

Strathcona's hostile bid for MEG Energy called the 'largest investment in the Canadian oilpatch in a decade'

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Meghan Potkins

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Some MEG shareholders have also taken the view that Strathcona's bid doesn't sufficiently recognize the quality of the oilsand firm's assets, such as at Christina Lake, B.C., the Surmont Project in Alberta and elsewhere. Photo by Courtesy MEG Energy/Postmedia files

Strathcona Resources Ltd. chair Adam Waterous says the odds of a new oil pipeline to tidewater being built in Canada are improving, as well as a major carbon capture and storage project, but the large capital outlays involved will only be possible for the largest companies, which could trigger a consolidation drive in the Canadian oilpatch over the coming months.

"It is reasonable to expect that not only will new oil pipelines be built, but also it is more likely that (the Pathways Alliance carbon capture network) is going to be advanced," he said on Friday after Strathcona formally launched a \$6.7-billion hostile takeover bid for oilsands major MEG Energy Corp.

"If there's going to be more pipelines, you need to be an investment-grade business to be able to make these large commitments. What this is really leading to is a further consolidation of the business."

Waterous's comments come as the clock begins ticking on Strathcona's hostile takeover of MEG Energy.

Bypassing MEG's management, Strathcona has gone directly to shareholders with its cash-and-stock offer valued at \$23.27 per share — representing a 9.3 per cent premium to MEG's closing price on May 15 — and they have until Sept. 15, 2025, to decide whether to accept the offer, according to a circular filed on Friday.

The filing also confirmed and finalized a key element of financing for the deal, namely a \$662-million equity commitment from Strathcona's controlling shareholder, Waterous Energy Fund (WEF), the Calgary-based private-equity firm founded and run by Strathcona chair and veteran oilpatch dealmaker Adam Waterous.

The fund will buy 21.4 million shares at \$30.92 each, providing the \$662 million to fund the cash portion of the MEG offer and reduce the reliance on short-term debt.

"We are obviously going very long on the oilsands business," Waterous said, adding that WEF's investment is the largest single public or private-equity investment in the Canadian oil and gas patch in more than a decade.

"WEF backing up the truck on this acquisition is clear evidence that we believe that the creation of this new Canadian champion will provide compelling returns."

The terms of the deal are the same as a proposal that was originally made to MEG in April, which was subsequently rejected by the company's board on May 13. MEG indicated at the time that it was not interested in pursuing a combination, according to Strathcona.

In response to Strathcona's filing Friday, MEG urged shareholders to wait until the board could provide a formal recommendation.

MEG's board has formed a special committee of independent directors to evaluate the offer, the company said Friday, noting that it would provide a recommendation within 15 days.

Some MEG shareholders have taken the view that Strathcona's bid doesn't sufficiently recognize the quality of the oilsand firm's Christina Lake assets and the potential of its undeveloped holdings at the Surmont Project in the southern Athabasca region of Alberta.

Waterous said the deal provides MEG shareholders with an immediate nine per cent premium on MEG's shares, stronger per-share earnings and cash flow, and the potential for a re-rating of Strathcona that would lower borrowing costs and boost its stock valuation.

If the bid succeeds, MEG would be Strathcona's 11th major acquisition.

Some MEG shareholders have said they're more than willing to throw their support behind a private-equity player with a track record for dealmaking.

Cole Smead, chief executive officer of Smead Capital Management Inc., said agreeing to Strathcona's offer would give MEG shareholders a piece of Waterous' private-equity fund without paying any management or performance fees.

"We just get to ride along as a public shareholder and we get to gain the benefits of his capital-allocation stewardship, and we don't pay any performance fees to him," Smead said. "There's a divide in the energy business between people who are good capital allocators and people who are not. Adam Waterous is one of the best."

Sayer Energy Advisors had been predicting a more subdued year for merger-and-acquisition activity in the Canadian upstream oil and gas sector compared to 2024, with total transaction values projected to be in the \$15-billion range.

Then Whitecap Resources Inc. and Veren Inc. (formerly Crescent Point Energy Corp.) announced their multi-billion-dollar merger in March, followed by nearly \$4 billion more in M&A activity in the second quarter so far.

"We're already higher than what we thought we were going to be for all of 2025," Tom Pavic, Sayer Energy Advisors' president, said. "And I'm not even counting (Strathcona's bid for MEG) because we don't know how this is going to shake out."

He said the softening price for oil has led some more companies to consolidate and look at disposing assets and shifting their focus.

• Email: mpotkins@postmedia.com