

Weekend Alternative Narrative

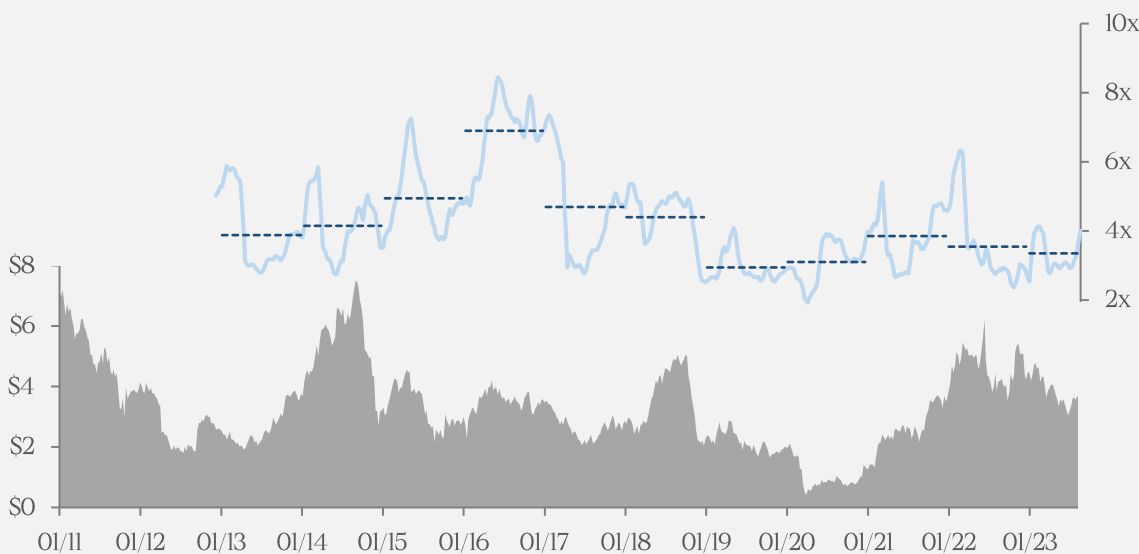
Peaks and Valleys – August 20th, 2023

Tamarack Valley has been in the spotlight recently, among the crowd looking for value as commodity prices start to move higher, and while we believe that there is little remaining upside to a medium-term price outlook, there are some equities that offer a constructive way to play a peer-group catch up – and we question if Tamarack is truly one of them. While they made quite the splash last year with their Deltastream acquisition, we believe that, no matter the quality of the asset, the superfluous debt and equity issued in conjunction with the transaction (i.e. the substantial amount they overpaid, relative to the next rumoured bidder) as a significant overhang, and continued per-share growth, that is frankly unexciting, may be the reason for their stagnation in recent months, even moreso as they struggle with their Cardium asset sale.

While the narrative in recent months has been management's dedication to growing per share metrics, the clearing of ARC Financial's share lockup (if they sell, with their block received in conjunction with the Deltastream transaction), and the incoming year end reserves revision upwards – we see little reason for that not to be “priced in” to the stock – especially considering how widespread and well known these potential catalysts are.

When we look back at what Tamarack has historically been priced at (see fig. 1), they, for the past 5 years, have traded consistently around 3-4x EV/DACF – so far this year, they have averaged 3.7x EV/DACF. Excluding 2016, the highest they've traded is just shy of 5x EV/DACF – and we don't see any reason for the stock to re-rate that much higher. So, value now is coming entirely from growth, something that management has struggled to execute on a per-share basis. We like their assets and they are above average when

(Fig. 1) Tamarack Valley Historical Share Price and EV/DACF



Source: Bloomberg, HTM Analysis

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | \$106.06 (-1.3%)
Bonny Light | \$117.17 (-3.9%)
Synthetic | \$113.30 (-2.5%)
WCS | \$85.70 (-5.6%)

USD Priced Liquids

LLS | \$84.35 (-1.6%)
MEH | \$82.80 (-2.4%)
NYMEX | \$81.25 (-2.3%)
WTI FOB | \$82.50 (-0.8%)

CAD Priced Gas

AECO | \$2.63 (-14.0%)
Alliance | \$2.31 (-17.7%)
Empress | \$2.63 (-15.3%)
Station 2 | \$2.64 (+23.9%)

USD Priced Gas

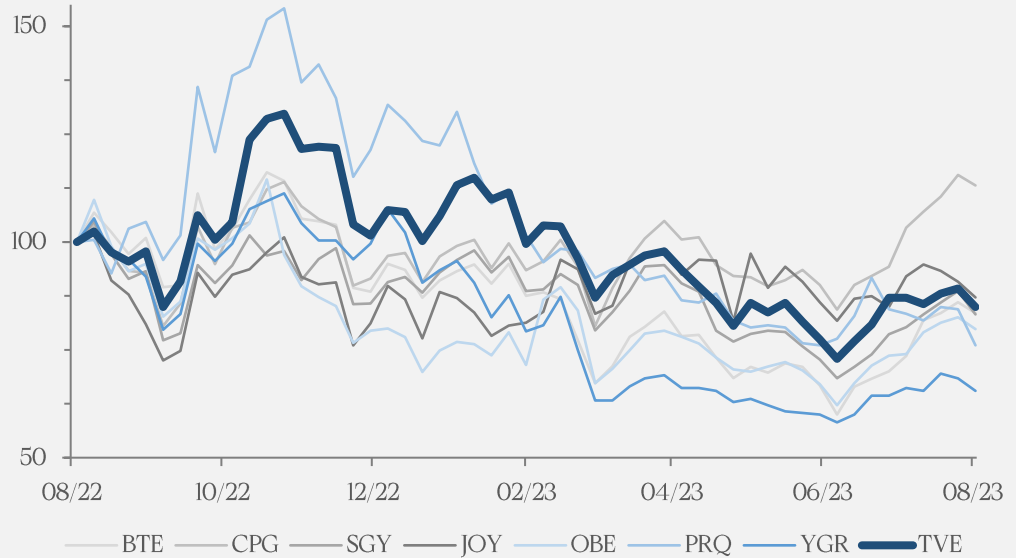
Dawn | \$2.30 (-10.3%)
Houston | \$2.43 (-9.3%)
Malin | \$3.45 (-16.6%)
PG&E | \$5.20 (-8.8%)
SoCal | \$5.74 (+16.0%)
Waha | \$2.14 (-12.0%)

compared to their peer group, we again have to question if current management, and their proclivity to pivot the business, are the right stewards? Also, we emphasize the issue with using YTD performance as a base for a catch-up trade. While indeed, Tamarack has lagged peers YTD, on a lyr basis, they are exactly in line with peers (actually, pretty much dead on the average) – and that’s with a massive share issuance, and a deal that at current we model it as marginally accretive – that is quite impressive, considering the significant disdain the market has shown towards equity issuance.

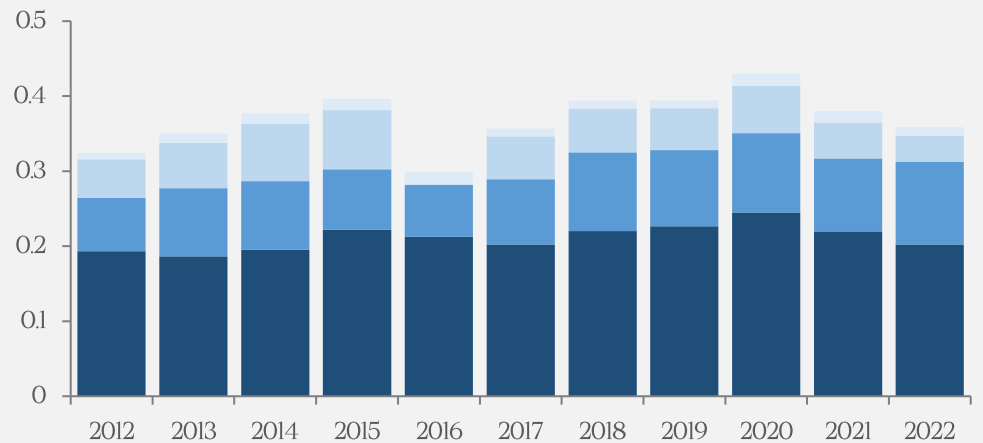
Tamarack does a lot of things really right – like focusing on margins, building infrastructure to save on transport and processing costs, consolidating positions (when they don’t overpay) to drive location efficiencies, and driving lower decline rates with waterflood testing, improvement, and implementation – but we see that these very positive efforts are often overshadowed by the compulsive acquisitions they make every few years which slams shares into the market and generally resets their progress. Between 2012-2014 and 2016-2018 they had effectively grown per share metrics on two occasions in a flat price environment (reference fig. 3-6), and it’s no surprise that the step-change lower in EV/DACF multiple, on both occasions, generally coincided with

the end in prudent, careful growth, and the release of a new, major acquisition that, sure, could be accretive, but perhaps not interpreted as thoughtfully adding to the overall corporate theme/story.

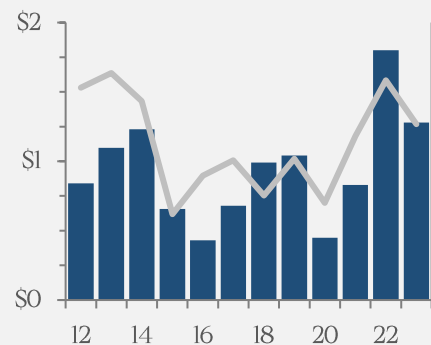
(Fig. 2) Tamarack Valley lyr Peer Performance (Indexed to 100)



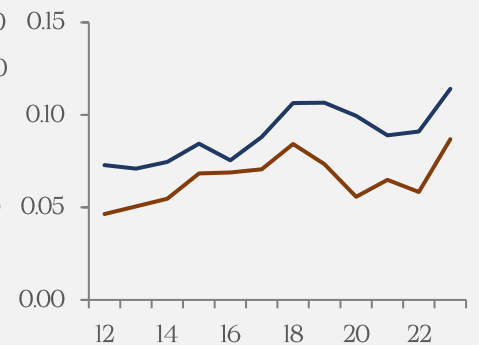
(Fig. 3) Tamarack Valley Reserves Per Share (boe)



(Fig. 4) CFPS & NYMEX WTI



(Fig. 5) PPS & DAPPS (boe/d)



Source: Bloomberg HTM Analysis

While management has certainly marketed the year end reserves revision upwards – this is something we’ve seen before from management – like many other CEOs, the marketing of deals is nothing new for Tamarack (see, Surge’s almost repeat marketing sound bytes) – it is accretive, grows cashflow per share, fits into the five year plan, sure

“ We expect to get 17.6 million barrels from the asset. We’ve done some detailed reservoir modeling and we feel that we’re going to get easily 10.5% secondary recovery on waterflood. Now, you’ve got 0.5% booked. You’ve got 10.5% that you expect. That’s 100 million barrels of reserves that we expected to book on this. That’s all oil, and the 100 million barrels, if you look at my whole company, including the gas, is about 100 million barrels of reserves. So, this is going to be a significant part of the company reserves going forward.

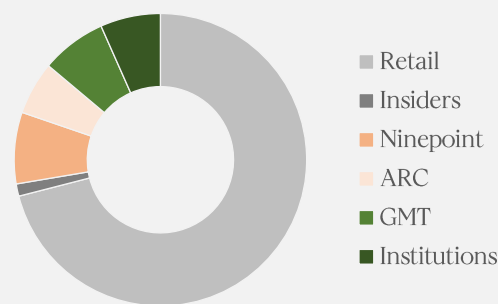
– Brian Schmidt, Tamarack Valley CEO on the company’s Spur acquisition, quote date 08/2019

everything is fine, but it lacks purpose. On one hand, Tamarack has done a great job moving from a Viking producer (while, you can make it work, the wells payout at best 1.5x) to a land base that is higher quality on a rate of return basis – on the other hand they have paid a lot to do so. On a locations (booked and unbooked basis) they’ve gone from ~380 in 2016 to ~1,070 today. Though the share count, and production (thus RLI) have increased proportionally as well. Their 3yr average FD&A cost laps peers, only beat by Baytex, and the correlation between EV/DACF and liquids FD&A is clear – higher cost, lower multiple. Really, for Tamarack to rerate meaningfully higher, you have to truly believe in significant reserve additions coming at the end of this year, that will lower their finding costs, and improve their recycle ratio – naturally hesitant to say reserve additions that will lower trailing 3yr average FD&A, along with boost NAV significantly are coming. We would be looking for 30-50mb of additions to say that Tamarack is in deep value territory. Note, the touted

Spur additions never really showed up in reserves. Already on a EV/2P PVI0 basis, Tamarack is more expensive than all of its peers (though about in line on an EV/DACF basis), and we would like to see reserve additions to simply bring them back in line on a NAV basis. Though the upcoming Cardium asset sale may be underwhelming, we are neutral on the basis of, it’s simply extinguishing the Deltastream leverage, though is upgrading the general portfolio. While it’s been on the market for a while, and stalled out, we see further opportunity for Tamarack to include perhaps less productive Clearwater acreage in any potential package, and we hope they do. While there are many options for “we buy assets for a lower multiple than our paper” type shops – a view that Tamarack doesn’t do anything meaningfully unique on an aggregate basis, would be appropriate. While parts of their business are quite stellar compared to peers, other parts (like management’s trigger happy M&A habit) are less stellar. To note, we think that 10% of the shares out are at risk of hitting the market, as we believe it to be possible that both Ninepoint and ARC Financial sell into strength.

Finally – it is rumoured that Brian Schmidt, the current CEO will be retiring in 2023, or 2024 – with CFO Steve Buytels taking over. We viewed Buytels addition to the company as positive, though believe that Tamarack needs a strong technical leader. Through management changes, equity prices tend to lag, and this may be contributing to Tamarack’s lackluster performance. Overall, we see there being a valid argument that short term Tamarack weakness is justified.

(Fig. 6) Tamarack Ownership Breakdown



Source: FactSet, HTM Analysis