

# PALOS

## CONTENTS

## Weekly Commentary

Issue No. 38 | SEPTEMBER 19, 2022

Tamarack Valley: Expanding its Clearwater Footprint	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

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## Tamarack Valley: Expanding its Clearwater Footprint

In March we wrote about two Canadian small cap companies that operate in Canada's Clearwater oil play, namely, Rubellite Energy (issue 11, Rubellite Energy Inc. – The New Kids on the Clearwater Block, Mar. 14, 2022) and Headwater Exploration (issue 13, Headwater Exploration – Huge Potential in the Clearwater, Mar. 28, 2022). The Clearwater basin, which is situated in the heart of the Western Canadian Sedimentary Basin (WCSB), has been labelled as the most economic play in North America with wells that payout in less than six months at current oil prices with breakeven at US\$ 32 per barrel for West Texas Intermediate crude (WTI).

On September 12, **Tamarack Valley Energy Limited (TSX: TVE)** announced that it had entered into an agreement to acquire Deltastream Energy Corporation (private) for a total consideration of \$1.425 billion. The acquisition consists of \$825 in cash, a \$300 million deferred acquisition payment and \$300 million in TVE shares consisting of 80 million shares at a price of \$3.75 per share. The cash portion will be financed through Tamarack's sustainability-linked revolving credit facility, secured loans and a \$125 million equity offering.

According to Bill Slavin, Managing Director of ARC Financial, "the Deltastream business is concentrated in the heart of the Clearwater" and with this acquisition Tamarack Valley will become the largest producer in the Clearwater with an "exceptional combined asset base". Mr. Slavin further commented that Tamarack's "highly respected management team" possesses a "demonstrated track record of prudent balance sheet management and capital discipline" and takes a "proactive approach to the environment, Indigenous partnerships and ethical governance"; ARC Financial is a shareholder in TVE.

This combination will generate several operational synergies including improved economies of scale, infrastructure consolidation, more efficient deployment of capital and improved road access to the oilfields. Deltastream is expected to add additional production of approximately 23,000 barrels of energy per day (boe/d). Including the acquisition, forward guidance for next year suggests average production of 68,000 to 72,000 boe/d and EBITDA of \$1.2 to \$1.4 billion. The Deltastream portfolio will augment TVE's portfolio of high-quality, long-life drilling locations.

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Following the closing of the deal (October 2022), TVE will increase the quarterly dividend by 25%. Once the debt target of between \$900 million to \$1.1 billion has been achieved, management intends to allocate 25% of excess funds flow to buying back shares and/or special dividend payments to shareholders. Returns to shareholders will increase to 50% of excess funds flow once debt target of between \$500 million to \$900 million has been achieved.

At the closing bell on Friday Sept. 19, TVE shares were trading at \$4.08 per share, 8.8% above the deal price of \$3.75. Brian Schmidt, President & CEO of Tamarack, commented that “Deltastream solidifies Tamarack as the largest producer in the Clearwater oil fairway”. Mr. Schmidt added that Deltastream brings “leading economic development drilling inventory” of “high-quality, long-life assets” and that the strategic acquisition will drive “increased long-term value creation for our shareholders”. The **Palos Income Fund**, the **Palos Equity Income Fund** and the **Palos-Mitchell Alpha Fund** are shareholders of TVE.

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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	\$8.50	-9.69%
Palos Equity Income Fund - RRSP	PAL101	\$6.50	-9.55%
Palos Merchant Fund L.P. (Dec 31, 2021) <sup>2</sup>	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$13.78	-27.09%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.59	-16.48%
S&P TSX Composite (Total Return with dividends reinvested)			-6.68%
S&P 500 (Total Return with dividends reinvested)			-17.81%
S&P TSX Venture (Total Return with dividends reinvested)			-32.87%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.45%
Canadian Government 10-Year			3.14%
Crude Oil Spot			US \$85.11
Gold Spot			US \$1,672.80
US Gov't 10-Year/Moody BAA Corp. Spread			212 bps
USD/CAD Exchange Rate Spot			US \$0.7539

<sup>1</sup> Period ending September 16th, 2022. Data extracted from Bloomberg

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

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



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