

# PALOS

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## Weekly Commentary

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By *Charles Marleau CIM<sup>®</sup>* and *William Mitchell CIM<sup>®</sup>*

## Tamarack Valley Energy Ltd. – Update

In the fourth segment of our series on companies operating in the Canadian oil patch, we are providing an update on **Tamarack Valley Energy** (TVE: TSX). TVE is a Canadian oil and natural gas exploration company with operations focused in core areas. With an emphasis on oil, core areas of operation include Charlie Lake (NE Alberta Light Oil), Cardium & Spirit River (SW Alberta Light Oil/Gas), Waterflood (SE Alberta Light & Medium Oil), and the Clearwater play (Central Alberta Medium Oil). We recently wrote about TVE (April 12: Issue No. 15) in which we discussed the company's profile and acquisition activity.

TVE reported Q1/2021 results on May 5. Average production of 23.9 mboe/d (a 2% increase over Q1/2020) and funds flow of \$41.2 million (\$0.16/share) which were in line with expectations. The company invested \$48.7 million in exploration & development (E&D). Forty-four wells were drilled with a significant share of capital allocated to the Viking waterflood program delivering 91% growth over Q1/2020 volumes.

In the Clearwater, 16 wells were drilled at a faster than planned rate and production volumes exceeded expectations at 4,000 bbl/d (barrels per day). The outperformance was a result of better well results and lower than expected costs. Further expansion of the Clearwater drilling program is expected to ramp production to over 5,000 bbl/d. The Clearwater play is receiving greater attention as one of the most prolific plays in the Western Canadian basin.

In our April 15 report we mentioned the announced acquisition of privately held **Anegada Oil**. On April 28, the deal received shareholder consent and on May 4 TVE received regulatory approval from the Competition Bureau to proceed. As a result, a special meeting of shareholders is not required, and the acquisition is expected to close by the end of this month. The Anegada deal will add production of approximately 11,800 boe/d.

TVE management is focused on stabilizing base production, diversifying the asset base, maintaining a large inventory of drilling locations, and prudently managing the balance sheet. Risk is managed through low leverage and a commodity price hedging program that targets 50% hedged. Operational costs and capex are declining which reduces break-even pricing. Debt levels continue to plummet and although tuck-in

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acquisitions will remain part of the plan, in a scenario with no further acquisitions, we can imagine TVE as “debt free” by 2023.

The **Palos Income Fund LP** and the **Palos Equity Income Fund** currently hold shares in Tamarack Valley. The company has a market cap of C\$800 million and \$100 million Pro-Forma when including acquisitions. TVE does not pay a dividend. We began accumulating TVE shares with an initial position taken on November 11, 2020 at \$0.95 per share. At the close of trading on May 28, TVE shares were priced at \$2.55/share, which translates to an impressive gain of 168%.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.82	14.62%
Palos Equity Income Fund - RRSP	PAL101	\$7.31	14.90%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.35	46.31%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.95	13.50%
S&P TSX Composite (Total Return with dividends reinvested)			15.15%
S&P 500 (Total Return with dividends reinvested)			12.61%
S&P TSX Venture (Total Return with dividends reinvested)			10.44%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.59%
Canadian Government 10-Year			1.50%
Crude Oil Spot			US \$66.32
Gold Spot			US \$1902.50
US Gov't10-Year/Moody BAA Corp. Spread			198 bps
USD/CAD Exchange Rate Spot			US \$0.8280

<sup>1</sup> Period ending May 28, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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