Varcoe: From small junior to 'big-boy' company: Tamarack acquiring Headwater in $3.2B deal

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'It's pretty staggering to see Tamarack Valley, that were 5,000 barrels a day, go to 80,000 barrels a day'

Tamarack Valley Energy announced a $3.2-billion acquisition of Headwater Exploration on Tuesday — the biggest transaction in the company's history — becoming the largest producer in the growing Clearwater formation in Alberta.

Founding Tamarack CEO Brian Schmidt also announced his plans to step aside as chief executive on Jan. 1 and become executive chair of the board, while company president Steve Buytels will move into the CEO's chair of the combined entity.

For Schmidt, growing the company from a small junior operator to soon having 80,000 barrels of oil (boe) equivalent per day — becoming one of the largest conventional producers in Western Canada — wasn't really in the plans when Tamarack Valley was formed in 2009.

"Back then, it was probably build it to 5,000 barrels a day and sell it, but that model kind of disappeared when the royalty trusts left and that model didn't work as well. So then we shifted to a company built to last," Schmidt said in an interview.

"We wanted to be in the best plays and the best economics and deliver the best shareholder return, and that's what led us to the Clearwater, and it's an outstanding play."

Under the merger announced Tuesday, Headwater Exploration investors will receive one share of Tamarack for each of their common shares, and they will collectively own about one-third of the merged business. The two Calgary-based companies will have a combined enterprise value of $10 billion.

Headwater produced about 25,000 boe per day during the second quarter. Tamarack's output is about 55,000 boe, after it sold off its Charlie Lake assets in Alberta last May for $804 million, along with 18,000 boe per day of production.

It helped Tamarack shift into becoming a pure play Clearwater producer.

"Tamarack is creating a $10-billion-plus enterprise value company here that is a very big-boy type company," said David Szybunka, senior portfolio manager with Canoe Financial, which owns shares in both companies.

"It's pretty staggering to see Tamarack Valley, that were 5,000 barrels a day, go to 80,000 barrels a day."

Tamarack will be the largest Clearwater producer once the deal closes. The deal is expected to lead to annual cost savings topping $50 million.

"This merger is an exceptional fit for these two companies," Buytels said on a conference call. "The land bases are highly contiguous across our core development areas."

Investors in Tamarack and Headwater will also own a stake in newly formed junior company Tributary Exploration, which will be led by Headwater's management team — including CEO Jason Jaskela and executive chair Neil Roszell.

It will have exploration assets in Alberta and Saskatchewan, and gas production in New Brunswick.

Before launching Headwater in 2020 (it was previously known as Corridor Resources), Roszell and the management team developed and sold Raging River Exploration to Baytex Energy Corp. for $2.8 billion in 2018.

Shares in Tamarack closed up 3.3 per cent to $13.80 on the Toronto Stock Exchange, while Headwater's shares dipped 1.3 per cent Tuesday to close at $14.03.

The deal is the largest transaction in Tamarack's history, as it previously acquired private producer Deltastream Energy Corp. for $1.4 billion four years ago, expanding its presence in the Clearwater oil play in north-central Alberta.

The Clearwater, a conventional play, has long-life medium and heavy oil wells, doesn't require fracking, and companies can increase production through water-flood recovery methods, analysts note.

According to a report last month by RBC Capital Markets, production in the Clearwater is slightly above 200,000 barrels per day — led by Spur Petroleum, Tamarack Valley, Baytex Energy and Headwater — growing from less than 75,000 boe a day five years ago.

Overall growth in the formation "has hit a point of moderation, with volumes remaining largely stable during the first half of 2026," the report stated. The Clearwater has among the lowest break-even costs for wells in the Western Canadian Sedimentary Basin, it noted.

"It's a very high-quality play . . . it's clear that there will be economies of scale by bringing these two businesses together," said analyst Patrick O'Rourke with ATB Cormark Capital Markets.

"They've created a larger, more meaningful entity that's starting to hit the thresholds of (having) global capital access."

Indeed, the size of producers matters as industry consolidation picks up steam, cash flow levels are strong, and oil prices remain high, with West Texas Intermediate crude topping US$93 a barrel on Tuesday.

"It would be impossible to find a better overlap in terms of assets, and so it just makes sense for those two entities to naturally come together," said Eric Nuttall, a senior portfolio manager with Ninepoint Partners, which is an investor in Tamarack.

"A larger scale market cap will attract more investors."

During the first six months of last year, merger and acquisition activity by Canadian oil and gas producers hit $15.5 billion, on its way to an eight-year high of $31.6 billion, according to data from Sayer Energy Advisors.

This year, the total has already topped $30 billion, edged higher by the Tamarack-Headwater deal, said Tom Pavic, president of Sayer Energy Advisors.

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