

PALOS

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Weekly Commentary

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Tamarack Valley Energy Ltd. – Growth & Sustainability

Tamarack Valley Energy (TSX: TVE) is a Canadian oil and natural gas exploration and production company with operations based in the Western Canadian Sedimentary Basin. Tamarack’s core portfolio includes large light oil reserves in the Viking and Cardium “oil plays” situated in Central Alberta and Western Saskatchewan. The company also utilizes an enhanced oil recovery (EOR) technique called **waterflooding** (i.e. water injection) to create pressure in the oil reservoir which forces oil to the wells. Depending on the type of rock formations in the reservoir, waterflooding can be an economical and effective way of increasing the productive life of a well. Tamarack’s waterflood assets include the highly regarded Clearwater heavy oil play.

Since mid-2020, the company has made four acquisitions of which two are in the Clearwater. These additions include the acquisition of **Woodcote Oil** (private) and its 100% operating interest in the Greater Nipisi area for C\$43 million (C\$32 million in cash + C\$11 million in TVE stock). Tamarack also purchased a working interest in **Surge Energy**’s Provost/Nipisi area properties for C\$ 106 million. The two acquisitions include roughly 2.8 thousand BOE/day of low decline oil-weighted assets and about 38,000 net acres in the Clearwater. To help finance the deals, TVE issued 30.3 million shares at a price of C\$2.25 per share in a bought deal that closed on March 22.

The company’s strategy is focused on assembling a portfolio that is characterized as low risk assets with long reserve life and a sustainable cash flow profile. The Tamarack team uses their time-tested modelling processes to identify those opportunities. In addition, the company has demonstrated an ability to maintain balance sheet strength, manage an effective hedging program, and grow assets through opportunistic acquisitions.

The company is also recognized for its leading ESG practices (environmental, social and governance) and Tamarack released its inaugural **Sustainability Report** in October of 2020. In the report, management highlights the company’s progress with regards to ESG practices and a commitment to act responsibly and with transparency throughout the organization. Important initiatives include reducing greenhouse gas emissions, water management/environmental impact, ethical governance, and stakeholder engagement -

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which includes engaging First Nations on partnerships, cultural initiatives and employment opportunities. As mentioned in our October series on ESG (see funds.palos.ca/news/), ESG matters are garnering greater attention and scrutiny from the investment community. As we look to the future, effective and impactful sustainability programs will certainly play an integral role in reducing organizational risk as well attracting capital and investors.

The **Palos Income Fund LP** and the **Palos Equity Income Fund** have been shareholders in TVE since our initial purchases in November of 2020. At that time, we were able to acquire shares at very attractive prices between C\$0.83 to \$0.95. In hindsight, our timing was fortunate as the stock broke out to the upside in early December and rallied to a 52-week high of \$2.46/share on March 3, 2021 (a gain of approximately 198% from the initial November purchase). Palos participated in the March bought deal at \$2.25 thus increasing our position. We continue to view Tamarack as an attractively priced asset with an excellent risk/reward profile complemented by its key exposure to the highly promising Clearwater play.

Further adding to our positive outlook is the strong pricing we are seeing in the energy space with WTI Crude more than doubling since the May 2020 low. The energy sector has been the best performing sector year-to-date with the Canadian oil patch performing exceptionally well. Further, with the worst of the pandemic likely in the rear-view mirror, massive economic stimulus programs combined with pent up consumer demand will surely and significantly boost economic activity. The forces of higher demand and challenged supply could drive oil prices beyond current levels over both the short and medium term.

Early this morning (April 12) Tamarack announced an agreement to acquire **Anegada Oil Corp.** (private) for a net consideration of C\$454 million in cash and TVE shares. The Anegada addition will give TVE a strategic position in the highly economic **Charlie Lake** light oil play. The deal will include a strategic ownership in four gas plants, nine multi-well batteries and 260km of pipeline. Management expects the deal to deliver additional production of approximately 11,800 BOE/day and includes the addition of over 200 highly economic drilling locations. The deal is subject to regulatory and TVE shareholder approval. Tamarack Valley is scheduled to report Q1/2021 earnings on May 4, and we will be monitoring this event closely.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.56	9.30%
Palos Equity Income Fund - RRSP	PAL101	\$7.09	11.13%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$24.09	50.92%
Palos-Mitchell Alpha Fund ³	PAL300	\$12.05	1.22%
S&P TSX Composite (Total Return with dividends reinvested)			11.21%
S&P 500 (Total Return with dividends reinvested)			10.38%
S&P TSX Venture (Total Return with dividends reinvested)			9.63%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.66%
Canadian Government 10-Year			1.50%
Crude Oil Spot			US \$59.32
Gold Spot			US \$1743.30
US Gov't10-Year/Moody BAA Corp. Spread			200 bps
USD/CAD Exchange Rate Spot			US \$0.7981

¹ Period ending April 9, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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