canada, and can appreciate the different between the old Provost pools from Cutpick, or high-IRR, low-ROR Steelman locations that Canera added. The Montney and Duvernay lands that Crescent Point has assembled really are, in our opinion, "best of both worlds" assets.

While many less informed, more brash commentators have scolded Crescent Point for not acquiring Pipestone (offsetting their Gold Creek asset to the north), we'd suggest those analysts lack the finesse to truly appreciate what Hammerhead adds to Crescent Point. From our previous notes on Pipestone – they were infrastructure limited, and had exhausted their premium locations, with the remaining inventory being VRGC1 (much less productive, liquids-wise, than the VRGC2/3 inventory). Of the 4 VRGC 1 wells on the 02-25 pad (marked with a star), our liquids estimated IP365 is <250Bbl/d at 6 wells per section.

At Karr, Hammerhead's oil IP365 ranges from 320Bbl/d, to 500Bbl/d, while drilling 10 wells per section, at Gold Creek that is ~210Bbl/d. We'd note that Spartan Delta transformed Gold Creek's productivity after acquiring the asset from Velvet, landing wells lower, and Crescent Point further improved performance using a new generation of elevator fracks.

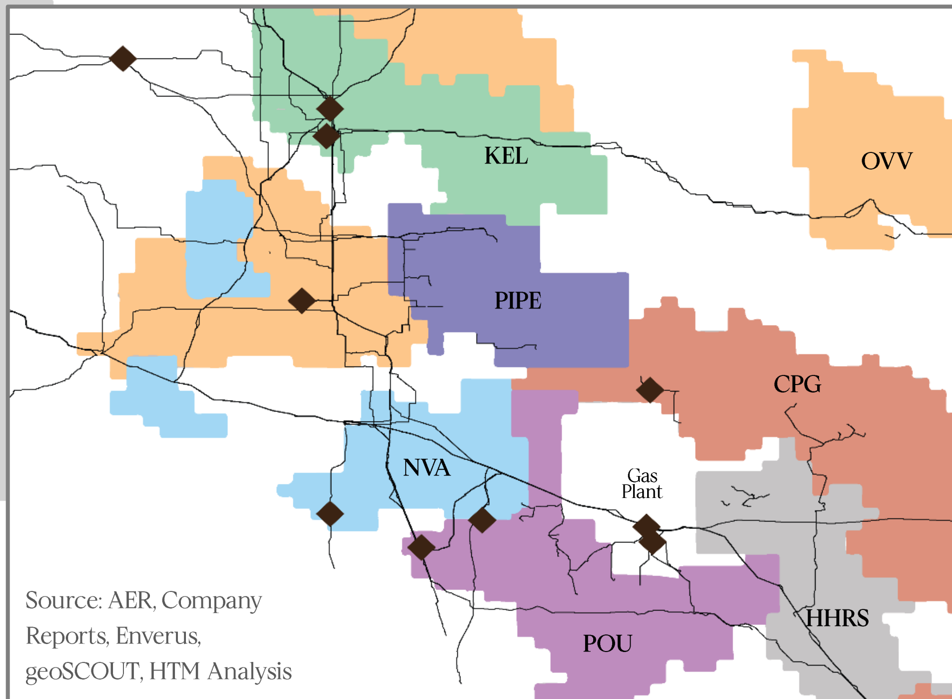
The Hammerhead assets are not sour, infrastructure constrained, underperforming type curves (the opposite actually), or generally in a state of malaise. We really like the fact that Crescent Point wasn't tempted by something "cheap", and decided to prioritize M&A quality.

(Fig. 8) Pipestone Inventory by Type



(Fig. 9) AB Montney Land Ownership

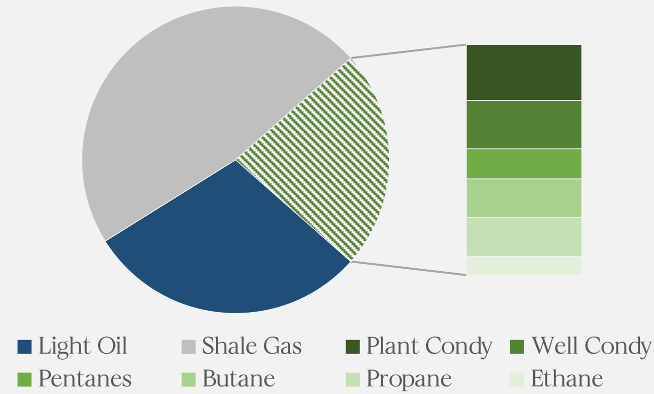
Note: the attached map **is strictly for illustrative purposes** and may not accurately represent individual section ownership correctly



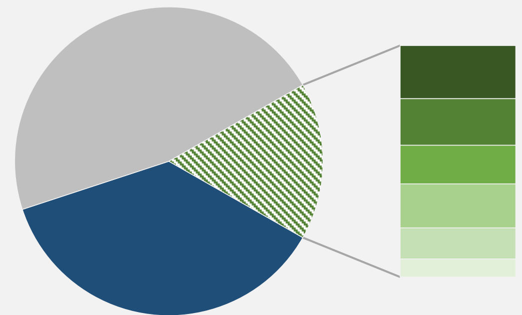
Including the lower benches, our preliminary estimates (absent of further results from Hammerhead, now Crescent Point) have the assets recovering 30% oil, 47% shale gas, and 12% pentanes, and condensate, with the remaining 11% being lower value NGLs. We haven't yet changed ratios to account for Crescent Point's new frack designs and future requirements for gas lift (notably on adjacent acreage at Karr, Paramount moved production guidance down slightly due to increased gas lift feed). Referencing our historical Hammerhead upside case, the total recoverable resource on the acquired asset maps to ~1.2BnBOE (~520MMBOE from the lower Montney), though our base case recovers a still impressive ~980MMBOE (~430MMBOE from the lower Montney). Without any knowledge of *what* Crescent Point can, or will do in the future, we would make the bold claim, that if they continue their hugely positive D&C momentum over the next decade, it wouldn't be unreasonable to expect recoveries to trend closer to the upside case, though we aren't expecting, underwriting, or otherwise assuming that'll happen in our work.

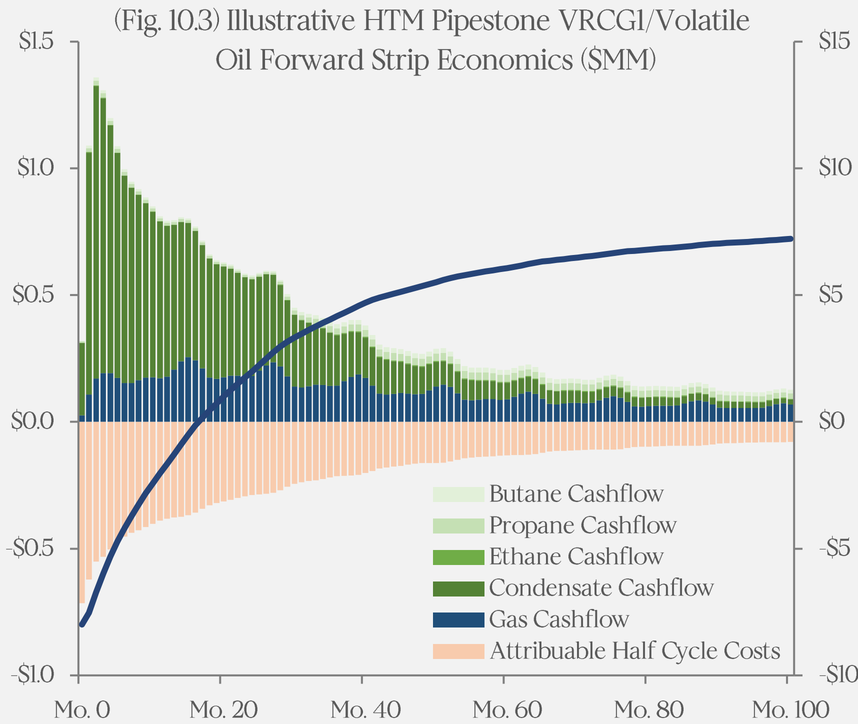
We simply see more value in the Hammerhead assets, compared to the Pipestone assets, even if they were cheaper on a price-tag basis. It fits Crescent Point's goal, better, while offering complimentary infrastructure and more robust upside.

(Fig. 10.1) Full Development Product Yield



(Fig. 10.2) PDP + PUD Product Yield

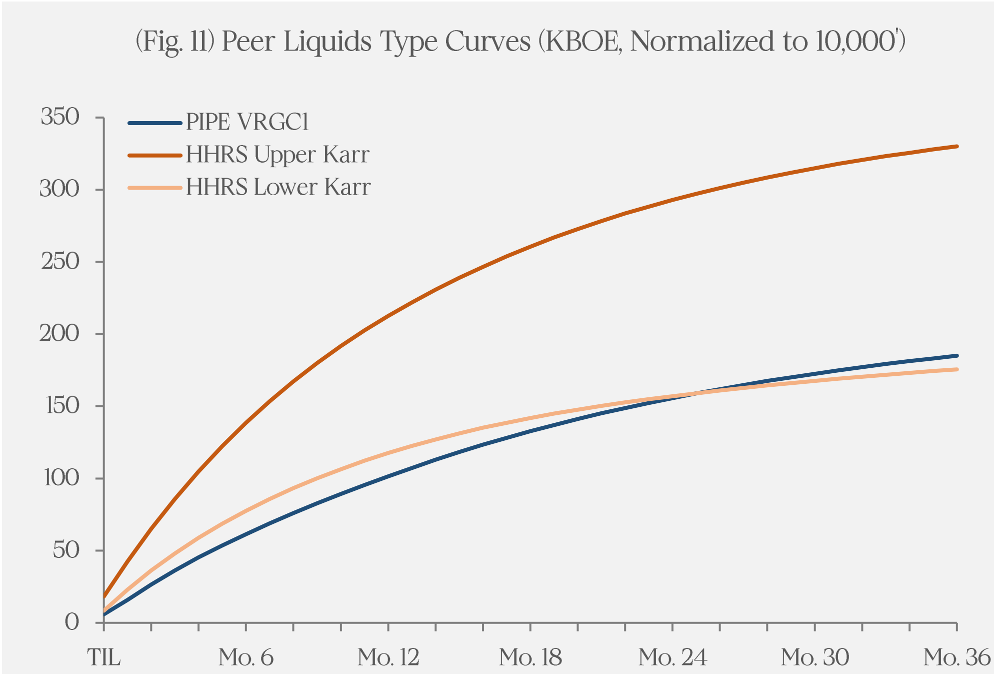




Source: Company Reports, Enverus, geoSCOUT, HTM Analysis & Estimates

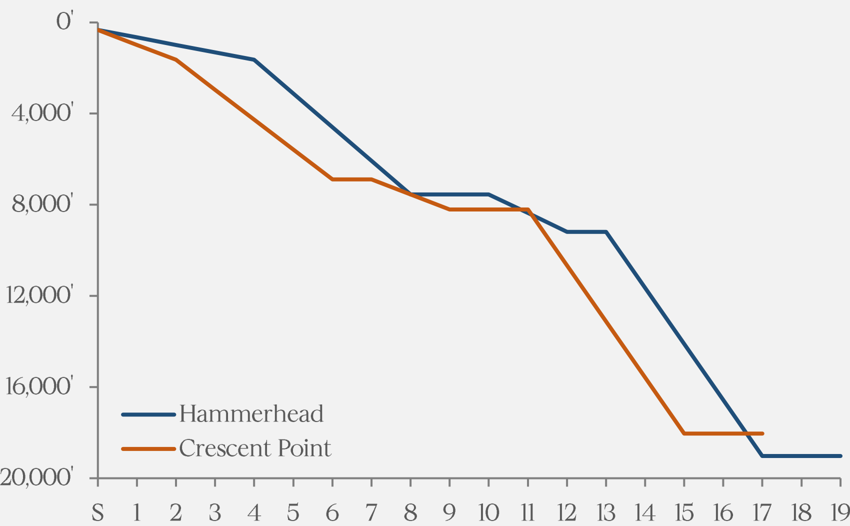
In fig. 10.3, we show the average type curve we expect the remainder of Strathcona's (formerly Pipestone) development locations to carry (~260 booked and unbooked). This comes in slightly lower than the VRGC1 curve (Pipestone's internal tier 2 number). In fig. 10.3 our modeled economics for this generic location are shown. The 100mo NPV_{10} is approximately $7MM, and once you pace out development, we see the NPV_{10} of Pipestone's remaining tier 2 locations at $1.3Bn. We have adjusted these estimates to a 3,000m lateral and 1,750lb/ft. We do believe that Pipestone has a reasonably long runway of development locations, but the ultra-liquids-rich growth story is mostly played out, with their remaining acreage being in-line with average Montney economics. Contrary to Pipestone, the Hammerhead acreage offers a strong light oil weighting that continues as wellhead condensate and other high-value plant NGLs through the deep inventory of "non-premium" locations.

We see the lower Montney locations, on a 10,000' lateral, 150' frack stage spacing, and 1,250lb/ft proppant loading model, performing generally in line with our Strathcona VRGC1 type curve. Given we have limited results to train our model on, we will wait for additional data from Crescent Point targeting the lower Montney, though will tentatively say compared to Pipestone, which had a very erratic lower bench, Hammerhead's assets show initial promise in the lower Montney, and it's not an option that has been allocated significant value, if any at all, in the transaction price. Compared to Pipestone, on our spacing assumptions (for both operators), Hammerhead has 5x more actual prospective, quality locations than Pipestone. So again, we'd applaud Crescent Point for not getting distracted by the shiny object that was a potentially "cheap" Pipestone acquisition.



Source: Company Reports, Enverus, geoSCOUT, HTM Analysis & Estimates

Perhaps contradictory to what the banks, and even Crescent Point may say, we don't see much upside to drilling improvements, our composite pacesetters for both companies model similar drilling days, with Crescent Point taking the slight edge in the vertical, and build sections, though immaterially so. What is drastically different are the completions. Hammerhead was noticeably slower, with Crescent Point completed wells at Kaybob consistently being fracked 30-50% quicker. Crescent Point thinks they can optimize the frack design, and widen the spacing to 8 wells per section, compared to Hammerhead at 10. Very preliminarily, we see this as improving NPV per section by 6-8%. We're always tepid when an operator says they are going to "frack the wells better" than the incumbent, especially given Crescent Point doesn't have a long history in unconventional plays, and those they do have experience in have since been divested (Uinta) or are many times less complex than the Montney (SK Bakken). Nevertheless, we would tend to give a *slight* benefit of the doubt to Crescent Point, having sustained Spartan Delta's momentum on the Gold Creek oil assets, and continue to improve well results and acreage values through their new generation of massive upwards fracks.



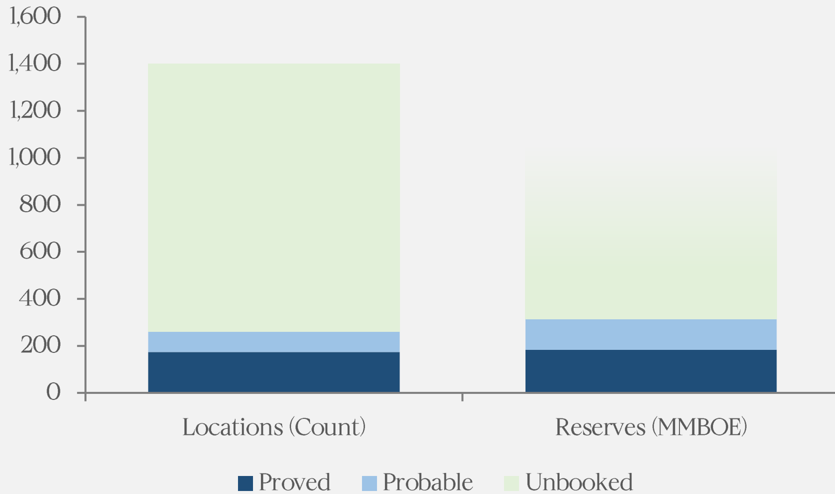
Source: Company Reports, Enverus, geoSCOUT, HTM Analysis & Estimates

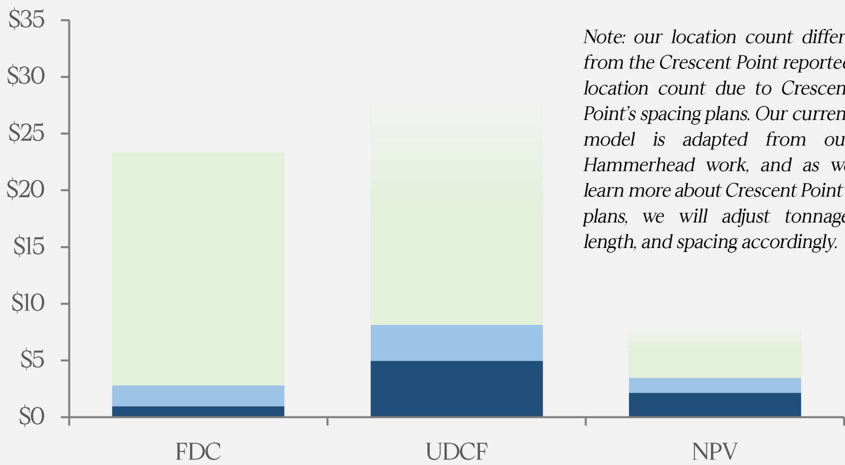
HTM Energy Research

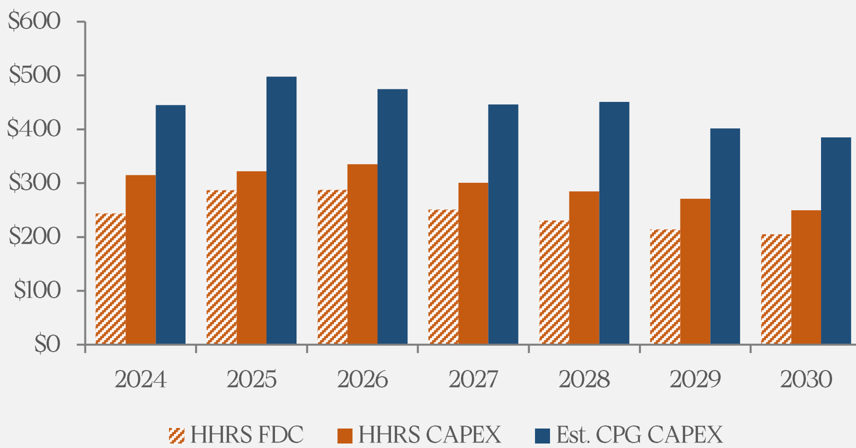
(Fig. 13) Crescent Point Locations Comparison

(Currency in millions)	NPV10	Locations	Cumulative DCF	Well Cost	Investible Capital	MOIC
Viewfield	$3.50	1,200	$5,760	$1.30	$1,560	3.7x
Shaunavon	$3.80	1,900	$9,880	$1.40	$2,660	3.7x
Flat Lake	$4.80	1,100	$7,260	$1.80	$1,980	3.7x
Viking	$1.50	1,000	$2,300	$0.80	$800	2.9x
Swan Hills	$5.10	1,200	$10,320	$3.50	$4,200	2.5x
Uinta	$3.30	1,200	$5,760	$1.50	$1,800	3.2x
Other	$2.10	300	$1,230	$2.00	$600	2.1x
	$3.44	7,900	$42,510	$1.72	$13,600	3.1x
Hammerhead U/M	$14.50	700	$17,080	$9.90	$6,930	2.5x
Hammerhead Lower	$9.80	750	$14,925	$10.10	$7,575	2.0x
Spartan Gold Creek	$11.60	520	$10,244	$8.10	$4,212	2.4x
Spartan Karr	$13.90	140	$3,500	$11.10	$1,554	2.3x
Duvernay Kaybob	$14.50	720	$18,504	$11.20	$8,064	2.3x
Viewfield	$3.30	920	$5,060	$2.20	$2,024	2.5x
Shaunavon	$3.90	1,410	$8,601	$2.20	$3,102	2.8x
Flat Lake	$4.20	820	$6,150	$3.30	$2,706	2.3x
Other	$2.80	970	$5,626	$3.00	$2,910	1.9x
	$8.72	6,950	$89,690	$5.62	$39,077	2.3x

Why we often say it's scary to think what Whitecap, and Crescent Point would have been without their Montney and Duvernay acquisitions, is shown in the chart above. While individual well returns in their historical plays were strong, they offered nothing in terms of scale, both logistically, and capital deploy-ability. If you're an oil bull, you should absolutely want to own assets in absorbable plays, where you can invest an incremental $300MM per year, without it being a physical challenge, or eating away at your inventory. Let's assume it's 2025, and oil is $200/Bbl – Surge, for example, running an additional rig at full bore, might be able to drill an incremental 55 wells (assume they're all SE Sask. because they pay back in a blink). Those wells would increase their capital budget ~35%, though kill ~10% of inventory and leave them with an 8yr inventory life. If Crescent Point added another rig, it would increase their pro forma capital budget 18%, kill <0.5% of remaining inventory, but only ~1% of remaining Montney/Duvernay inventory, and leave them with a 24yr inventory life. Sure, these are hand wavy calculations with tenuous assumptions on Sparky success rates, and lower Montney productivity, and you have to coordinate trains, sand, spreads, people, water, processing, etc. – but Crescent Point has dealt themselves into a position with flexibility, and longevity – which is more than a lot of other legacy E&Ps can say. While the CAPEX they will have to spend to drill their inventory is markedly higher, the returns are similar-ish, more durable, less risky, and command a higher multiple vs. the conventional resource, or single leg fracks that characterized Crescent Point's mid-2010s portfolio.







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There's just a lot of unbooked resource on Hammerhead's lands – simple as that. Without over-complicating the analysis, fundamentally we think that paying proved NAV for an asset that offers significant unbooked upside, is a good deal. This isn't the same unbooked upside as 2010 – it's a resource play, with generally consistent rock across the asset (OK, that's a gross generalization), but it's also more focused than prior era Crescent Point, which loved anything any everything across the WCSB, really, across the continent given their brief foray into the central Uinta basin platform.

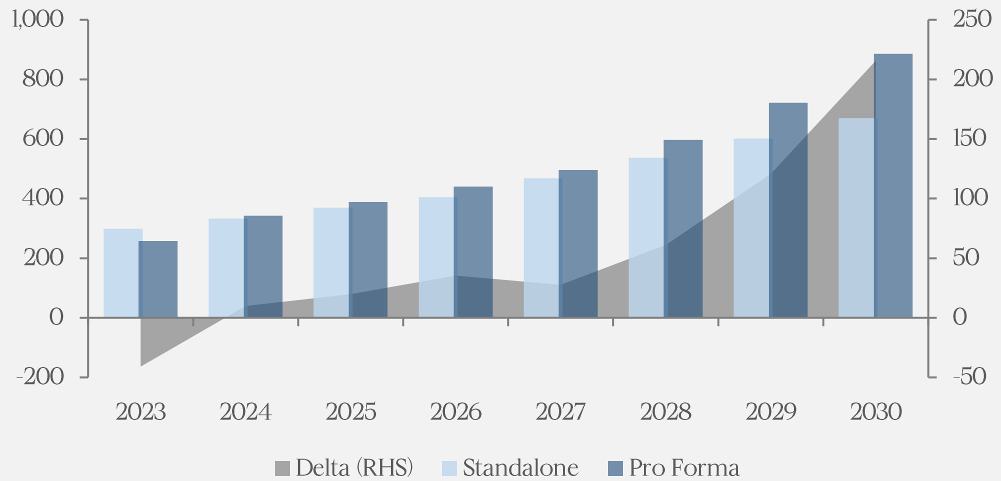
When you compare this to the resource Crescent Point previously exploited, perhaps the closest to today would be the Shaunavon. Characterized by an upper and lower member, the Shaunavon was water-floodable, generally repeatable, and offered consistent development economics. Though, unlike the resource plays today, capital was spent chasing the *same* barrels in place, rather than developing virgin acreage, delineating new zones, testing drilling & completions designs, **and potentially adding inventory**. Not that the two are comparable, but every year Tourmaline adds hundreds of locations from their internal exploration program. Increasing recovery factors may yield similar returns on capital to drilling new resource, but doesn't offer the same in way of incremental reserves, or locations.

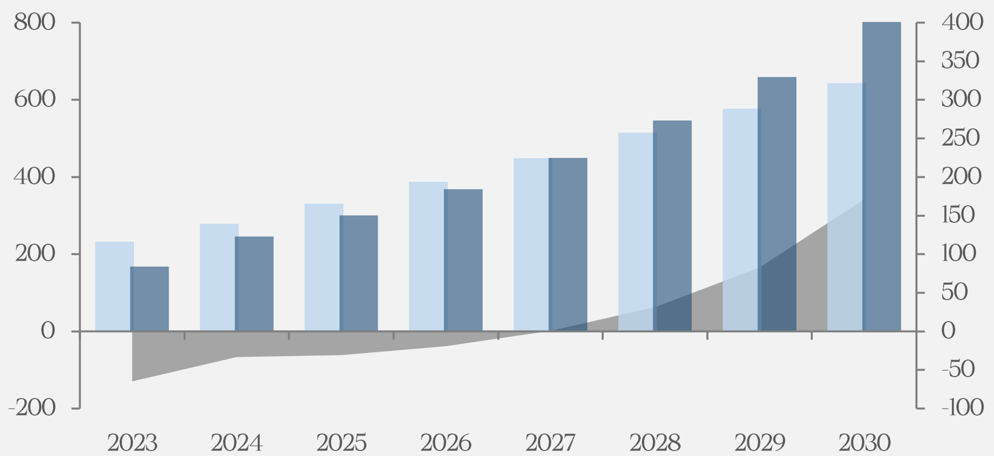
Given how quickly we expect Crescent Point to grow the acquired assets, we think there is quantifiable NPV for the unbooked lower Montney locations. We see Crescent Point spending almost $1Bn more than Hammerhead, on attributable DCET CAPEX through the end of the decade to push growth through 80,000BOE/d.

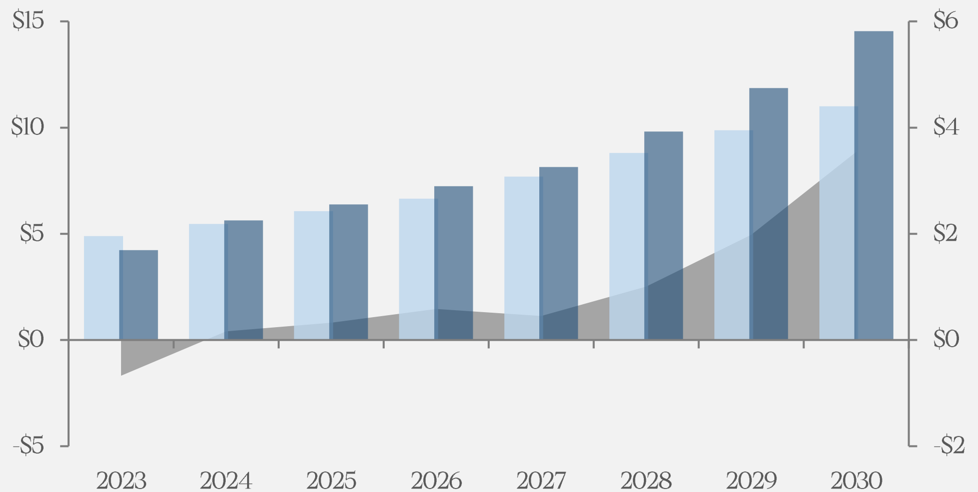
Though, the one this this deal is not, is immediately accretive. No matter how you cut it, it won't be accretive before they turn to sales the wells they'll have drilled during the 2024/25 winter drilling program. Yeah, that seems like a long time, though in reality it's 14-17 months away. In 2026 it becomes closer to accretive on a debt adjusted basis, and on all metrics, the major inflection point is 2027.

Will they probably make another deal in 2025, or 2026 – likely, so we don't think it's reasonable to ruminate too long on these "hockey stick" style payoff charts, but these massive transactions make it easier to buy smaller assets underperforming while stranded, and it also gives them optionality to invest in infrastructure at scale to improve margins should M&A, or drilling returns in various price and transaction environments prove uncompetitive. We'd note that recently, Crescent Point has sent volumes from their Gold Creek assets down to the Duvernay for processing. The Hammerhead assets we believe don't offer capacity such that it would unlock growth from adjacent acreage, though for the most part, we have confirmed capacity agreements have been inked with processing partners to accommodate Crescent Point growth plans but see infrastructure investment as a real option.

A deal that isn't immediately accretive signals dedication to the story, and long-term positioning. Given our view on multiple distribution through the cycle, the consolidation of top decile acreage, and internalizing growth even if temporarily dilutive, is positive.



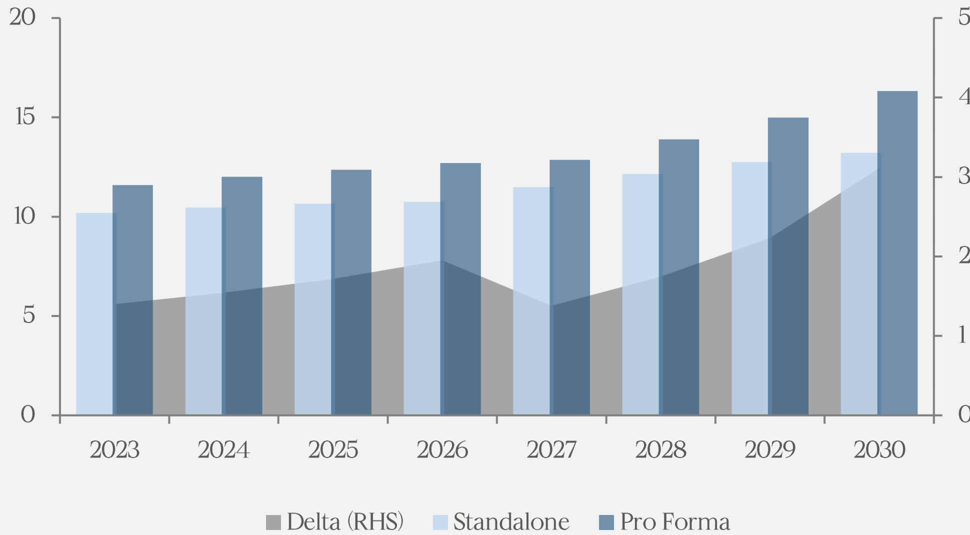




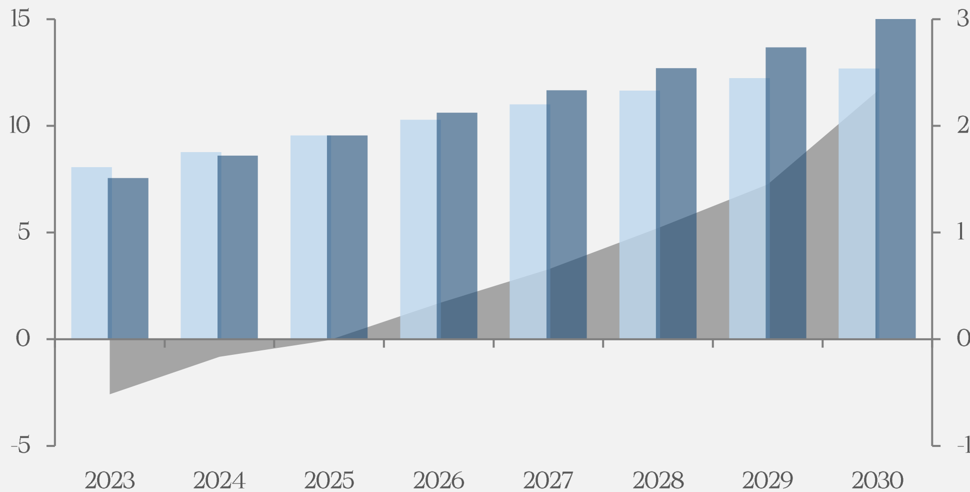
Source: HTM Analysis & Estimates

Of courses, the locations per share is what we're focused on. Perhaps we're being irresponsible debt adjusting the number of locations, and really, we should present a full development NAV (sure, we could do that), but the market doesn't care about full development NAV right now, and to make the poing to everyone looking to orient themselves for whatever commodity cycle they see coming – the fact is at the end of the decade, Crescent Point will have almost 3 more locations per million shares, that's assuming buybacks. If you assume there's not a single share repurchased (in fact, the float increases due to share based awards), they are still adding a whole location per million shares. Given the NPV of the incremental locations is in the $5-15MM range, compared to $2-4MM in Saskatchewan, we don't see a lot of reasons not to like the acquired assets. We see each location making between $8MM and $25MM of half-cycle free cashflow, (midpoint ~$4MM in the first 2 years), additional to PDP cashflow, if the payback target for the acquisition in 5 years, we estimate that ~260 locations will go towards debt repayment, including interest charges (with residual post-2028 cashflow from those locations to shareholders), leaving >1,100 locations to shareholders, under our spacing assumptions (which are slightly tighter than Crescent Point's). Including cancelling the shares issued in conjunction with the acquisition (modeled at a random $16/sh price escalating at 10% annually post-2025), after extending the cashflow runway from the residual locations above, you'd churn through another 210 locations leaving ~700 lower, and ~170 upper locations for **current** shareholders Widen our spacing assumptions and you still and up with 400 competitive lower Montney locations, and 80 upper Montney locations.

(Fig. 19.1) Locations per MM Shares



(Fig. 19.2) Debt Adj. Locations per MM Shares



Source: HTM Analysis & Estimates

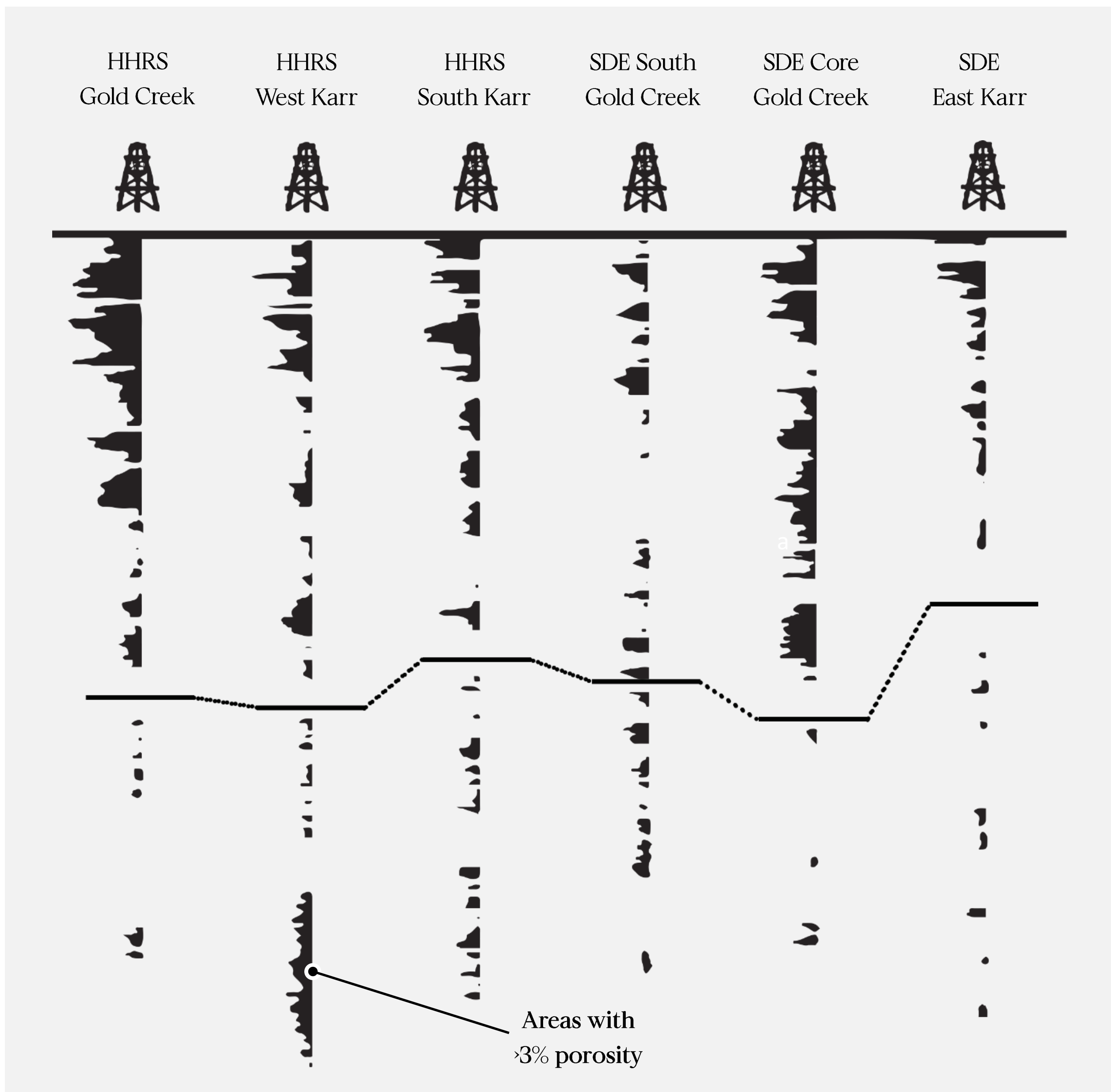
If you compare that to Saturn, we see each location making -$130K to $2,850K of free cashflow, at a $740K WA (excluding W. Pembina), including PDP, we see 310-340 of the 730 locations acquired from Ridgeback going to debt, interest and ARO attributable to the acquisition, with Saturn bearing exceptional inflation and productivity risk.

Hammerhead has done extensive delineation work in the upper and middle Montney targets, though has only brought 2 lower Montney wells onstream at South Karr, both of which have proved the lower Montney 'B' bench. Also at South Karr, offset activity has indicated productive resource in the lower zones. At West Karr, the logs show strong potential net and gross pay thickness. We think this is the most interesting part of the deal, as Crescent Point's smaller peers exhaust their inventory, and have to transact to back into additional locations, Crescent Point will be able to delineate lower benches, build infrastructure, and herein (hopefully), only transact when necessary. Our initial read of the logs, where available, is promising that Crescent Point will have the ability to run a serious internal exploration program. Importantly, Crescent Point hasn't paid for the lower Montney zone. On our math, and the reserve evaluator math, the 2P NPV_{10} of ~$3.3Bn offers a reasonable value cushion, the acceleration of CAPEX also offers some optionality, given Crescent Point's ease of funding, though we think that the asset breaking even would be an extreme downside case for even the most bearish of market observers.

Sure. The company has done some remarkably stupid things in the past (the Uinta basin comes to mind), but in this case, they are buying an already delineated asset, with the cash to fund development.

We would go so far to say, that if their Montney, Duvernay, and, Shaunavon assets together, were listed, without the Crescent Point banner, it would trade at a premium to what the SOTP currently trades at. As we've noted, the management team is totally refreshed, and the strategy now well defined.

(Fig. 20) Gold Creek & Karr Subsurface Attributes

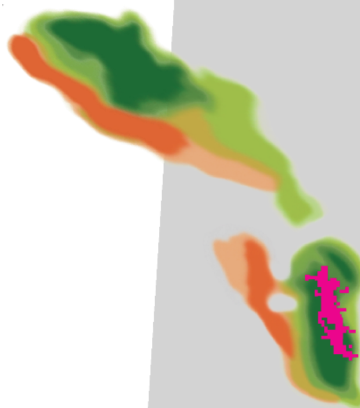


Taking a longer-term view, the lower Montney at Karr, and Kakwa has some of the best liquids yields in Alberta. At Kaybob, the Duvernay is characterized by single-bench development, unlike targets in the eastern shale basin that have a middle carbonate mudstone that separate two distinct targets, with the lower Duvernay, akin to the lower Montney, being thinner and less consistent. Crescent Point's current Duvernay position is at Kaybob, west of the Leduc Reef that separates the two Duvernay Basins, and does not offer multi-bench development. Spartan Delta opted for a single bench development plan at Gold Creek, landing laterals lower than the previous operators, and subsequently massively increasing the liquids weighting. The old Spartan Delta assets at both Gold Creek and Karr focus on the upper middle Montney, with no initial lower Montney development, though likely owing to a lower quality reservoir than Hammerhead has at Karr.

Both the Shell, and Spartan Delta acquisitions were excellent, but don't offer the same two, or three zone development optionality that the BC Montney does. Compared to historical Crescent Point, the only large-scale multi bench inventory they had was in the ND Bakken (since divested to Kraken), and the Uinta (since sold to the Finley/CH4 Uinta Wax JV). There has been some moderately successful cube development in the Montney, where the barrier rock between zones is adequate, but, mostly two zone development, with slightly wider spacing has been adopted. We note, Crescent Point has initially communicated their intentions to increase spacing on the acquired asset and think that is a positive longer term read for the viability of the lower Montney. What we really like about this deal, is the balance of non-premium locations it added to Crescent Point's portfolio. As defined by Crescent Point, prior to Hammerhead, they had 5,600 locations, 1,100 premium in the Montney and Duvernay, and 2,000 premium in Saskatchewan. That leaves, on our adjusted estimates, 200 non-premium in the Montney, and Duvernay, and 2,300 in Saskatchewan. The Saskatchewan locations pale in comparison to even the non-premium infill drilling they have at Kaybob.

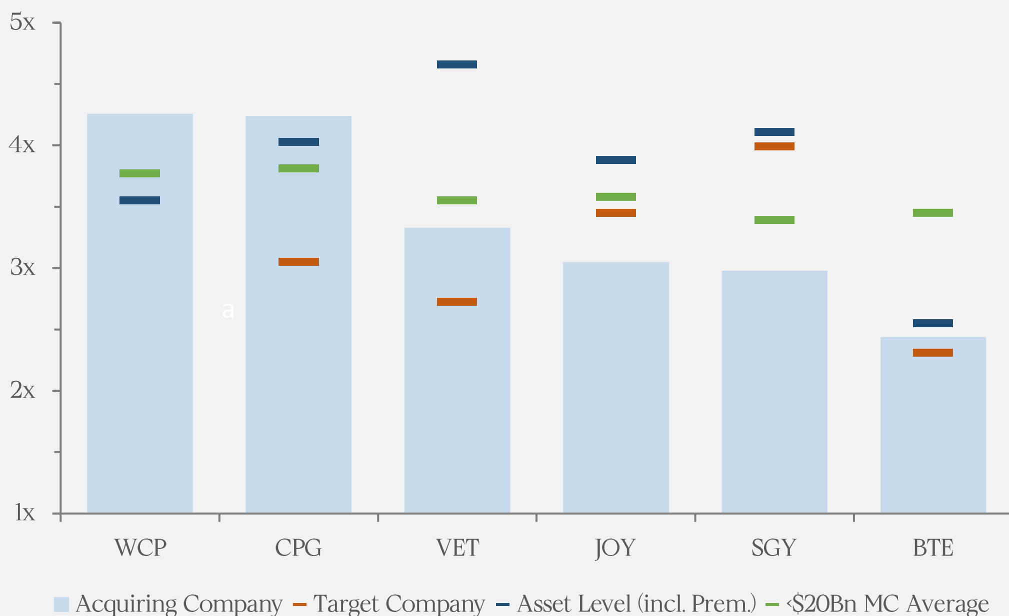
Even the lower Montney locations acquired from Hammerhead, we expect to be very good, relative to lower Montney results elsewhere. Our model has the lower Montney bench at Karr as some of the most productive (on a liquids recovery basis) in the Alberta fairway, a very appealing long term carry option. Pro forma, HTM preliminary estimates see Crescent Point as having 2,800 total locations in their unconventional segment, 1,800 of those being premium. This significantly balances the lower return inventory against Saskatchewan, which would simply never be able to physically backfill unconventional declines. This transition towards a balanced portfolio is something that we like a lot.

(Fig. 21) HTM Modeled Lower Montney Liquids EUR Intensity



Source: Enverus, geoSCOUT, HTM Analysis & Estimates

Of the few "transformative" acquisitions we've seen in recent years, very few have been when the acquiring company's multiple is higher than peer average. Using our November 8th price deck, we have standalone CPG at ~4.2x STMA EV/DACF, with intermediate peers at 3.9x EV/DACF. We subscribe heavily to the "use it or lose it" theory of equity multiples, of which, Crescent Point is a textbook example. While cheap compared to larger peers like Tourmaline, ARC, and even Whitecap, they traded generally richer than smaller peers, and acquisition targets. If they were to not up-tier their portfolio, they'd be in the same quality bracket as smaller peers like Surge, or Yangarra, though radically larger – an unbecoming mismatch. As bestowed by the all powerful "market", Crescent Point was given the opportunity to use their equity to transform the business, one last olive branch – and we think they did.



Source: Bloomberg, Company Reports, FactSet, HTM Analysis & Estimates

The winning Spartan strategy has been to fund asset delineation and development with the free cashflow from a different, mature asset elsewhere in the basin (Crew and Kelt lack this, and it shows), we clearly see that from Crescent Point over the coming years.

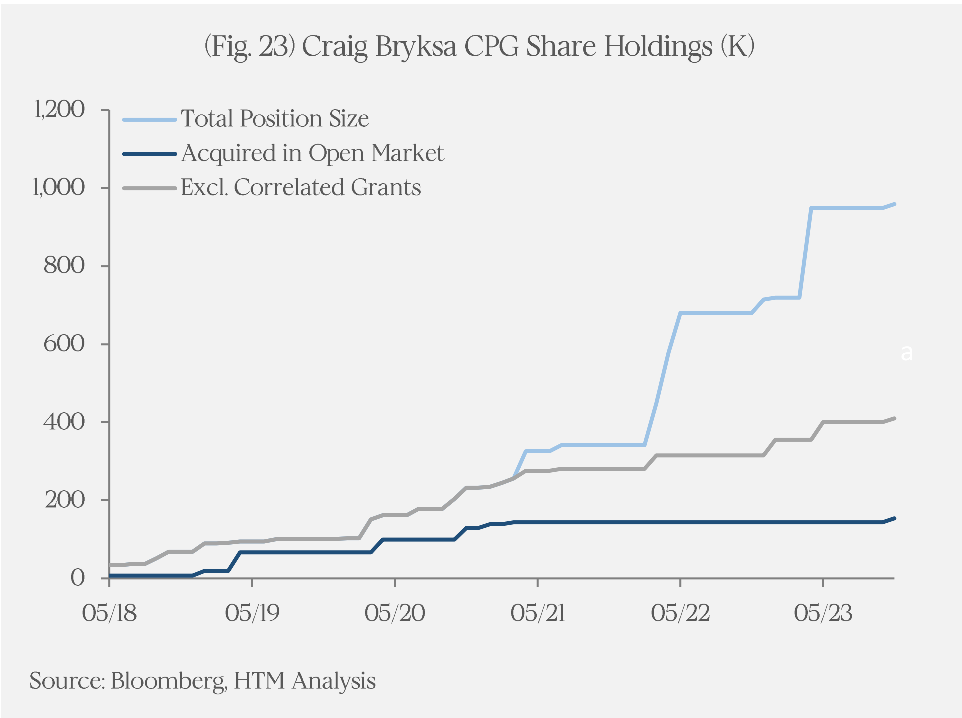
Aside from Whitecap and Vermilion, the other "major" acquisitions didn't offer much in way of strategy. Surge added the same resource style, in the same locale, and doubled down on ARO as a currency. Baytex simply consolidated other "cheap" resource, and we reiterate our view that the correlation between price and quality is almost perfect, with Ranger being no exception. The market has truly "rewarded" none of these companies for dealing, though the ones that have come close, are deals where the acquirer traded at, or near a premium to peers. Whitecap added unconventional inventory, and Vermilion added a Montney growth asset. While Vermilion's asset is immature, and diluted by the rest of their portfolio, we view their acquisition as negative on a value and attributable return basis (given the lack of volume growth), though positive on a strategy basis. We are still waiting for the rest of the business to catch up, strategy wise.

An impressively shocking number – Crescent Point's share count has grown at 5% annually since 2021, while the entire business has gone from something of questionable quality to a very serious contender in the next class of WCSB resource, while maintaining a 33% free cashflow payout (shown below in fig. 24.1). Hate it or love it, Crescent Point has done a really good job here, and dare we say used equity responsibly. Since 2021, they have entered the Duvernay, then transacted for additional acres and infrastructure with Repsol, then Paramount – they've also entered the Montney, upstream from their Duvernay position, then added an equally as good, if not better complementary position with this Hammerhead deal. Meanwhile the share count has grown at 5% per year, a laughable juxtaposition to 2010-2014 when Crescent Point would target a top-line production CAGR of 8-10%, though a *per share* CAGR of 4-7%. Today, they have not simply grown production, but radically improved every facet of the business, growing the share count at the same rate that SBC was contributing to float growth historically.

If you're mad because the CEO and/or management is getting SBC, while issuing shares to grow (and you feel like they're not creating value in the meantime), we'd suggest you're looking backwards in an industry that's currently moving forwards, and consistently improving compensation structures. Yes, many CEOs, COOs, and other executives took down massive share based compensation payments relating to grants that happened during the COVID lows. That's just the luck of the draw, given the timing of share grants aligned perfectly with the first wave of the virus, and the vesting periods aligned so perfectly with the Russian invasion of Ukraine, among other factors that sent the price of crude parabolic. There wasn't a cabal scheming ways to screw shareholders with cheap options, at least we think that COVID wasn't created to enrich a small group of E&P CEOs with bonuses tied to share price.

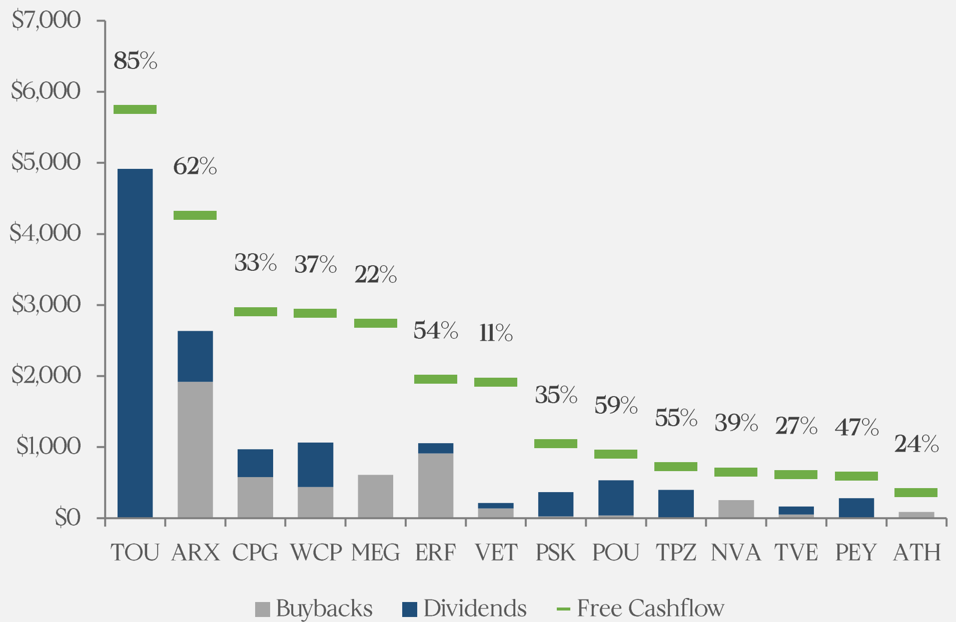
What should you do if you receive such an options payout? Forfeit the shares? Donate the money to charity? Redistribute it among employees? Throw a pizza party for shareholders? Or, alongside the board, understand that the pre-COVID STIP & LTIP scorecard was structured such that huge whiplashes in oil could massively skew payouts, then amend performance target weightings to metrics less correlated with the commodity?

If you're mad because CEOs are getting paid out their 2020, and 2021 performance units, you're looking backwards, instead of forwards. Craig Bryksa, before 2022, was a consistent purchaser of Crescent Point stock (even above his required ownership multiple), and since 2021, Crescent Point has amended the STIP, and LTIP scorecards to weight factors like OPEX per BOE, finding and development costs, and operational uptime (spills, injuries, etc.) heavier than metrics like funds flow per share, and debt levels, which trigger full-sized payouts if oil prices move significantly in either direction. This is a positive development, and we believe too many people don't fully understand the compensation structures for E&P management teams.

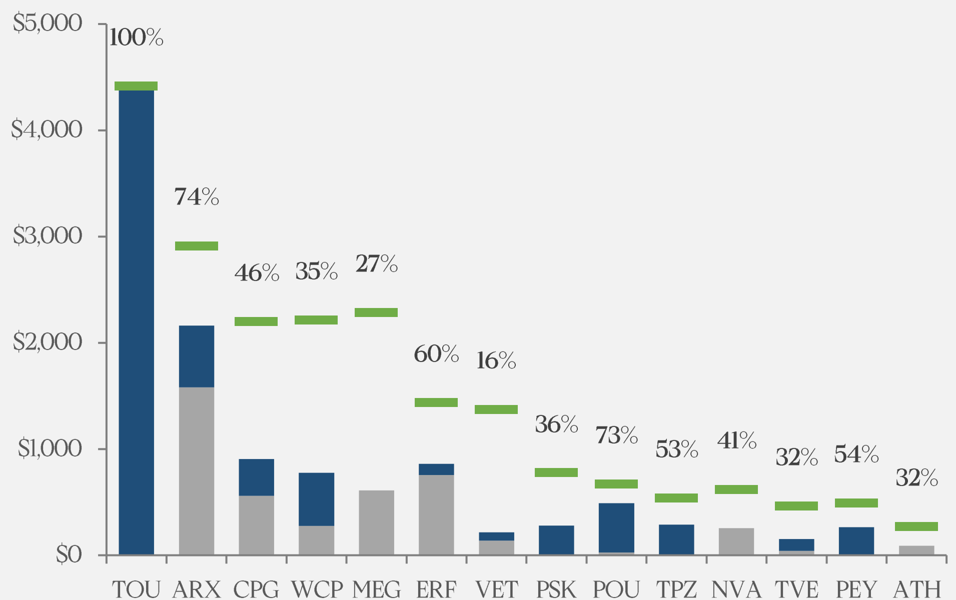


Shown in fig. 23 to the right, we plot Craig Bryksa, the CEO of Crescent Point's open market net movement (of which he hasn't sold any), along with his total position size, and our estimated position size *adjusting for COVID-low grants that were sized up due to movements in oil price*. Sure, for the past few years, every March, almost every executive member in Calgary was given an extraordinary amount of stock – but that's a hangover from COVID, not a normal practice. It's simply confusing to us that smart people discard high quality, valid companies, because of options struck when oil was $30/Bbl. Those same, quality companies, have all amended their corporate payout scorecards, and have understood that was a tail situation, and it shouldn't happen again in the interest of shareholders. We view management alignment as extremely important, but not every CEO is Mike Rose, or Murray Edwards, and think alignment should be viewed holistically, in conjunction with other metrics (like multiple of salary, and frequency of open market buys). In Crescent Point's case, strategic execution has been consistent, and while we'd have liked to see more open market buys throughout 2022, the massive lumpy LTIP grants would have naturally concentrated Bryksa's position, even if not organically acquired. Going forward we'll look for voluntary purchases.

We think management alignment is important, but we also continue to emphasize that shareholders should align themselves with management, ideologically. Just because energy has a screamingly high free cashflow yield, doesn't mean shareholders should expect that as cash in their brokerage account. If you do, names like Tourmaline exist, a company that has paid out 100% **of free cashflow to shareholders through dividends since 2022**. Why are you trying to be a square peg in a round hole, and squeeze blood from a stone.



Crescent Point making chunky acquisitions where appropriate has been generally understood by the market, especially on the back of the Bakken disposition. What people seem to forget though, is Crescent Point was quite literally a roll up for majority of its life. When they compare in-organic growth of old to acquisitions of new, you're comparing short duration, limited inventory assets, to massive resource plays with incomprehensible scale. Today we think Crescent Point isn't simply rolling up production like they used to, now they have the means to grow durably, and organically, assembling quality assets that will change the cadence of their business.



Source: Bloomberg, Company Reports, FactSet, HTM Analysis & Estimates

Since instituting their promise of 50% of "discretionary" free cashflow returned to shareholders in 2022, Crescent Point has reached 46%, while, at the same time, massively improving their asset base – we'd say that is a promise kept, and an impressive period, when you think about it.

While there has been lots to not like about Crescent Point historically, and there are still gripes we have – we don't believe you can fault management for their execution over the past 5 years which has been meticulous and clever. The market may take time to realize this because they still bear the "Crescent Point" brand – though, in everything but the name, we're confident Crescent Point is a better company today than 2010, and better owning Hammerhead.

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