

Success Of Hostile Takeover Attempts In The Canadian Oil & Natural Gas Industry

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Hostile takeover attempts have been a rarity in the Canadian oil and natural gas industry over the last several decades. The nature of unsolicited takeover bids leads to time in the spotlight, even though the occurrences have been infrequent. Over the last 15 years, Sayer has recorded six hostile takeover attempts and over the past three decades there has been a mixed rate of success. We consistently forecast a low number of these type of attempts, but the question is how successful these hostile takeover attempts have truly been?

Going back to the second half of 2015, **Canadian Oil Sands Limited** was the target of a hostile takeover offer from **Suncor Energy Inc.** Suncor had originally entered into a hostile takeover to acquire Canadian Oil Sands in October 2015, offering 0.25 of a Suncor share for each Canadian Oil Sands share. Canadian Oil Sands rejected the offer and recommended its shareholders not to accept Suncor's offer. In January 2016, Suncor increased its offer to 0.28 of a Suncor share, which the board of directors of Canadian Oil Sands accepted and recommended to its shareholders. The enterprise value of this transaction was approximately \$8.3 billion. Canadian Oil Sands held a 36.74 per cent working interest in the Syncrude oilsands mining project located near Fort McMurray, Alta. Suncor had a 12 per cent working interest in the Syncrude project prior to the acquisition of Canadian Oil Sands.

In May 2018, **Velvet Energy Ltd.** announced a hostile takeover bid to acquire all of the issued and outstanding shares of **Iron Bridge Resources Inc.** Velvet offered \$0.75 in cash per Iron Bridge share. The board of directors of Iron Bridge rejected the offer at the time. Iron Bridge then created a special committee of the board of directors which retained a financial advisor to initiate a process to maximize shareholder value. The process to maximize shareholder value concluded with Velvet and Iron Bridge

subsequently coming to terms in September 2018 on a higher offer price of \$0.845 in cash per Iron Bridge share, which the board of directors of Iron Bridge accepted and recommended its shareholders accept. Iron Bridge's assets were located in the Gold Creek area of Alberta focusing on Montney production.

Husky Energy Inc. announced a hostile takeover bid to acquire all of the issued and outstanding shares of **MEG Energy Corp.** in the third quarter of 2018. Husky's attempt at a hostile takeover of MEG was unsuccessful and the offer was terminated in the first quarter of 2019. Husky was subsequently acquired by **Cenovus Energy Inc.** in the fourth quarter of 2020.

On Aug. 31, 2020, **Obsidian Energy Ltd.** announced an unsolicited offer to acquire all of the issued and outstanding shares of **Bonterra Energy Corp.** Bonterra's board of directors rejected the offer from Obsidian and the hostile bid was unsuccessful. Bonterra's main producing properties are located in the Pembina and Willisden Green areas of Alberta targeting the Cardium formation.

Also in 2020, **Waterous Energy Fund** announced an offer to increase its interest in **Osum Oil Sands Corp.** On Nov. 4, 2020, **WEF Osum Acquisition Corp.**, a company wholly-owned by Waterous, the owner of approximately 45 per cent of the outstanding common shares of Osum, commenced an unsolicited offer to acquire up to a maximum of 52,500,000 additional common shares of Osum, representing 40 per cent of Osum's outstanding shares or approximately 72 per cent of the shares not already owned by Waterous, for cash consideration of \$2.40 per share. Osum's board of directors rejected the \$2.40 offer per share from Waterous and commenced a strategic alternatives process to maximize shareholder value. On Feb. 18, 2021, Waterous increased its cash offer to \$3.00 per share and the revised offer was accepted by Osum's board of directors. Osum's main producing property was its thermal Orion SAGD project located in the Cold Lake area of Alberta.

Waterous has been involved in several takeover offers, with its prior bids for Osum, and most recently MEG. In the fourth quarter of 2024, Waterous acquired 56.5 per cent of the shares of **Greenfire Resources Ltd.** Greenfire's main producing property is its thermal SAGD project located in the Hangingstone area of Alberta. On Sept. 16, 2024, Waterous announced that it was acquiring 43.2 per cent of the issued and outstanding shares of Greenfire from **Allard Services Limited, Annapurna Limited and Modro Holdings LLC** pursuant to a private share purchase agreement with each of the sellers for \$10.93 per share (the "Initial Sale"). Greenfire contested the Initial Sale by instituting a shareholder rights plan which Waterous challenged and was successful in preventing though an Alberta Securities Commission hearing in early November 2024. The Initial Sale transaction was completed on Nov. 11, 2024. On Dec. 23, 2024, Greenfire announced that Waterous had acquired 9,311,424 common shares of Greenfire for \$11.25 in cash per share and 2,654,179 common share purchase warrants for \$4.84 in cash per warrant from **M3-Brigade Sponsor III LP** (the "Subsequent Sale"). With the Subsequent Sale, Waterous now owns 56.5 per cent of the issued and outstanding common shares of Greenfire on an undiluted basis and appointed six of its representatives to the board of directors of Greenfire.

Most recently, **Strathcona Resources Ltd.** began a formal takeover bid to acquire all of the issued and outstanding common shares of MEG. MEG was also the target of the formerly mentioned hostile takeover attempt by Husky in 2018. Strathcona's takeover offer for MEG comprises 0.62 of a common share of Strathcona and \$4.10 in cash for each MEG share it doesn't already own. At the time of the announcement, Waterous owned 79.6 per cent of the outstanding Strathcona shares. MEG's board of directors formed a special committee to conduct a thorough evaluation of Strathcona's offer with the assistance of financial and legal advisors and MEG subsequently concluded the consideration to be inadequate and recommends that its shareholders reject the offer. MEG also launched a strategic review to explore alternatives that could lead to a better offer than MEG's current plan to be a standalone company.

The mixed rate of success that companies have historically had in pursuing hostile takeovers has likely prevented a number of buyers from pursuing this form of acquisition strategy. Head winds facing the industry such as persistently low natural gas prices and the lack of capital injection into the industry are all factors that may fuel more hostile takeover attempts in the future. The current economic and industry conditions have in some ways created the ideal environment for hostile takeovers; however, prior failed attempts will likely temper the enthusiasm for buyers to pursue this acquisition strategy.