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Paul Wells

Smaller Deals In Clearwater, Mannville Stack Likely To Occur

While high well costs and point of entry likely prohibit smaller E&Ps from participating in Montney/Duvernay M&A, acquiring assets in the lower-cost — yet highly economical — heavy oil-saturated Clearwater and expanding area remains plausible for smaller mid-sized entities.

Tamarack Valley Energy Ltd. is an example, as the company has steadily built up its presence in that play/area in the past three or four years through a series of transactions, while **Obsidian Energy Ltd.** and **Rubellite Energy Inc.** have also acquired assets in the play over the course of this year.

A good example of that would be Obsidian's acquisition of assets from **Woodcote Oil & Gas Inc.** in the second quarter, said **Ben Rye**, vice-president of **Sayer Energy Advisors**.

"I would say there's still a number of smaller companies in the play and more consolidation is expected in the Clearwater," Rye said.

"You also see indications from Tamarack Valley, for example, that announced the [infrastructure partnership](#) in conjunction with the [**Wapiscanits Waseskwan Nipiy Holding Limited Partnership**]. So they're continuing development and expansion there," he added.

"And in terms of land sale activity, it's been active. Even in the latest landsales there were a number of sections that went in the Clearwater area."

In fact, the Montney and Duvernay resource plays and Clearwater heavy oil play [were the major focus](#) for land acquisition and drilling activity in 2023. And that trend has continued into this year.

Clearwater lands have been actively posted and purchased in the last few years between Nipisi and Dawson, as well as in the Ukalta and Figure Lake surrounding areas. A significant number of wells have been drilled in all the major Clearwater pools, as well as several exploration wells that are testing the limits of the pool boundaries and new shoreline trends, such as in the Steele area.

And combined with the strong economics of the play, that bodes well for future M&A activity in the Clearwater and surrounding area.

Jeremy McCrea, **BMO Capital Markets'** managing director of the firm's energy equity research team, called the Clearwater "by far" the most profitable play in Canada.

"And that's why Tamarack was aggressive in acquiring as many companies as they did. I think there's been a bit of a pause right now in terms of M&A activity in the play and they're really just focusing on some of the organic growth," he said.

"The Clearwater is one formation out of the Mannville that has several formations in it that are working with these multilaterals. And that is a play that has yet to see a lot of consolidation. So if you're going to see consolidation, it's going to be in the Mannville Stack region where there's some very, very good economics," McCrea added.

"That could be a play where we see some more of that smaller M&A activity. The wells don't cost much — around \$1.5 million — so it's ripe for a junior company to go in and drill. A junior company isn't going to go into the Montney or Duvernay, really. So that's why you could see lots of smaller M&A throughout the whole Mannville Stack/Clearwater region."

Sayer's Rye agrees, saying the lower price point for drilling and bringing on production is likely attractive to smaller companies.

"The lower-cost wells in the Clearwater is probably why there's lots of smaller companies because the Clearwater's entry point is a lot lower than a lot of other plays," he said.

"I wouldn't be surprised if we saw more [consolidation] activity in the play before the end of the year."

McCrea noted that many private companies continue to be active in the Clearwater, a situation he doesn't see changing dramatically any time soon.

"The play is so economic that a lot of these private companies are saying, 'Why go public when we really don't need the capital because these wells are all self-financing internally because the economics are so strong.' That's why there's a lot more private companies in the Mannville and the Clearwater," he said.

"But ultimately, once you get to a certain size there is going to be some public companies that slowly look to consolidate that whole region."