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Varcoe: Tamarack Valley boosts presence in Clearwater play with \$1.4B takeover of Deltastream

The deal expands Tamarack's footprint in the growing Clearwater heavy oil play in north-central Alberta, building on several smaller purchases

Chris Varcoe • Calgary Herald

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Oil prices have tumbled from the dizzying heights seen earlier this summer, but industry deal-making continues to percolate as private companies are sold during a buoyant period.

On Monday, Calgary-based petroleum producer Tamarack Valley Energy Ltd. announced the biggest takeover in its history, agreeing to acquire private producer Deltastream Energy Corp. in a transaction valued at \$1.4 billion.

Tamarack will buy Deltastream, which produces about 19,500 barrels of oil equivalent (boe) per day, for \$825 million in cash, along with \$300 million in shares and \$300 million in a deferred acquisition payment.

The deal expands Tamarack's footprint in the growing Clearwater heavy oil play in north-central Alberta, building on several smaller purchases.

"I've been in this business a long, long time and I've never seen an opportunity come up like Deltastream. To get in the best play in North America and in the core of the best play, it's just phenomenal," Tamarack Valley CEO Brian Schmidt said in an interview.

"It positions us to grow from there."

A study by BMO Capital Markets last year noted the Clearwater play is well suited to small and mid-sized producers because of its "significant running room, low capital costs, rapid recycle times, low declines and secondary recovery opportunities."

According to a recent report by RBC, oil volumes from the Clearwater play in central Alberta topped 91,000 boe per day in June and have grown by six per cent monthly over the past year.

Tamarack said the Clearwater ranks as North America's most economic play, with oil wells drilled now paying out in less than six months at today's prices.

The company plans on increasing its production from the Deltastream properties to about 23,000 boe per day next year.

"Tamarack has been an active consolidator in the play and Deltastream was the big prize to win this year," analyst Adam Gill of Paradigm Capital said in an e-mail.

After the deal closes, Tamarack expects its total production will average about 70,000 boe per day next year, up from 44,000 boe a day in the second quarter.

The Deltastream deal is the latest in a string of oilpatch takeovers this summer, coming after commodity prices jumped following Russia's invasion of Ukraine in February.

Last month, Strathcona Resources agreed to pay \$2.3 billion to acquire Serafina Energy, another privately held heavy oil producer.

Public companies have also been active sellers.

Whitecap Resources acquired XTO Energy Canada from Imperial Oil and ExxonMobil for \$1.9 billion in June.

Total M&A activity in the Canadian oil and gas sector is pegged at \$10.4 billion so far this year, according to Sayer Energy Advisors.

After several tough years in the sector, investors in privately held firms are seeing an opportunity to sell, said Sayer president Tom Pavic.

"They are looking for liquidity," Pavic said. "This spiking commodity price has opened the window to get some liquidity for their shareholders."

Deltastream, founded in 2014 to develop conventional heavy oil plays in Alberta, is more than 85 per cent owned by Calgary-based ARC Financial.

Deltastream CEO Roger Tang noted investors will also receive stock in Tamarack Valley that will give them a stake in the upside of the Clearwater.

Roger Tang, CEO of Deltastream Energy Corp., says interest from potential buyers was strong.

The company began the process of looking at its strategic alternative back in the spring after oil prices strengthened. Interest from potential buyers was strong, about three-times above the level that Tang initially expected.

Although benchmark West Texas Intermediate crude prices have fallen from more than US\$120 a barrel in early June to close at \$87.78 a barrel on Monday, it remains a good time for private shareholders to crystalize their investment, he said.

“By getting some cash off the table, and yet keeping the upside because we are taking back shares, it’s a good, balanced way to have a liquidity event,” Tang said.

“It’s a signal that the M&A market is strong.”

Tamarack, founded in 2010, has become one of several active consolidators in the conventional oil and gas sector in Western Canada since the pandemic struck and oil prices tanked in early 2020.

In June, Tamarack closed its acquisition of Rolling Hills Energy, a privately held oil producer active in the Clearwater, for \$46.5 million in cash and 9.3 million shares. Last December, Tamarack announced the purchase of privately held Clearwater oil producer Crestwynd Exploration for cash and shares valued at \$185 million.

In April 2021, it acquired Anegada Oil Corp. for \$538 million.

Coming out of the pandemic, Schmidt said companies with strong balance sheets were able to capitalize on opportunities while others struggled.

“Early on, there were a lot of companies left for dead and a lot of them just had debt levels so high...the banks were putting pressure on them. And we picked up a number of assets and companies that way,” he said.

“It’s not like there’s a lot of equity coming back into the market (today) or new companies getting formed. This was a very competitive process with Deltastream because of the high-quality asset, but it’s not like there’s enough money so that people are paying crazy prices.”

Tamarack also announced a 25 per cent hike to its monthly dividend on Monday. Shares in Tamarack closed Monday at \$3.99 on the Toronto Stock Exchange.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, one of Tamarack’s largest shareholders, said the Deltastream acquisition will solidify the company’s growth opportunities in the Clearwater, although it will defer greater payouts to investors in the short run.

“They are in a better situation today than they were a week ago,” Nuttall said. “I’m willing to be a little bit more patient, knowing that I’m going to get paid handsomely for that patience.”

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