Crescent Point
ENERGY CORP

CRESCENT POINT ENERGY CORP.

CPG.TO **APRIL 2015**

PORTLAND
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Business Description:

Crescent Point Energy Corp. (CPG) is an intermediate oil and gas exploration and production company based in Canada with large oil-in-place assets in Viewfield Bakken, Shaunavon, Beaverhill Lake and Viking plays in Western Canada (Saskatchewan and Alberta). CPG also owns oil and gas exploration and production rights in the Uinta Basin, Utah. As of December 31, 2014, the company's proved plus probable reserves were at 753.1 million boe (including the recently acquired CanEra and Polar Star) and its production was roughly 155,000 boe per day. More than 90% of CPG's production is oil and natural gas liquids, with balance represented by natural gas. CPG is headquartered in Calgary and, as of December 31, 2013, had 781 employees.

Investment Thesis:

- **Large long-lived exploration and production assets and an abundance of future low-risk drilling locations.** CPG has assets totaling an estimated 18 billion bbls of original oil in place (OOIP), excluding the Torquay field which is in its early development stages, as well as 4.1 million net acres of land. These assets are strategically positioned in four of the top seven medium to light oil resources in Canada. Current proved and probable reserves are 753.1 million boe, while the reserve life index (i.e. how long it would take for the company to recover its reserves at the current production pace) is 13.5 years. The company has 7,650 future drilling locations in its inventory or roughly 12 years worth at the current drilling pace.

- **At the forefront of shale oil drilling technology.** CPG has perfected a 25-stage cemented liner well completion technique which is allowing the company to use up to 45% less water compared to other completion techniques, while improving the overall returns (3x increase in net present value compared to the standard fracking technique) and oil recovery factors. For the company's Viewfield Bakken assets, the estimated ultimate recovery (EUR) per well has improved to roughly 300 thousand bbl per well in core areas of the play for the 25 stage cemented liner completion, compared to about 115 thousand bbl per well for the standard fracking technique. Recently, CPG has become the largest driller of horizontal wells in Canada. In addition, CPG has been using waterflooding to improve oil recovery, leading to a reduction in decline rates by up to 10%. More than 15,000 bbl/d and about 3,500 bbl/d have been subjected to waterflooding in Viewfield Bakken and Shaunavon, respectively.

- **Best in class well economics and operating margins.** Through sustained acquisitions in 2006/2007, CPG became largest player in the Canadian Bakken oil play, which has the strongest break-even economics of any large, light oil play in North America.

  - The company's Viewfield Bakken assets delivered an estimated $900 million of positive free cash flow in 2014. Break-even economics for the field average $41 US/bbl on a mid-cycle basis.
  - CPG's Shaunavon assets, which CPG consolidated through a string of acquisitions in 2009/2010, are turning cash flow positive at a very early stage in their development. Current recovery factor (i.e. how much oil has been recovered relative to the estimated volume of original oil in place) is only 0.8%. Break-even economics for the field average $52 US/bbl on a mid-cycle basis.

  In addition to using the latest completion techniques and implementing waterflooding in key areas, CPG extracts additional value through infill drilling and production optimization.

  Crescent Point is one of the largest user of oilfield services in its areas of operations, which should enable the company to benefit from an expected reduction in rates due to the current oil industry downturn.

- **Proven track record of exploration and production increase success.** CPG increased production per share by 5.3% on average between 2010 and 2014. It has also increased its oil and gas reserves per share by 4.7% over the same period of time.

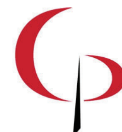
- **High dividend yield and strong management commitment to supporting the dividend.** CPG has committed to paying a stable monthly dividend. CPG has been paying a $2.76 per annum dividend since 2008, being one of the few companies in the oil patch not cutting the dividend during the 2008/2009 financial crisis.

- **Significant growth through acquisitions underpinned by a disciplined approach.** CPG has been focusing its acquisition efforts on accretive large oil-in-place assets with stable production profile and significant development upside. CPG has managed to more than double its reserves by growing the proven and probable reserves of its acquired assets by 385 million boe. CPG is confident in its ability to continue to grow through acquisitions and sees the current energy market downturn as an opportunity. "We look at this time period as a great opportunity to look for consolidation opportunities to further grow the company…", stated Scott Saxberg, the company's CEO in a December 2014 interview. CPG is deliberately shunning opportunities in some of the more competitive US basins (Permian, US Bakken) in favour of bolt-on deals in and around the areas where it currently operates.

- **Capital discipline.** CPG maintains a conservative balance sheet with significant unutilized liquidity facilities. CPG targets a debt to cash flow ratio of approximately 1.0x.

- **Good hedging programs in place and through cycle.** CPG utilizes a 3 – ½ year rolling hedging program for up to 65% of its volumes net of royalties. As of December, 2014, CPG had approximately 50% of its 2015 oil production hedged at an average price of more than $90/bbl. CPG also hedged 22% of its 2016 production.

- **Strength of the management team.** Scott Saxberg, the company's President and CEO, was a founder of CPG in 2001 and has been President since 2003. Greg Tisdale, CFO, and Neil Smith COO have both been with the company since 2003. CPG has consistently exceeded the guidance and consensus expectations on cash flow basis while executing on a significant number of accretive acquisitions.



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- **Significant upside optionality provided by Utah assets and enhanced oil recovery.** CPG considers the Uinta Basin a largely untapped resource. Growth avenues in the play are: improved step-out and development drilling, new completion techniques, enhanced recover techniques (e.g. waterflooding) as well as advanced marketing opportunities. CPG has increased production in its Uinta Basin assets by more than 75% since November 2012 and currently holds in excess of 1,000 net low-risk vertical drilling locations. Delineation drilling is continuing at CPG's Uinta assets. The company initiated horizontal drilling (which allows for faster and higher overall recovery compared to vertical wells) in September of 2014 and is targeting the initiation of a waterflood injection program in early 2016. Multiple drilling zones have been identified, with potential to multiply the size of the reserves in the basin.

- **Introduction of waterflooding has the potential of changing the rates of well production declines by up to 10%.** For CPG, every 1% change in its corporate rate of decline has the potential of saving up to $55 million in capital spending per year.

Industry Growth Drivers/Trends: (Industry: Oil and Gas Exploration and Production)

- **The advent and growth of shale drilling.** In an environment of unusually high oil prices lasting for about a decade, interrupted only by the financial crisis, a number of previously marginal projects moved to the industry mainstream, including: oil and tar sands, deep offshore drilling, arctic drilling and shale drilling.

- **Supply dynamics.** Global oil supply was pegged by the International Energy Agency (IEA), Energy Information Administration (EIA) and the Organization of Petroleum Exporting Countries (OPEC) at 91.7 mbpd to 92.4 mbpd for 2014, 93.0 mbpd to 93.5 mbpd for 2015 and roughly 93.8 mbpd for 2016; which translates into an increase of 1.1 mbpd to 1.3 mbpd in 2015 and roughly 0.5 mbpd in 2016. Chiefly responsible for the growth in supply is the output in the US shale oil, which has grown to roughly 3.5 mbpd from virtually zero a short number of years ago. US shale oil production has been growing at about 1 mbpd over the last couple of years and was expected to grow at a 0.5 mbpd pace going forward.

- **Demand dynamics.** Global oil demand was most recently indicated by the EIA at 91.4 mbpd, 92.4 mbpd and 93.4 mbpd for 2014, 2015 and 2016, respectively. IEA sees global demand at 92.4 mbpd and 93.3 mbpd for 2014 and 2015, respectively; while OPEC factors in a global demand of 91.2 mbpd and 92.3 mbpd for 2014 and 2015, respectively. Global crude oil demand is a function of the global economic growth and, for the near term, most estimates point to a slowdown in growth, in particular across developed markets, but also some emerging markets. Certain countries, most notably the US, are expected to grow at an accelerated pace. Lower energy prices are widely expected to stimulate global economic growth in the near to mid term by increasing travel, trade and providing savings to the average consumer. Major oil importing countries, including the US, naturally, stand to benefit the most.

- **Market in a temporary supply surplus.** Whilst aggregating this type of data with a high degree of accuracy is difficult and data usually has a couple of months lag, there seems to be a consensus view that the global crude oil market will temporarily be in a surplus situation, which is expected to reach 1.4 mbpd to 2.4 mbpd sometime in Q2 of 2015, after which the effect of low oil prices should crimp the supply and start reducing the surplus.

- **Low price elasticity.** Supply of oil usually takes several months to a year to adjust to oil prices as drilling activity is reduced, while oil demand is also experiencing a lag as the consumers do not change their lifestyles overnight. However, markets tend to spot changes in both supply and demand a few months in advance, hence crude oil prices are likely to adjust ahead of the crude markets actually reaching equilibrium. This low price elasticity, coupled with the difficulty in obtaining real-time supply and demand data, explains why commodity prices, oil in particular, have a tendency to overshoot or undershoot relative to movements of stocks in the physical markets.

- **The role of OPEC.** OPEC has traditionally been the global swing producer and protector of oil price stability due to its estimated 2 mbpd to 3 mbpd spare capacity, the lion share of which resides with Saudi Arabia. However, under Saudi Arabia's leadership, on November 27, 2014, OPEC has renounced its role in hopes of stopping the growth in US shale production; which initially had the effect of dramatically reducing oil prices as well as creating dissension within the cartel.

- **Price differentials.** A function of quality and ease of access to markets, various crude types trade at differentials (premium or discount) to the major crude benchmark prices, such as the West Texas Intermediate (WTI). As production increased in Western Canada, the bottlenecked infrastructure led to significant discounts for Western Canadian crude to the benchmark, exceeding 25% at times. Subsequent to a number of recent initiatives, including pipeline reversals and additions and increased rail capacity, differentials have been reduced.

Competitive Advantages:

- Technological innovation (e.g. cemented liner completion technique) improves company's cost competitiveness.
- CPG is a sizeable operator in most of the oil plays in which it owns assets (e.g. largest operator in Viewfield Bakken), which allows CPG to extract benefits of scale and preferential access to infrastructure.
- Strong balance sheet facilitates access to competitive financing.

Competitors:

- Large integrated oil companies: Suncor Energy Inc., Husky Energy Inc., Imperial Oil Limited, etc.
- Exploration and production companies of all sizes: Canadian Natural Resources Limited, Talisman Energy Inc., Baytex Energy Corp., Penn West Petroleum Ltd., etc.

Customers:

- CPG has endeavored to diversify its customer base, which sometimes includes industry peers, through investments in oilfield and marketing infrastructure, including storage tanks, pipeline and rail capabilities.

Barriers to Entry:

- **Capital outlays:** Oil and gas exploration and production is a capital intensive industry, which requires significant upfront outlays. Access to financing is generally restricted to operators with an existing track record.
- **Availability of prospective land and drilling licenses:** Prospective land is a finite resource and competition for the most promising sections of land is fierce.
- **Technological expertise:** Today's oilfield economics only allows for the most technologically capable operators to succeed. A newcomer would have a hard time breaking even while striving to advance on the technological learning curve.

Officers and Directors:

- **Leadership team:** Non-Executive Chairman, Peter Bannister; President and Chief Executive Officer, Scott Saxberg; Chief Financial Officer, Greg Tisdale; Chief Operating Officer, Neil Smith;

Corporate Governance:

- **8 member board** – of which 7 are independent directors.
- CPG's recent community initiatives include setting up scholarships for the Ute Tribe at the Uintah Basin Applied Technology College and Utah State University, pairing Olympic athletes with school kids in its operating areas through Classroom Champions organization, and renovating the Crescent Point Kidz Zone at Calgary's Inn From The Cold.
- CPG's key management personnel were paid a total remuneration (including share based compensation) equivalent to 2.3% of EBITDA for the year ended December 31, 2013.

Ownership:

- Insiders own roughly 1.0% of outstanding shares. Institutions own 48.0% of outstanding shares. Notable holders include: 1832 Asset Management 3.6%, Capital World Investors 2.8%, RBC Wealth Management, International 2.5%, RBC Global Asset Management 2.2%, TIAA-CREF (US teachers pension plan) 1.7%.

Capital Allocation/Uses:

- CPG spent $1.7 billion in capital expenditures in 2013 and $2.0 billion in 2014. 80% of the drilling budget for 2014 was allocated to the company's key four oil plays: Viewfield Bakken 30%, Shaunavon 22%, Torquay 13% and Uinta Basin 15%.
- CPG reduced its capital expenditure program to $1.45 billion for 2015 from its previously guided $2 billion to preserve its balance sheet, while maintaining the operational momentum. Some 88% of its budget will be allocated to production drilling and well completions, up from roughly 75% to 80% in prior years, offset by a reduction in development expenditures. The established Viewfield Bakken and Shaunavon oil plays will benefit from most of the spending. In response to the current low oil price environment, CPG has chosen, as expected, to high-grade its projects from its ample drilling inventory as well as to re-frac some of its wells and optimize its production costs. CPG maintained flexibility in its capital allocation near term, to be able to respond to further changes, either up or down, in oil prices.
- CPG has spent around $1.3 billion since 2006 on infrastructure assets (not accounting for asset acquisitions), which supports efficient long-term growth of production and reserves. The company owns and operates 62.5 mmcf/d of gas processing capacity, 540 oil batteries, four 60,000 barrel oil storage tanks, 70,000 bbl/d of rail capacity and 8,050 miles of pipeline.
- CPG has committed to paying a stable monthly dividend. CPG has been paying a $2.76 per annum dividend since 2008. The total amount of dividends declared in 2013 amounted to $1.08 billion. CPG also offers a dividend reinvestment plan (DRIP) which in 2013 raised $659 million; as such, the company's cash dividend costs were roughly $420 million.
- As at September 30, 2014, CPG had net debt of $2,774 million, including $1,631 million of senior notes maturing from 2015 to 2024 as well as $951 million drawn from a $2.6 billion bank liquidity facility which will expire in 2017.
- CPG raised roughly $800 million through a bought deal financing in September of 2014.

Glossary and Abbreviations

bbls – barrels

bbl/d – barrels per day.

boe – barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 Mcf of natural gas.

Estimated ultimate recovery – An approximation of the quantity of oil or gas that is potentially recoverable or has already been recovered from a reserve or well.

Fracking – The process of injecting liquid at high pressure into subterranean rocks, boreholes, etc., so as to force open existing fissures and extract oil or gas.

Horizontal drilling – A subset of the more general term "directional drilling", used where the departure of the wellbore from vertical exceeds about 80 degrees.

Infill drilling – The addition of wells in a field that decreases average well spacing.

Mboe – thousand barrels of oil equivalent.

mmcf/d – million cubic feet per day.

mbpd – million barrels per day.

Oil battery – A portion of land that contains separators, treaters, dehydrators, storage tanks, pumps, compressors and other surface equipment in which fluids coming from a well are separated, measured or stored.

Oil resource play – An area in which hydrocarbon accumulations or prospects of a given type occur.

Original oil in place (OOIP)– The amount of crude first estimated to be in a reservoir.

Probable reserves – Those additional reserves that are less certain to be recovered than proved reserves.

Proved reserves – Those reserves that can be estimated with a high degree of certainty to be recoverable.

Shale oil – Oil obtained from bituminous shale.

Step-out well – A step-out well is a type of exploratory well drilled outside of the known reservoir to search for an extension of the reservoir or even a new nearby reservoir.

Well completion – A generic term used to describe the assembly of downhole tubulars and equipment required to enable safe and efficient production from an oil or gas well.

Waterflooding – A method of secondary recovery in which water is injected into the reservoir formation to displace residual oil.

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Financial Statement Summary (Years ended December 31):

	2010	2011	2012	2013	2014*
Key Operating Metrics and Ratios					
Production (average daily - boed)	61,600	73,800	98,750	120,000	140,000
Reserves (Proven and Probable - Mboe)	380,000	425,000	609,000	664,000	753,000
Cash Flow ($m)	883.00	1,293.00	1,601.00	2,047.00	$2,408
Cash Flow per Share (Diluted)	$3.70	$4.65	$4.83	$5.28	$5.72
Operating Net-Back	$43.29	$51.36	$47.65	$49.91	$50.39
Income Statement					
Total Revenue	1,159.37	1,734.18	2,394.89	2,882.82	3,459.91
EBITDA ($m)	771.22	1,266.87	1,769.74	2,138.86	2,512.08
EBITDA margin	66.52%	73.05%	73.90%	74.19%	72.61%
Dividend per Share	$2.76	$2.76	$2.76	$2.76	$2.76
Dividend Payout Ratio (Cash Flow)	74.59%	59.35%	57.14%	52.27%	48.25%
Balance Sheet					
Net Debt ($m)	1,116	1,220	1,760	2,077	3,191
Total Equity ($m)	5,492	5,857	8,595	8,500	10,161
Debt/Cash Flow	1.3x	0.9x	1.1x	1.0x	1.3x
Interest Coverage	13.0x	21.0x	24.7x	27.5x	24.2x
Cash Flow Statement					
Operating Cash Flow ($m)	816	1,323	1,544	1,973	2,456

*2014 information not available at time of publishing.

Sourced from Thomson Reuters and Company Reports

Any references to "dollars" or "$" are to the Canadian dollar, unless otherwise indicated.

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