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Oil, Gas & Consumable Fuels & Oilfield Services

Implications of Agreement Between the Province of B.C. and Blueberry River First Nations

As widely anticipated, the Province of B.C. and Blueberry River First Nations announced an agreement that will "*guide them forward in a partnership approach to land, water and resource stewardship*" in support of the Blueberry River members Treaty 8 rights, while also providing clarity to economic development in the Province. This agreement relates to a previously stated B.C. Supreme Court decision (June 29, 2021) that found the Province had violated the Blueberry River's Treaty 8 rights through historical industrial development (ultimately impeding the authorization of activities since that date).

The **agreement represents a collaborative outcome for land management and resource development**, while protecting the Nation's Treaty 8 rights, and key highlights of the release and new framework include:

- Agreement - *"An **ecosystem-based management approach** for future land-use planning in Blueberry River's most culturally important areas, with **ambitious timelines to complete new… land use plans**" and "Companies, the Province, Blueberry River and other Nations will **sit together to discuss, design and agree** to development plans" and "Collaborative land-use planning [approach to oil and gas development planning and projects]… ensure the Nation's Treaty rights are protected and **natural resource development activities can occur**…" and "commitment to advance… land use plans within the next three years." And "series of operational level plans focused on land restoration, and petroleum and natural gas (PNG) sector activities will also be developed… targeted for completion within 15 months"*.
- Framework - *"Measures include establishing **areas for permanent protection from new development**; focusing disturbance from **PNG wherever possible in areas already developed**; reducing new disturbance from PNG by approximately 50% from pre-court decision years; introducing operational and strategic planning expectations for the sector, applicable to all new proposed activities; and a limit on overall new disturbance from PNG activities in Blueberry River's claim area, designated at 750 hectares, as further detailed planning and restoration activities can be developed and agreed to."* And "***land protection in Blueberry River's high-value areas**, which includes more than 650,000 hectares of protection from new PNG… activities*".
- Outcome - *"plans will **improve clarity** about the natural-resource activities that are available" and "The… agreement… **brings more predictability** for the region and local economy… helps ensure that we are operating on the land in partnership to ensure **sustainability for future generations**."* And "*The agreement provides for annual reviews of implementation progress and effectiveness, and includes a formal three-year review*" and "*The Province and Blueberry River have agreed to **expeditiously begin implementation**, and in order to support the local economy, this **agreement provides for a series of… and oil and gas activities to proceed** through Blueberry River's claim area*".

Supportive statements to the agreement were concurrently provided by; Michael Rose (President & CEO, Tourmaline Oil Corp.), Izwan Ismail (President & CEO, Petronas Energy Canada Ltd.), Lisa Baiton (President & CEO, CAPP), Tristan Goodman (President & CEO, EPAC), in addition to six Ministers of the Government of B.C. and other local authorities.

Analysis – In our view, the outcome of the agreement is largely constructive, with its basis on a collaborative approach between the Nation, Government and industry, while providing some guardrails (albeit, with further clarity to be distilled over the coming 1-3 years, as noted) that should offer predictability for industry to plan activity. Most importantly, as it relates to industry (and our coverage), we note the constructive tone towards the expeditious advancement of some activities (indicative of relative commercial support; as exemplified by well licenses that have recently been granted), and while NEW activity will be under the greatest scrutiny (or limits), we believe that stance should resonate over the long term (predicated on a pragmatic & collaborative approach as defined within the framework). With that, impact to our coverage includes:

- E&P – Modest drag to timelines and costs (efficiencies) in the near-to-medium term as the framework is embedded, but ultimately a more constructive runway for long-term development with a framework in place. As noted in the comps below, B.C.-oriented developers trade in line to ahead of the resource gas peer average, in our view a reflection of the minimal risk ascribed to this outcome (key operators impacted include ARX, CNQ, CR, KEL and TOU, with notable analogies below).
    - We believe that these impacts were largely foreshadowed by **TOU**'s revised guidance (*see our note published last week*), which provided for an increased downtime provision (6% from 4% for 2023) to account for finalized permitting framework in NEBC (noting that it has sufficient permits in place to operate for several years) and related increased frac downtime (and general inefficiencies of operations), and regardless of which the company expects to maintain or modestly grow BC production over the coming two-to-three years (economic +$1.50/mcf), all of which could be alleviated by a finalized permitting framework. Long-term development of its Conroy assets (concurrent with LNG) should be a project that can be distilled within this framework. Each and all, being supportive of **TPZ's** royalty interests.
    - **ARX** - We expect ARC will provide an updated budget and capital spending timeline as it relates to its Attachie asset, a key development opportunity within the company's portfolio. Given the company's prior communications, it is understood that the next 18-24 months will capture incremental spending of $700 million as construction resumes to establish the necessary infrastructure. We expect first gas in the second half of next year, backstopped by 40 mboe/d of process capacity (63% C5+) and an incremental $150 million of annual sustaining capital for Phase 1. Given a full year of production is not likely captured until 2025, coupled with our view that this news is largely in line with expectations, we believe the short-term impact is limited and view this as an optimistic outcome relating to the line-of-sight to the longer-term capital spend, production and cash flow profiles ($500 mln annually @ US$65/bbl & US$4.75/mcf).
    - The implications to **LNG Canada** are an important consideration, where "new" activity could be challenged to support the quantum of supply required for off-take, which speaks to a potential necessity for the consortium to acquire assets (i.e., existing field that could be further developed under the framework) or purchase spot supply to the benefit of western Canadian pricing (with positive read-through across our coverage). Ultimately, a constructive backdrop for WCSB gas participants as a whole.
- Services – The OFS group will similarly trend with the producers, although with relatively static impact to the current outlook, and a positive bias through optimism for increased activity over the long term, and given the high current utilization of capacity, could have read-through to magnified pricing and margins as incremental activity is mobilized (again, within reason, given the tight labour/equipment backdrop). We continue to hold a positive bias towards **PD** (OP & $135 TP based on an unchanged 2023e EV/EBITDA multiple of 5.0x) and **TCW** (OP & $6.75 TP based on an unchanged 2023e EV/EBITDA multiple of 6.0x).

Exhibit 1: Blueberry Operator Peer Comparables (Strip Pricing)

Ticker	Market Cap ($mln)	Net Debt ($mln)	EV ($mln)	Div. Yield (%)	FCF Yield (%)	EV/DACF (x)		Production (mboe)		Gas (%)	DAPPS Growth (%)		CF Netback ($/bbl)		CF Margin (%)		D/CF (x)		Drawn (%)	FCF ($mln)		Total Net Payout	
		2023E	2023E	2023E	2023E	2023E	2024E	2023E	2024E	2023E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2023E	2024E	2023E	2024E
ARX	$10,388	$1,218	$11,607	4%	4%	4.0x	3.8x	345.4	356.5	60%	11%	8%	$22.47	$21.76	51%	50%	0.4x	0.2x	0%	$396	$670	86%	76%
CR	$831	$110	$940	0%	5%	3.2x	3.4x	31.0	36.0	78%	-1%	3%	$25.04	$22.89	62%	62%	0.4x	0.8x	0%	$43	-$123	85%	141%
KEL	$955	$10	$965	0%	-2%	3.3x	3.2x	34.0	41.0	64%	19%	19%	$23.67	$20.62	51%	51%	0.0x	0.1x	0%	-$16	-$16	106%	105%
TOU	$23,442	-$1,831	$21,611	1%	10%	5.0x	4.6x	545.0	565.0	77%	18%	14%	$22.04	$21.07	53%	56%	-0.4x	-0.9x	0%	$2,405	$2,153	45%	51%
Blueberry Operator Avg				1%	4%	3.7x	3.6x			70%	15%	11%	$23.30	$21.58	54%	55%	0.2x	0.1x	0%			80%	93%
Gas Resource Peer Avg				3%	5%	3.5x	3.2x			68%	19%	18%	$24.63	$22.93	56%	56%	0.1x	0.1x	13%			81%	81%

Note: Strip pricing as of 2023-01-12

Source: NBF, Company Reports, Refinitiv

Exhibit 2: PD Peer Comparables

Company	Ticker	Mkt. Cap (mln)	Net Debt (mln)	EV (mln)	EBITDA (mln)		EBITDA Growth (%)		EV/EBITDA		Net Debt /EBITDA		P/TBV	FCF Yield (%)	
Large Market Share Drillers					2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E		2023E	2024E
Ensign	ESI.TO	$ 707.8	$ 1,167.2	$ 1,875	$ 535.9	$ 579.6	47%	8%	3.5x	2.8x	2.2x	1.6x	0.5x	31%	38%
Helmerich & Payne[1]	HP.N	US$ 5,009	US$ 18.5	$ 5,027	US$ 1,048	US$ 1,252	148%	19%	4.8x	3.7x	0.0x	-0.3x	1.7x	7%	12%
Nabors	NBR.N	US$ 1,603	US$ 1,880	$ 4,032	US$ 1,082	US$ 1,182	55%	9%	3.7x	2.6x	1.7x	1.2x	2.5x	26%	31%
Patterson-UTI	PTEN.O	US$ 3,493	US$ 410.7	$ 3,904	US$ 1,037	US$ 1,175	57%	13%	3.8x	3.1x	0.4x	0.1x	1.7x	15%	22%
Drillers Average							**77%**	**13%**	**3.9x**	**3.0x**	**1.1x**	**0.7x**	**1.6x**	**20%**	**26%**
Precision Drilling	**PD.TO**	**$1,486**	**$813.9**	**$2,300**	**$646.9**	**$697.3**	**54%**	**8%**	**3.6x**	**2.7x**	**1.3x**	**0.6x**	**1.0x**	**25%**	**29%**

Source: NBF, Company Reports, Refinitiv

Exhibit 3: TCW Peer Comparables

Company	Ticker	Mkt. Cap (mln)	Net Debt (mln)	EV (mln)	HHP	EV/HHP	EBITDA		EV/EBITDA		Net Debt /EBITDA		P/TBV	FCF Yield	
Canadian Fracturing Peers							2023E	2024E	2023E	2024E	2023E	2024E		2023E	2024E
Calfrac Well Services	CFW.TO	$581	$206	$787	1,300,000	$600	$365.9	$387.0	2.2x	1.7x	0.6x	0.2x	1.5x	21%	nmf
STEP Energy Services Ltd.	STEP.TO	$422	$79	$502	490,000	$1,025	$243.5	$257.8	2.1x	1.5x	0.3x	-0.1x	1.4x	21%	31%
Canadian Average (excl. boxed outliers)						**$813**			**2.1x**	**1.6x**	**0.4x**	**0.0x**	**1.4x**	**21%**	**31%**
Company	**Ticker**	**Mkt. Cap (mln)**	**Net Debt (mln)**	**EV (mln)**	**HHP**	**EV/HHP**	**EBITDA**		**EV/EBITDA**		**Net Debt /EBITDA**		**P/TBV**	**FCF Yield**	
U.S. Fracturing Peers							2023E	2024E	2023E	2024E	2023E	2024E		2023E	2024E
Halliburton	HAL	US$36,867	US$3,891	US$40,758	4,600,000	US$8,850	US$4,991.0	US$5,768.3	8.2x	6.8x	0.8x	0.4x	7.0x	6%	7%
Liberty Oilfield Services	LBRT.K	US$2,692	(US$212)	US$2,480	2,500,000	US$1,000	US$1,194.1	US$1,239.9	2.1x	1.6x	-0.2x	-0.5x	1.8x	22%	26%
Mammoth Energy Services	TUSK.O	US$344	nmf	nmf	300,000	nmf	US$154.7	US$169.7	nmf	nmf	nmf	nmf	nmf	nmf	nmf
NexTier Oilfield Solutions	NEX	US$2,197	(US$312)	US$1,885	2,260,000	US$825	US$901.6	US$1,023.1	2.1x	1.4x	-0.3x	-0.8x	3.6x	24%	28%
Propetro Holding Corp	PUMP.K	US$1,087	(US$261)	US$826	1,315,000	US$625	US$499.0	US$564.4	1.7x	0.9x	-0.5x	-1.0x	1.1x	23%	27%
RPC, Inc.	RES.N	US$1,915	(US$227)	US$1,689	735,000	US$2,300	US$455.2	US$483.9	3.7x	nmf	-0.5x	nmf	2.5x	nmf	nmf
U.S. Average (excl. boxed outliers)						**US$950**			**3.5x**	**2.7x**	**-0.2x**	**-0.5x**	**3.2x**	**19%**	**22%**
North American Average (exlc. boxed outliers)									**3.1x**	**2.3x**	**0.0x**	**-0.3x**	**2.7x**	**20%**	**25%**
Trican Well Services	TCW.TO	**$842.9**	**($87.9)**	**$755.1**	529,000	**$1,425**	**$250.4**	**$262.9**	**3.0x**	**2.4x**	**-0.4x**	**-0.7x**	**1.5x**	**15%**	**17%**

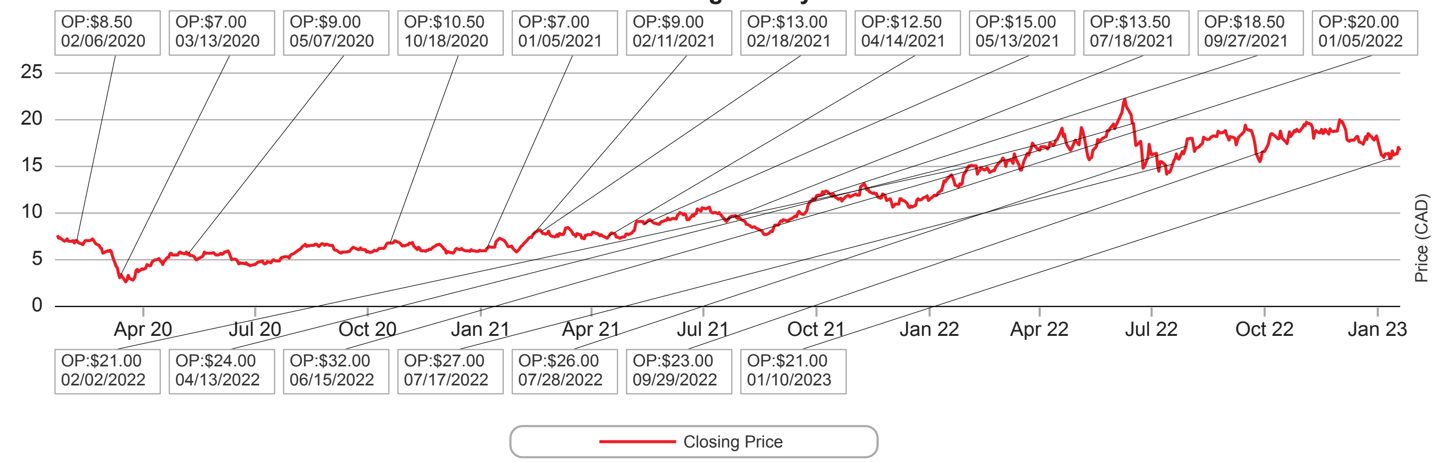
Source: NBF, Company Reports, Refinitiv

NATIONAL BANK OF CANADA FINANCIAL MARKETS

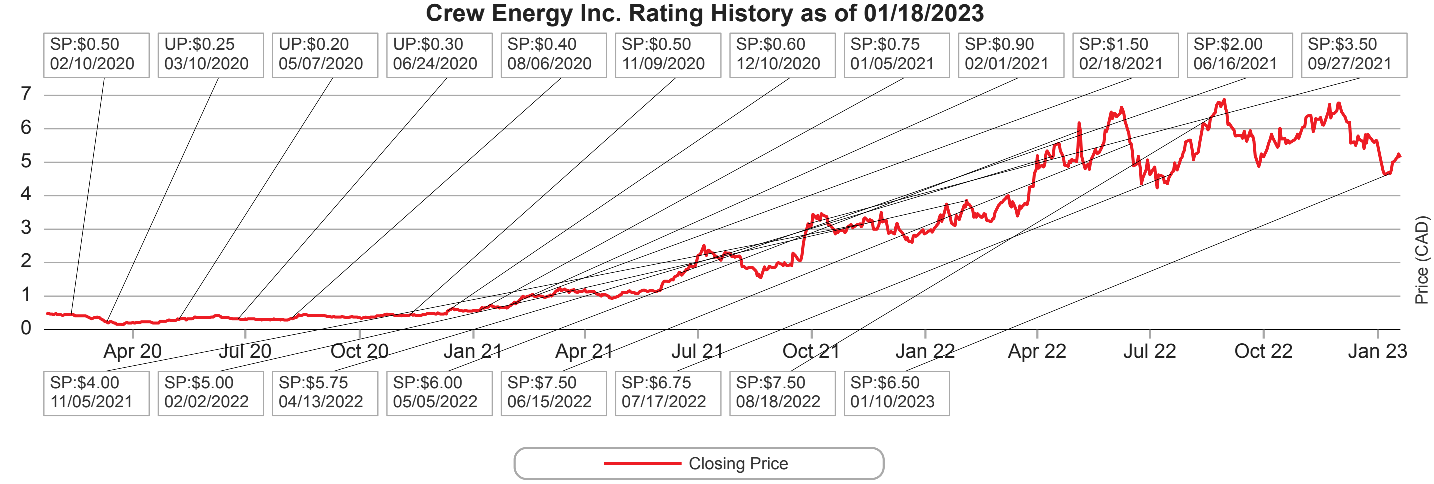
Disclosures

PRICE, RATING AND TARGET HISTORY: I = Initiation, OP = Outperform, SP = Sector Perform, UP = Underperform, UR = Under Review, R = Restricted; T = Tender (Source: Factset, NBF)

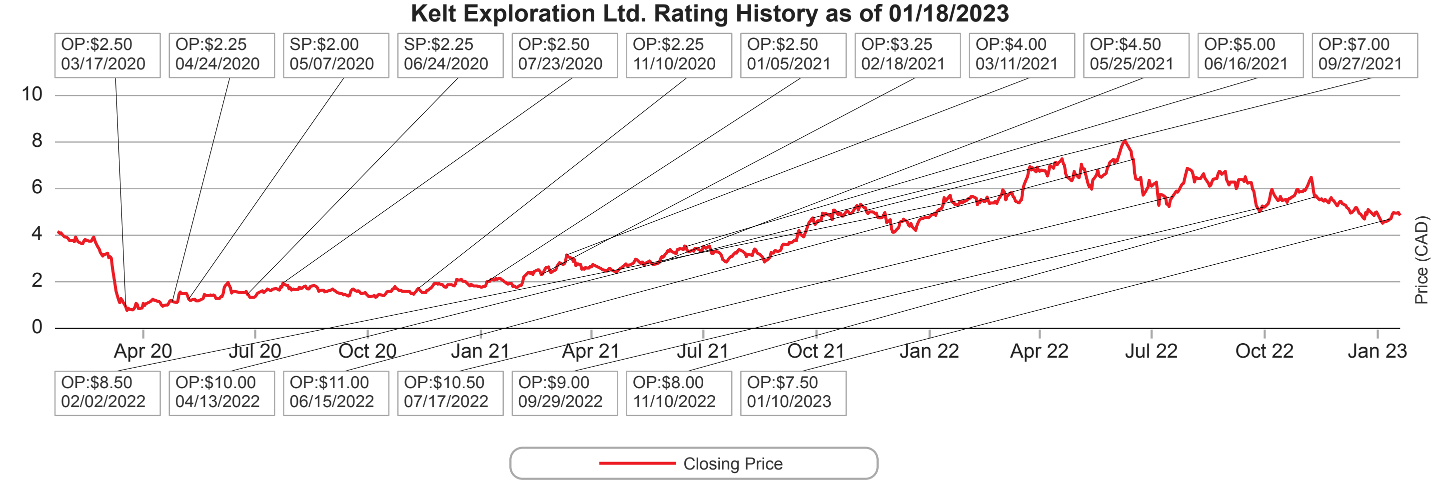
ARC Resources Ltd. Rating History as of 01/18/2023

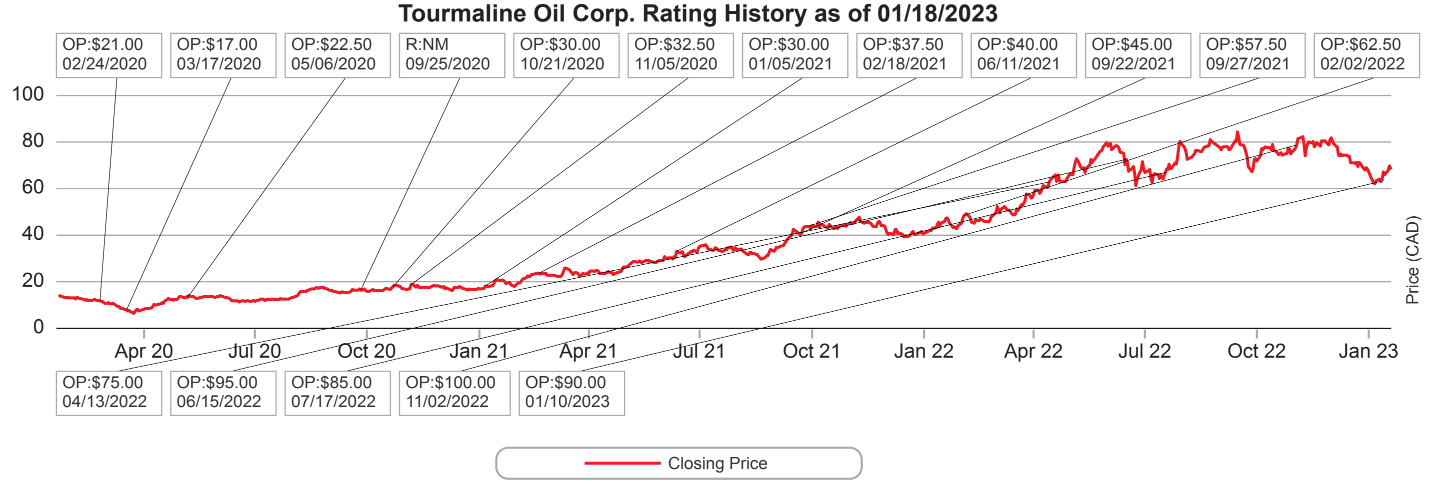


Crew Energy Inc. Rating History as of 01/18/2023



Kelt Exploration Ltd. Rating History as of 01/18/2023




Tourmaline Oil Corp. Rating History as of 01/18/2023
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OP:$30.00 10/21/2020
OP:$32.50 11/05/2020
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OP:$45.00 09/22/2021
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OP:$62.50 02/02/2022
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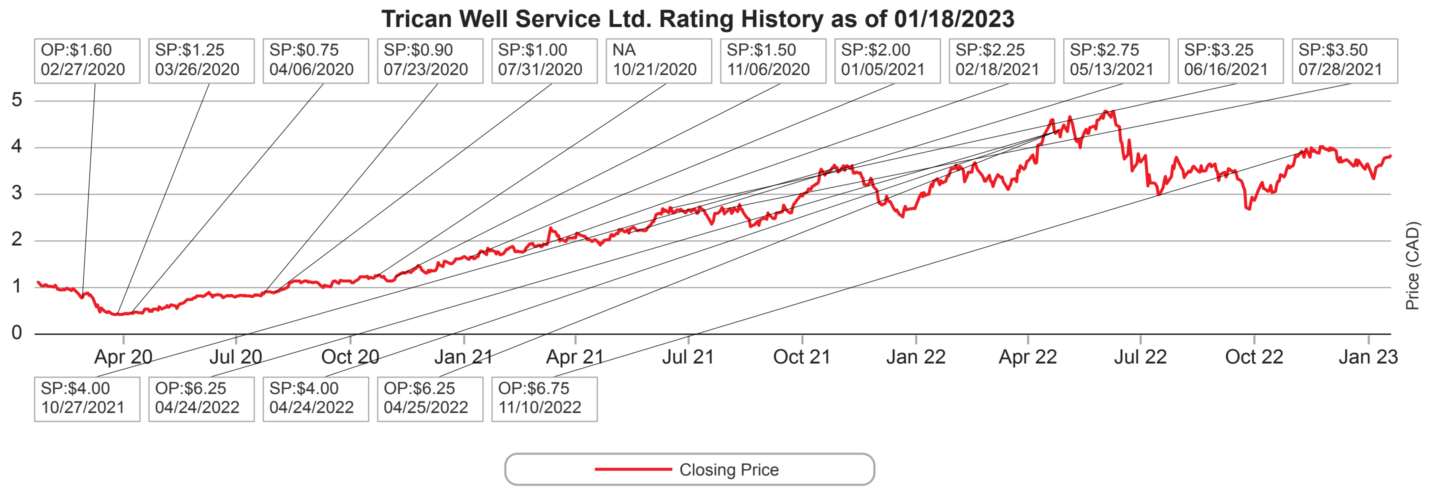
Price (CAD)
Closing Price


Trican Well Service Ltd. Rating History as of 01/18/2023
OP:$1.60 02/27/2020
SP:$1.25 03/26/2020
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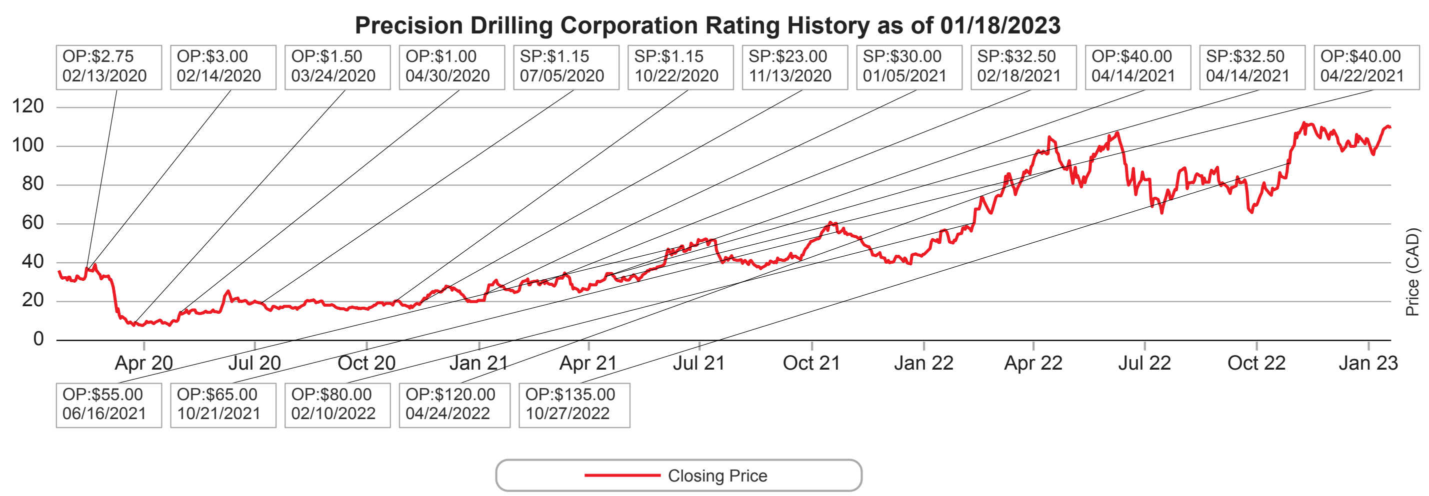
Price (CAD)
Closing Price


Precision Drilling Corporation Rating History as of 01/18/2023
OP:$2.75 02/13/2020
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Oct 20
Jan 21
Apr 21
Jul 21
Oct 21
Jan 22
Apr 22
Jul 22
Oct 22
Jan 23
Price (CAD)
Closing Price

RISKS:

ARX

Commodity Price Risk: Fluctuations in global and local commodity prices, in addition to foreign exchange rates, can have material, adverse impacts on operations, financial condition and reserves value. A decline in commodity prices presents the greatest single direct risk to a company's revenue, cash flow and earnings.

Operational Risk: Oil and natural gas development involves a high degree of risk, which is managed through a combination of experience, knowledge and careful evaluation. There is no assurance that expenditures made on exploration and development will result in new discoveries or commercial quantities of oil and gas. As well, existing production and processing activities can be impacted by unforeseeable events that can negatively impact production and cash flow. Additionally, controls and regulations may be imposed and amended from all levels of government, presenting immediate material impacts to companies in some cases.

Changes to production deliverability: As ARC's Attachie asset is currently in the early stage of development, adverse changes to well performance, largely in terms of production deliverability and declines, could have material impacts on the future profitability of this asset.

CR

Commodity Prices: Fluctuations in global and local commodity prices, in addition to foreign exchange rates, can have material, adverse impacts on operations, financial condition and reserves value. A decline in commodity prices presents the greatest single direct risk to a company's revenue, cash flow and earnings.

Operational/Regulatory: Oil and natural gas development involves a high degree of risk, which is managed through a combination of experience, knowledge and careful evaluation. There is no assurance that expenditures made on exploration and development will result in new discoveries or commercial quantities of oil and gas. As well, existing production and processing activities can be impacted by unforeseeable events that can negatively impact production and cash flow. Additionally, controls and regulations may be imposed and amended from all levels of government, presenting immediate material impacts to companies in some cases.

Gathering and Processing Facilities and Pipeline Systems: Lack of capacity and/or constraints on gathering and processing facilities, pipeline systems, and in certain circumstances rail, may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas.

KEL

Commodity Prices: Fluctuations in global and local commodity prices, in addition to foreign exchange rates, can have material, adverse impacts on operations, financial condition and reserves value. A decline in commodity prices presents the greatest single direct risk to a company's revenue, cash flow and earnings.

Operational/Regulatory: Oil and natural gas development involves a high degree of risk, which is managed through a combination of experience, knowledge and careful evaluation. There is no assurance that expenditures made on exploration and development will result in new discoveries or commercial quantities of oil and gas. As well, existing production and processing activities can be impacted by unforeseeable events that can negatively impact production and cash flow. Additionally, controls and regulations may be imposed and amended from all levels of government, presenting immediate material impacts to companies in some cases.

Gathering and Processing Facilities and Pipeline Systems: Lack of capacity and/or constraints on gathering and processing facilities and pipeline systems may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas.

TOU

Commodity Prices: Fluctuations in global and local commodity prices, in addition to foreign exchange rates, can have material, adverse impacts on operations, financial condition and reserves value. A decline in commodity prices presents the greatest single direct risk to a company's revenue, cash flow and earnings.

Operational/Regulatory: Oil and natural gas development involves a high degree of risk, which is managed through a combination of experience, knowledge and careful evaluation. There is no assurance that expenditures made on exploration and development will result in new discoveries or commercial quantities of oil and gas. As well, existing production and processing activities can be impacted by unforeseeable events that can negatively impact production and cash flow. Additionally, controls and regulations may be imposed and amended from all levels of government, presenting immediate material impacts to companies in some cases.

Gathering and Processing Facilities and Pipeline Systems: Lack of capacity and/or constraints on gathering and processing facilities and pipeline systems may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas.

TCW

Commodity Prices: Demand, pricing and terms for Trican services depend significantly upon the level of expenditures made by oil and gas companies, which are directly related to the demand for, and price of oil and gas.

Seasonality: Trican operations in Canada are susceptible to weather volatility, as heavy rains, warmer winters and typical "spring break-up" weather can limit access to well sites.

Regulatory: Trican is subject to stringent environmental laws and regulations, some of which may provide for strict liability for damages to natural resources or threats to public health or safety.

PD / PDS

Commodity Prices: With the majority of its business tied to the growth of the oil and gas industry, PD will be a cyclical stock that trades to some degree with the demand for commodities.

Industry Overcapacity: Industry overcapacity due to low levels of activity can result in an oversupply of drilling equipment and idle rigs and crews.

Labour Shortage: PD can periodically experience challenges in attracting qualified workers to staff its assets. This could result in some of the company's fleet sitting idle.

ADDITIONAL COMPANY RELATED DISCLOSURES

ARC Resources Ltd. 2, 3, 4, 5, 7, 9
Crew Energy Inc. 2, 3, 5, 7
Kelt Exploration Ltd. 2, 3, 5, 7
Precision Drilling Corporation 2, 3, 4, 5, 7, 9, 177
Tourmaline Oil Corp. 2, 3, 4, 5, 7
Trican Well Service Ltd. 10
Canadian Natural Resources Limited 9
Topaz Energy Corp. 2, 3, 4, 5, 7

LEGEND FOR COMPANY RELATED DISCLOSURES:

2 National Bank Financial Inc. has acted as an underwriter with respect to this issuer within the past 12 months.
3 National Bank Financial Inc. has provided investment banking services for this issuer within the past 12 months.
4 National Bank Financial Inc. or an affiliate has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.
5 National Bank Financial Inc. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.
6 National Bank Financial Inc. or an affiliate has a non-investment banking services related relationship during the past 12 months.
7 The issuer is a client, or was a client, of National Bank Financial Inc. or an affiliate within the past 12 months.
8 National Bank Financial Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services from this issuer in the next 3 months.
9 As of the end of the month immediately preceding the date of publication of this research report (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), National Bank Financial Inc. or an affiliate beneficially own 1% or more of any class of common equity securities of this issuer.
10 National Bank Financial Inc. makes a market in the securities of this issuer, at the time of this report publication.
11 A partner, director, officer or research analyst involved in the preparation of this report has, during the preceding 12 months provided services to this issuer for remuneration other than normal course investment advisory or trade execution services.
12 A research analyst, associate or any other person (or a member of their household) directly involved in preparing this report has a financial interest in the securities of this issuer.
13 A partner, director, officer, employee or agent of National Bank Financial Inc., is an officer, director, employee of, or serves in any advisory capacity to the issuer.
14 A member of the Board of Directors of National Bank Financial Inc. is also a member of the Board of Directors or is an officer of this issuer.
15 A redacted draft version of this report has been shown to the issuer for fact checking purposes and changes may have been made to the report before publication.

177 An NBF analyst attended a tour of the Nisku Drilling Support Center in Nisku, Alberta on October 3, 2022. A portion of the analyst's expenses were paid for by the issuer.

RATING DISTRIBUTION

	Outperform	Sector Perform	Underperform
Coverage Universe Ratings Distribution	63%	34%	0%
Investment Banking Distribution	62%	58%	33%

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