

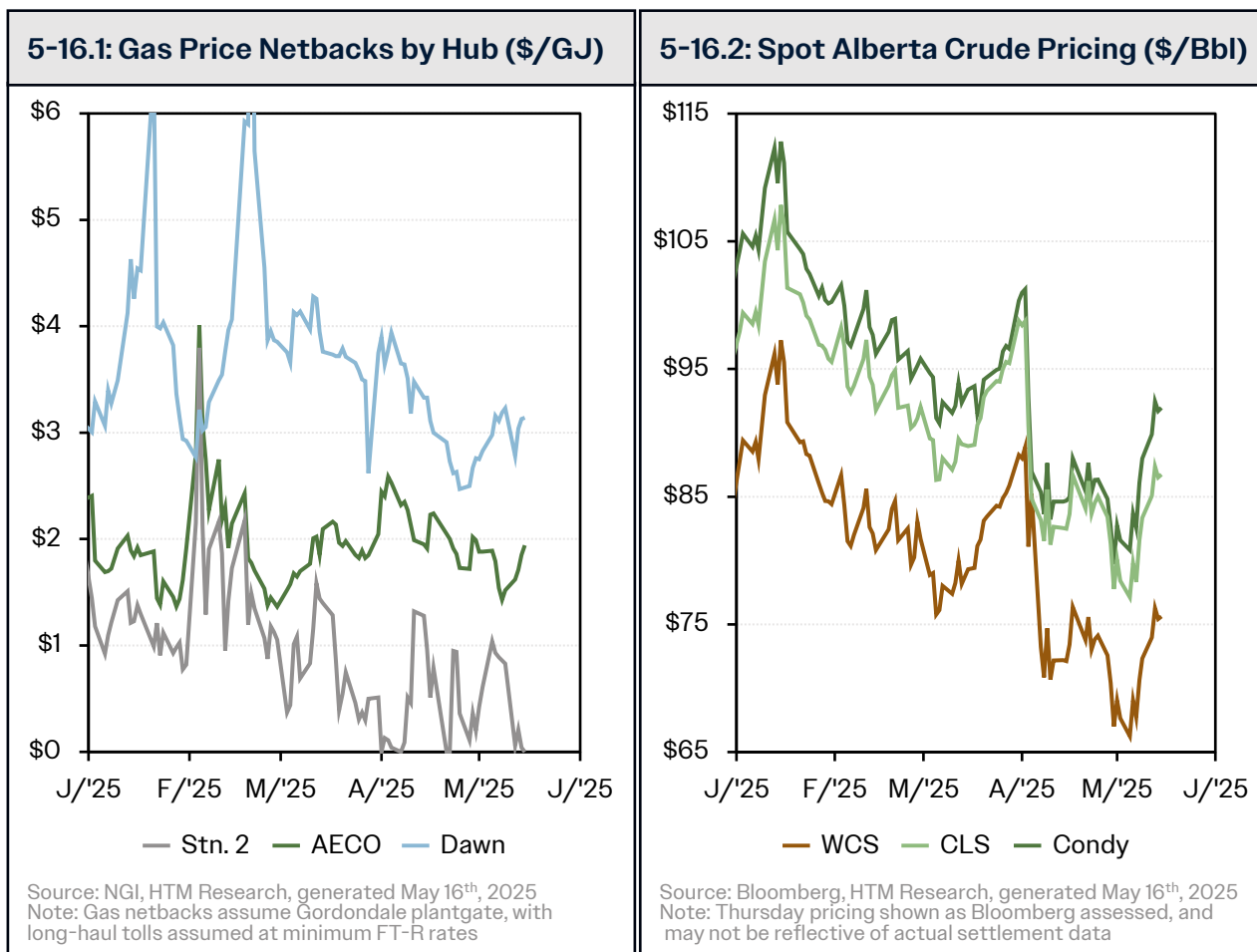
BOE Report Weekly Round-up

May 16th, 2025

This week was a huge week for Canadian energy – with perhaps the three most notable headlines coming in quick succession – that’s right, Spartan began flowback operations on their 3-well 06-04 West Shale Basin Duvernay pad.

In case you missed it while fixated on the Duvernay (understandably) – Strathcona disposed of their Montney assets on Wednesday (to ARC, CNRL, and Tourmaline), then “announced their intention to commence a take-over bid to acquire MEG Energy” (along with disclosing a ~10% equity ownership). This is a bold, and completely lopsided proposal in our view – and we discuss that within. Strathcona did an excellent job selling their Montney assets at far above their cost basis (to sellers that almost certainly overpaid, or will have to work hard to earn their cost of capital); but to portend that with a hostile MEG offer (lets call it what it is), is extremely odd. In-fact, the offer is so offside, that we have no other choice but to believe there has to be some ulterior motive. A single-digit premium is both insulting, but so obviously not going to trade, that we’re stunned it even made it to the newswire. Clearly there is some underlying motive to perhaps spur further consolidation of core oil sands assets to make Tier 2 assets look incrementally more attractive, or maybe Strathcona is pulling a T. Boone Pickens, and looking to make a quick buck on their ~10% equity position (some great history to be had [here](#)).

We like Strathcona because they are an enterprising, and well capitalized team – and one of the only ones in Canada that both use debt responsibly and aren’t afraid to transact. In a basin where the velocity of capital is magnitudes less than in the US; there’s value in that strategy. But, Strathcona does not have the asset quality that MEG does. We can clearly tell that, as Strathcona twists the comparison metrics considerably inside their own proposal deck; if it was a true merger of equals, they wouldn’t. No matter what happens in the coming months – MEG’s equity should soar through Strathcona’s petite proposed premium, as markets once again appreciate their best-in-class operation.



Strathcona Executes Three Masterful Montney Dispositions

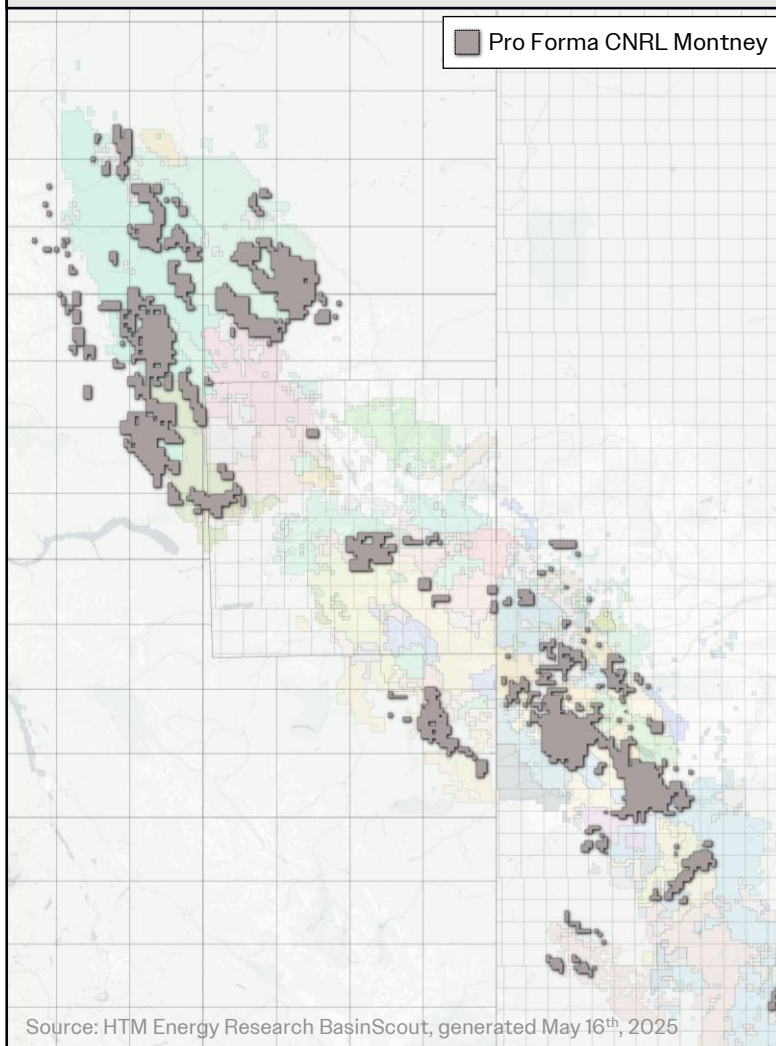
Given that we think ARC and Tourmaline both paid up for their deals (but were met with quality assets) – we think that Strathcona was on the winning side of these dispositions, especially considering these transactions streamline their business, erase the debt; and will allow them to reload with more heavy oil resource that’s clearly their focus.

At Pipestone, CNRL bought ~90,000 acres, with no owned gas processing capacity, but paid near PDP PV_{10%} for the asset, continuing their theme of acquiring large chunks of resource for reasonable prices.

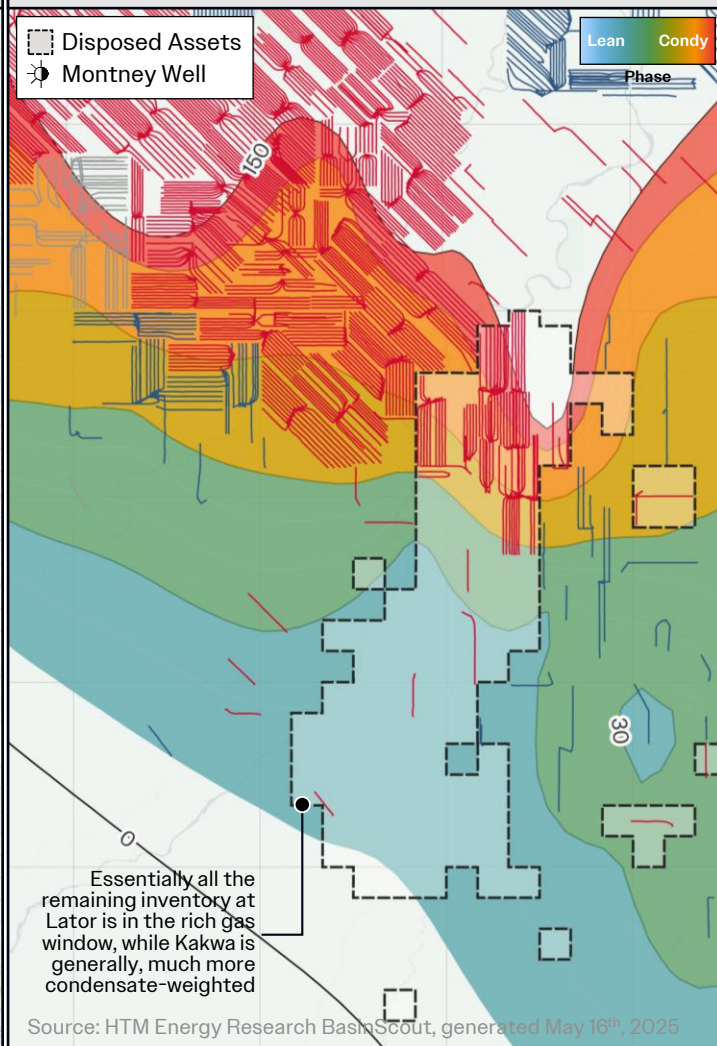
At Kakwa, ARC bought ~90,000 acres and 2 gas plants with ~150MMcf/d of operated capacity. Here, Strathcona has drilled through most of the ultra condensate rich inventory; and what remains is mostly rich gas – though Strathcona’s Lator asset does have an elite pressure regime, which will make these wells highly deliverable. This is a neutral deal for ARC – while it doesn’t come with a ton of “Nest 1” inventory, it’s very high-quality rich gas moving south that ARC will certainly be able to optimize with respect to interwell spacing and benching. Strathcona has developed this asset in a 3-bench configuration; we expect ARC will change this.

At Groundbirch, Tourmaline paid \$300MM for ~10,000 acres and ~60MMcf/d of operated plant capacity. We think that Tourmaline paid very handsomely for this asset, especially so when considering that Paramount has proposed a 400MMcf/d dry gas plant at Sinclair which will cost <\$0.5Bn to build. On our math, Paramount is building an asset ~7x as large (with materially more inventory), for ~3x the fully-cycle cost of Tourmaline’s Groundbirch acquisition.

5-16.3: CNRL Pro Forma Montney Acreage Map



5-16.4: Strathcona Lator CGR Contour Map



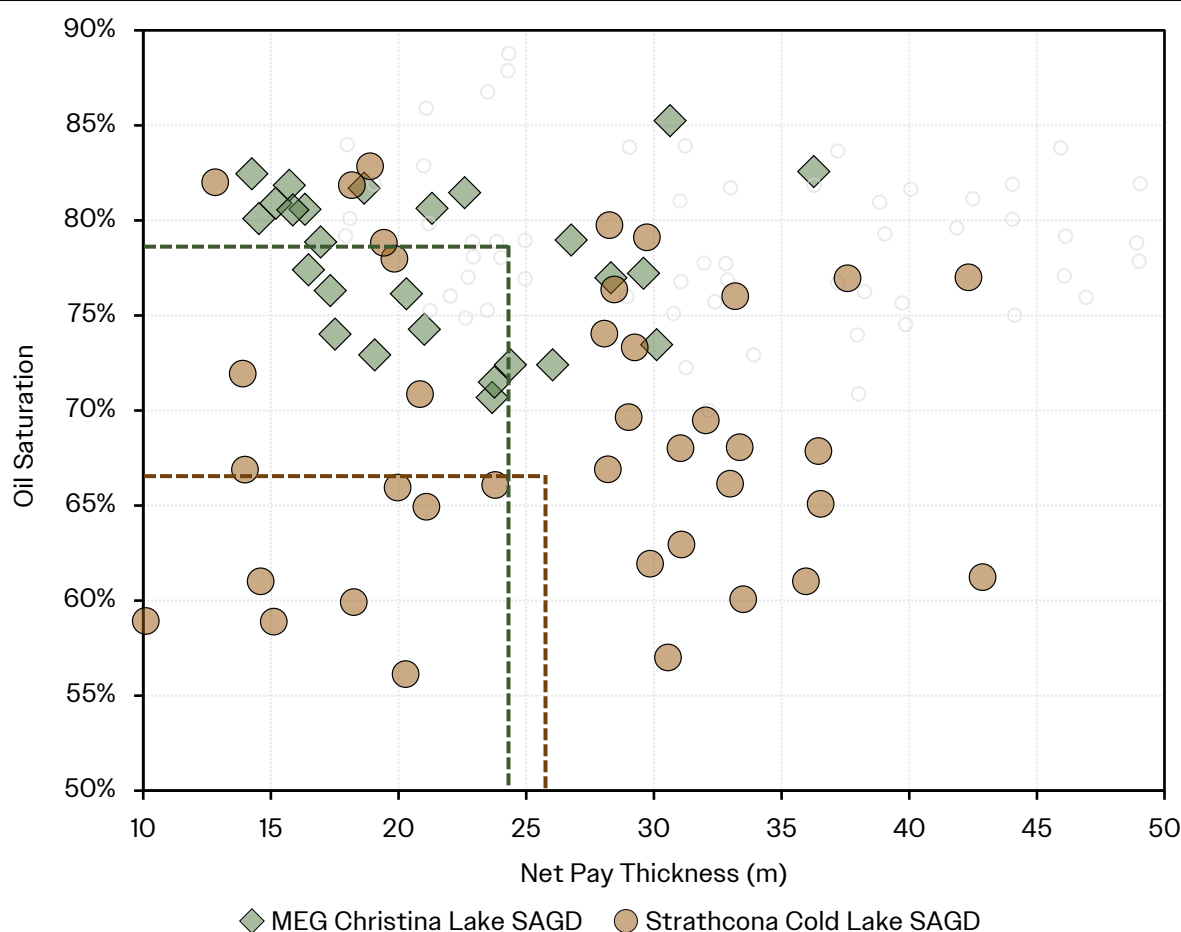
Strathcona's SAGD Assets Simply Have Lower Quality Geology

Ultimately, Strathcona's asset underperformance, and higher breakevens aren't driven by anything operational; it's simply lower quality rock. A fundamental view of reservoir quality is oil saturation, and net pay thickness. While Strathcona's resource across their Tucker, Orion, and Lindbergh properties can get plenty thick, the oil saturation lags notably compared to peers (especially at Tucker).

Meanwhile, MEG (and Athabasca) have an ideal combination of no shale stringers and consistent grain density that encourage good, even steam chamber growth, with high oil saturation, and good thickness. This translates to better capital efficiencies (lower F&D), and lower operating costs. It also makes for more capitally efficient expansions, with fewer wells needed to fill, and maintain facilities. As MEG moves into the north and south of their Christina Lake asset, we see them with 15-20 years of truly "core" resource (>20m of net pay).

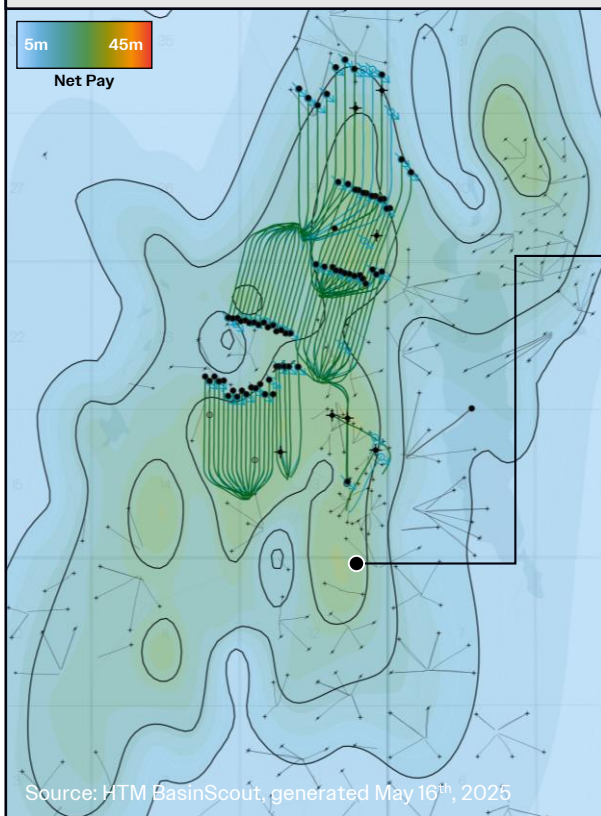
On the following page we compare net pay contour maps (on the same contour scale, and aerial scale). The running room that MEG has across their property is not even comparable to Strathcona's portfolio – especially considering the compact operational footprint that allows MEG to deliver consistently lower operating costs.

5-16.5: Oil Sands Resource Quality Saturation vs. Thickness Cross Plot



Source: AER, Petrinex, HTM Energy Research BasinScout, generated May 16th, 2025

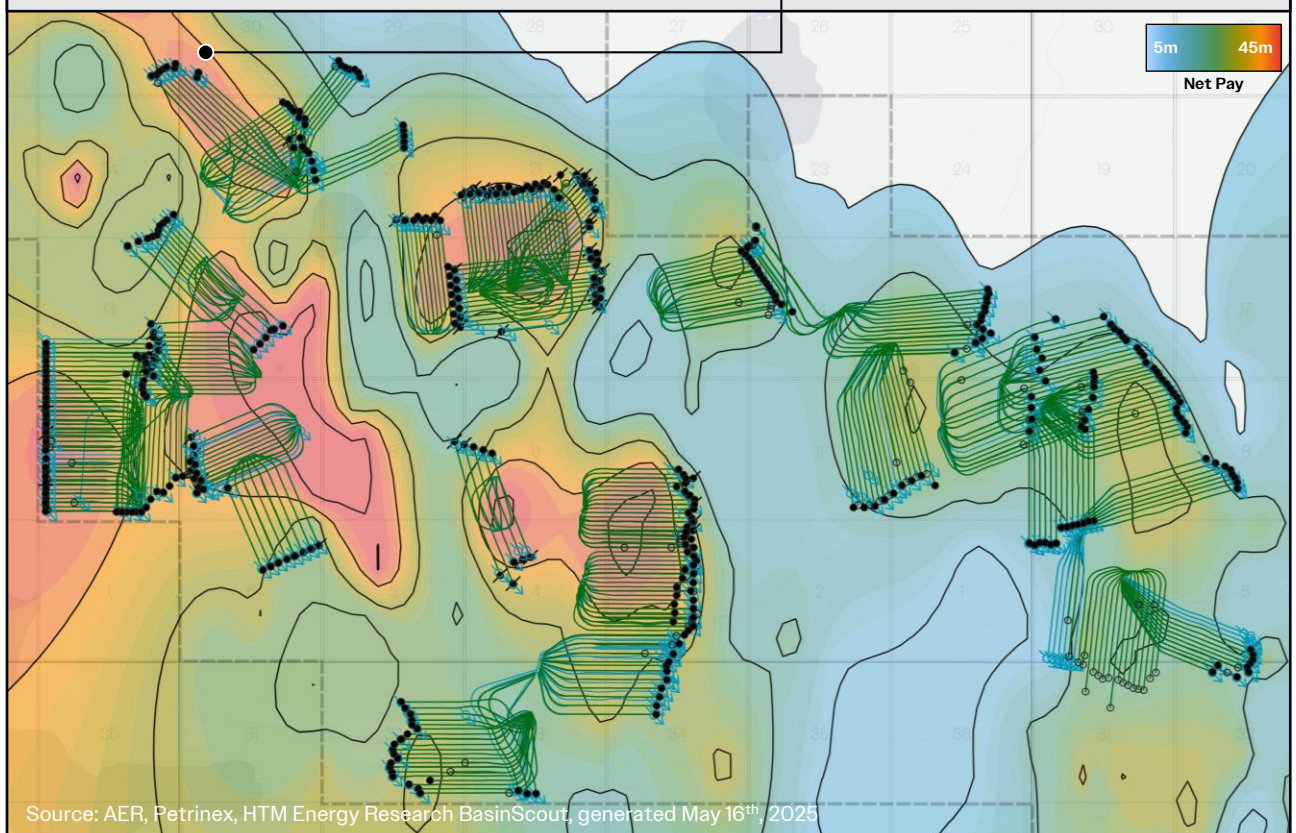
5-16.6: SCR Lindbergh Net Pay Contour



Strathcona has good remaining resource at Lindbergh, but we don't think they have multiple expansion phases (excluding Muriel Lake). Lindbergh is Strathcona's lower SOR asset, but has thinner net pay than Christina Lake. There is also a PrairieSky GORR on this property, along with a Burgess GORR on Taiga; while there isn't a GORR on Christina Lake, or Surmont.

MEG has phenomenal running room to both the north, and south, along with very good resource across their currently developed core fairway.

5-16.7: MEG Christina Lake Net Pay Contour Map



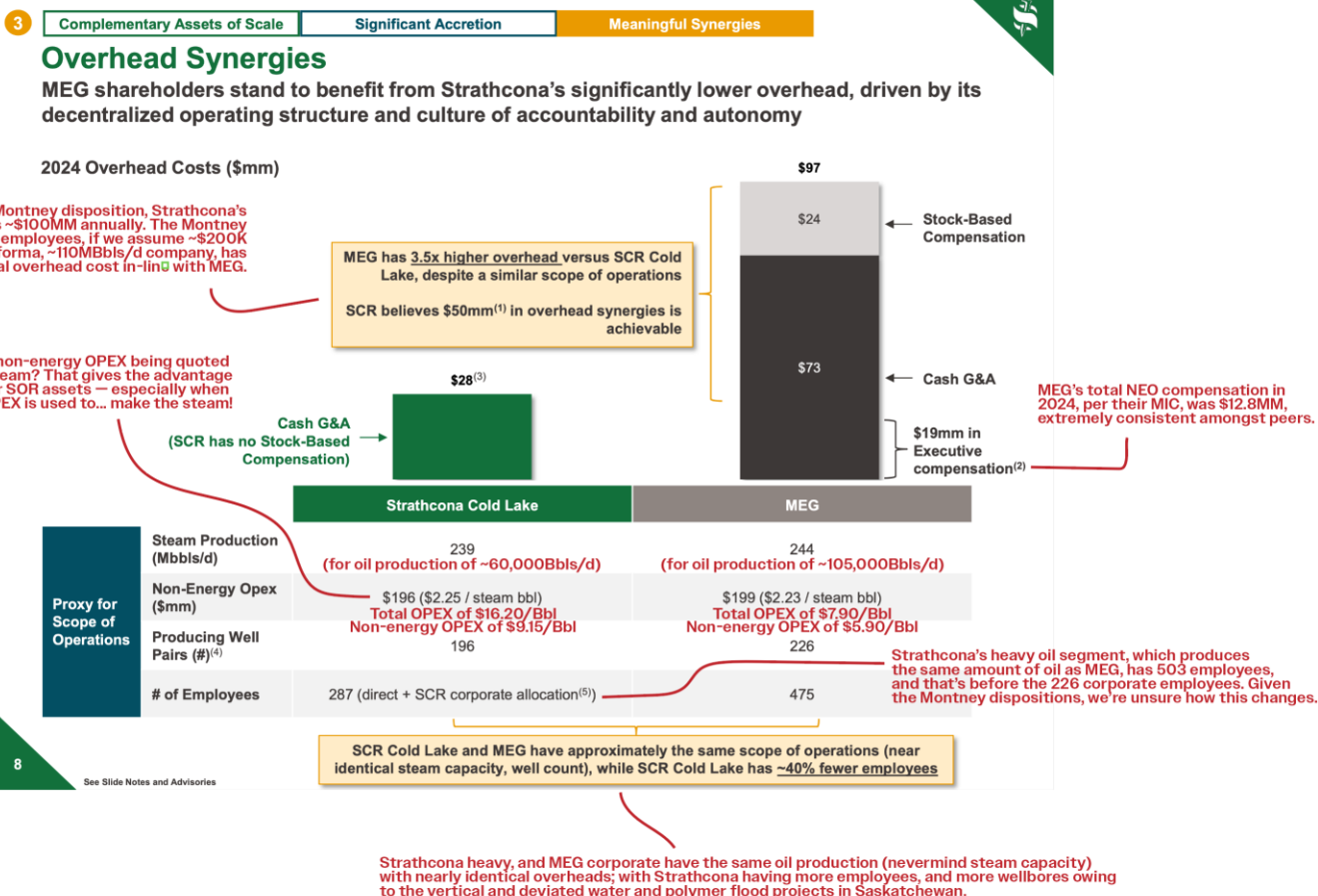
Deal Deck is Contains a MEG-a Serving of Logical Fallacies

Strathcona's proposal deck contained a number of real head-scratchers (and even more slide notes) – why are they quoting non-energy operating costs in barrels of steam, not barrels of oil? Non-energy OPEX has to do with the oil, not the steam, so comparing it to steam, is so erroneous, it's almost funny. Why are they comparing just Cold Lake to MEG corporately, when their pro-forma company is effectively the same size as MEG (immediately following the Montney disposition) – does Lloydminster not exist?

And most importantly, why does Strathcona quote the 2024-2030 production CAGR as an absolute number, instead of on a per-share basis; completely ignoring buybacks, which are a key part of MEG's story – just as organic growth is to Strathcona's story. In figures that we published in October 2024; we saw MEG's 2028e DAFCF yield at ~11% at spot prices, but ~15% when including the NCIB uplift. For Strathcona, that estimate that ~13% including organic growth. On a NAV basis, Strathcona isn't notably cheap. They trade in-line with peers on an EV/PDP basis, and slightly below peers on a 1P/2P basis, though we'd note the cost of bringing Strathcona's non-PDP reserves into the PDP category would be less-capitally-efficient than peers (as discussed later).

Well, we know the answer – it's because at the core of MEG's business, is a better asset than at the core of Strathcona's. It's a fact that Strathcona has lower quality assets than MEG – the data speaks for itself. This is an excellent move by Strathcona, trying to back into MEG (and frankly, with 10% ownership, they're going to make a few bucks either way); but we don't think it can be taken seriously.

5-16.8: HTM Annotated Strathcona MEG Takeover Offer Slide



Source: Company Reports, HTM Energy Research, retrieved May 16th, 2025, generated May 16th, 2025

Cash Returns vs. Cash Returns – the Margin is Thin

Call us old fashioned – but tell us what you make at the plantgate (i.e. in the field), take off the cost to run the business without normalizing things to hell and back, and then we can compare what remains for the equity holder. It's our view that we're better at predicting go-forward CAPEX, than actual DD&A is (which by nature of the metric, is backwards looking) – so this is how we prefer to compare on a business-to-business basis.

In Strathcona's case, they made \$1.7Bn in the field, when only considering their Cold Lake and Lloydminster segment, then spent ~\$360MM to run their business (take that down to \$250MM for good measure, after giving way to the Montney disposition). That leaves ~\$1.45Bn for the shareholders in the pro forma entity. Over the next 5 years, we believe shareholders in Strathcona need to spend an average of \$605MM/yr to maintain volumes; which leaves a true \$845MM for shareholders on a 2024a basis.

In MEG's case, they made \$1.6Bn in the field, spent \$375MM to run their business (taxably), leaving ~\$1.2Bn for the shareholders. With the same 5 year window, we believe shareholders in MEG need to spend \$425MM a year to maintain volumes; which leaves a true \$790MM for shareholders on a 2024a basis.

Today, MEG and Strathcona trade at effectively the same enterprise value; while generating the same amount of cash for shareholders each year. While this would then seem like a “merger of equals” – it ignores Strathcona's larger ARO burden, higher breakeven, higher operating costs, lower quality assets, and non-taxable status.

5-16.9: Strathcona YE 2024 Simplified Financial Statement

For the Year Ended (\$ millions, unless otherwise indicated)	Cold Lake Segment		Lloydminster Segment		Montney Segment		Corporate		Consolidated	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Production volumes										
Bitumen (bbl/d)	59,516	55,768	—	—	—	—	—	—	59,516	55,768
Heavy oil (bbl/d)	—	—	51,107	53,707	—	—	—	—	51,107	53,707
Condensate and light oil (bbl/d)	—	—	42	42	19,880	11,969	—	—	19,922	12,011
Other NGLs (bbl/d)	—	—	2	1	11,956	9,020	—	—	11,958	9,021
Natural gas (mcf/d)	—	—	1,232	1,080	242,224	148,635	—	—	243,456	149,715
Production volumes (boe/d)	59,516	55,768	51,357	53,930	72,207	45,761	—	—	183,080	155,459
Sales volumes (boe/d)	59,491	55,766	51,097	54,393	72,206	45,761	—	—	182,794	155,920
Segment revenues										
Oil and natural gas sales	2,576.0	2,279.2	1,797.1	1,812.5	963.0	655.5	0.3	1.1	5,336.4	4,748.3
Sales of purchased product	18.3	20.1	26.0	12.2	—	—	30.7	14.0	75.0	46.3
Blending costs	(929.9)	(888.1)	(151.6)	(170.2)	—	—	—	—	(1,081.5)	(1,058.3)
Purchased product	(18.2)	(19.5)	(25.8)	(11.9)	—	—	(31.0)	(15.1)	(75.0)	(46.5)
Oil and natural gas sales, net of blending⁽¹⁾	1,646.2	1,391.7	1,645.7	1,642.6	963.0	655.5	—	—	4,254.9	3,689.8
Segment expenses										
Royalties	385.3	323.3	181.7	175.1	95.7	58.5	—	—	662.7	556.9
Production and operating – Energy ⁽¹⁾	127.9	198.4	112.8	120.5	7.4	3.4	—	—	248.1	322.3
Production and operating – Non-energy ⁽¹⁾	196.0	173.9	203.7	216.3	163.9	83.8	—	—	563.6	474.0
Transportation and processing	87.7	80.4	276.2	293.7	213.1	108.8	—	—	577.0	482.9
Field Operating Income⁽¹⁾	849.3	615.7	871.3	837.0	482.9	401.0	—	—	2,203.5	1,853.7
Depletion, depreciation and amortization	167.1	148.9	411.1	423.2	278.5	145.9	16.8	14.9	873.5	732.9
Field Operating Earnings⁽¹⁾	682.2	466.8	460.2	413.8	204.4	255.1	(16.8)	(14.9)	1,330.0	1,120.8
General and administrative	—	—	—	—	—	—	101.1	91.9	101.1	91.9
Other income	—	—	—	—	—	—	(0.1)	(1.0)	(0.1)	(1.0)
Interest expense	—	—	—	—	—	—	170.2	206.2	170.2	206.2
Finance costs	—	—	—	—	—	—	88.3	75.3	88.3	75.3
Current income tax (recovery)	—	—	—	—	—	—	—	(46.9)	—	(46.9)
Operating Earnings⁽¹⁾									970.5	795.3

Source: Company Reports, HTM Energy Research, retrieved May 16th, 2025, generated May 16th, 2025

MEG's Expansion Capital Efficiencies Take Top Spot

MEG's resource quality, but also execution, is nearly unmatched. This is where growth should happen – with almost no debt, on a Tier 1 asset. MEG's growth is a sterling example of proper capital allocation. In terms of linearity, the biggest step-change is from 2027-2028, so we'd hope that a sentiment shift happens ~mid-2026 (with Strathcona maybe hoping to get ahead of that). We'd note that operationally, MEG screens poorly when running simple queries in geoSCOUT or Enverus as trailing 3 year drilling has focused on infills, which are effectively '0 SOR' barrels; key for a steam-constrained operation. Moving forward, we continue to expect operational excellence. Production from non-infill wells in the Christina Lake area shown below, where MEG dominates, along with Cenovus, in the Christina Lake fairway. Ultimately; MEGs well pairs are quicker to ramp, with strong plateaus – around 75% more productive than Strathcona well pairs on average – all with a top quartile SOR.

While some operators will tell you higher-SOR assets, which come with marginally higher operating costs, are just as good as low-SOR assets, as the higher realized price from their assets due to the quality oil produced in the Cold Lake region, offsets the higher operating costs of needing to produce more steam. While this is true to some extent, it does ignore the fact that higher-SOR assets are materially more expensive to construct, and come with longer payback periods, and lower IRRs on capital deployed. It's not lost on us that Strathcona purchased the majority of their current assets from distressed sellers, meaning no facility CAPEX was spent; and while this high-SOR/realized price parity is true, when Strathcona proceeds with any greenfield expansion, they'll find their capital costs higher than peers. That's more sustaining capital, more facility capital, more midstream capital – and ultimately; worse economics. None of these small nuances are reflected in the brute-force, expertly concocted comparisons that Strathcona has put forward; and why we think that MEG should trade at a much wider premium than current.

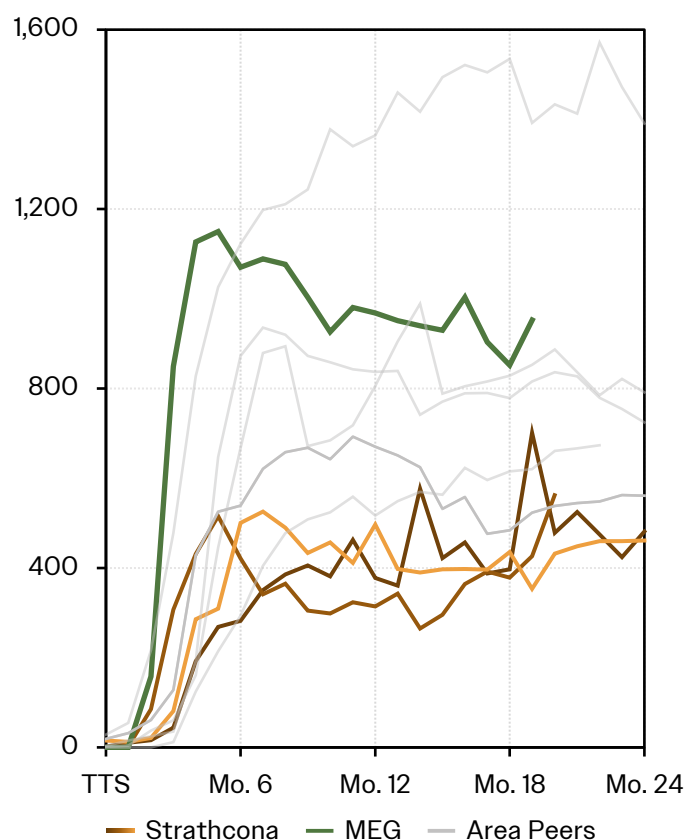
Below we show a montage of key capital efficiency metrics; the top left shows the payback period on planned expansions at US\$75/Bbl WTI, the bottom left shows SOR history by operator, and the right shows asset type curves.

5-16.10: Asset Expansion Payout Sensitivity Chart

		Project Average iSOR				
		2.5x	3.0x	3.5x	4.0x	4.5x
Well Pair IP ₃₆₅ (Bbls/d)	400	5.3	5.6	5.8	6.1	6.3
	600	4.8	5.0	5.2	5.4	5.8
	800	4.3	4.5	4.7	4.9	5.2
	1,000	3.8	4.1	4.3	4.6	4.8

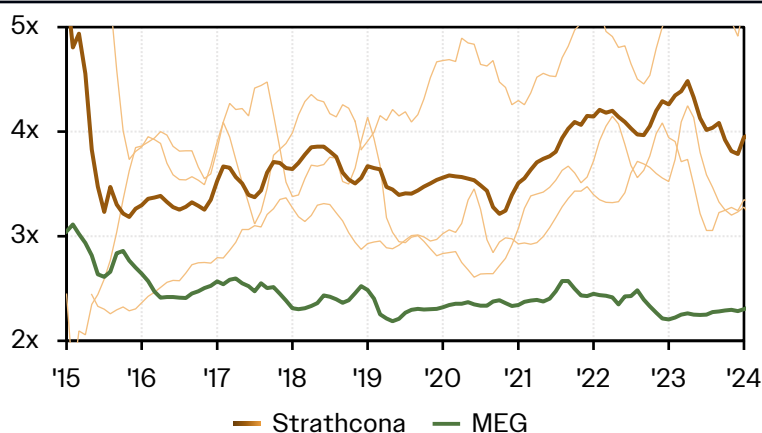
Source: HTM Energy Research Estimates, generated May 16th, 2025

5-16.11: Parent Well Pair Bitumen Rates (Bbls/d)



Source: HTM Energy Research BasinScout, generated May 16th, 2025

5-16.12: iSOR Comparison (3MMA)



Source: HTM Energy Research BasinScout, generated May 16th, 2025

Strathcona Does a Poor Job at Providing Line of Sight to Returns That Directly Compete With What MEG Offers

We think MEG is unique in our coverage and the North American industry, by virtue of being a pure-play SAGD asset. They have by far, one of the best reserve lives of any SMID >100MBOE/d in North America. Thus, we think MEG should be thought of with a 'range of outcomes' perspective; rather than a FY_1 or FY_2 FCF yield perspective.

At 135MBbls/d of bitumen production, we estimate MEG will have a 2C RLI of 40 years. This gives them plenty of time to grind away at their number of shares outstanding thanks to their long-life asset base. When thinking about MEG from a 'range of outcomes' view, you have to underwrite just two underlying factors; a) will, at one point MEG, cancel ~60% of their stock, and b) after that point, will WTI trade at ~US\$75/Bbl. If you can get comfortable with underwriting these two factors (both very reasonable) – then the dictating equity IRR is how long it takes to get there. If MEG can cancel 60% of their stock over the next decade, and you can sell the equity at 9x FCFPS at US\$70/Bbl WTI – the IRR on owning MEG at \$20/sh, is ~19%. For a steady-handed, large company – this is superb.

The equity, for all intents and purposes, could go to zero tomorrow, but if our exit parameter can be met over the next decade (60% of stock cancelled), the equity IRR maps to ~20% at a WTI price just above US\$70/Bbl. While we appreciate this isn't a view that many allocators can take (given risk limits) – it illustrates that anything that happens to MEG, is just noise. Can they cancel 60% of their stock in 14 years, and at that point, if WTI is US\$80/Bbl, the IRR of owning MEG is ~15%. Note, that the chart below is not a continuous exercise, the WTI price is point-in-time at exit; not continuous implied throughout the buyback period. Nevertheless, we think an average of 5% buybacks per year is a reasonable assumption on any number of price deck combinations, and highlights the margin of safety that MEG offers – 14 years in the future, MEG will still have a resource life of 26 years. Could MEG get cheaper? Absolutely, but we think that the conditions implied in the table below are very fair – MEG can cancel ~60% of their stock in ~a decade – and at flat spot pricing, that's a high-teens IRR.

We don't think that Strathcona should be able to internalize this range of outcomes for effectively zero premium, nor have they offered much insight into how they will deliver similar holistic returns for their own shareholders. If there are competing bids for MEG, we think that the purchase price of MEG should deliver an IRR for the acquirer closer to 12-14%; which implies meaningful equity upside. Today, we don't think that Strathcona can manage that purchase price, with WEF entities maintaining 51% control. We think Strathcona is setting themselves up to be an epic call on oil price (as evidenced by their purchase of the Hamlin rail terminal, which puts them with perpetual protection against WCS differential blow-outs at a -US\$20/Bbl strike in ~250MBbls/d of size, for effectively zero premium.

5-16.13: MEG Long-Term Buyback Equity IRR Sensitivity Table

	2.6x	4.3x	5.9x	7.4x	8.8x	MOIC at 9x FCFPS WTI at Exit (US\$/Bbl)
	\$60	\$70	\$80	\$90	\$100	
Years for MEG to Cancel 60% of their Outstanding Shares						
6			43%	50%	55%	
8		24%	30%	34%	37%	
10	12%	19%	23%	26%	28%	
12	10%	15%	18%	21%	23%	
14	9%	13%	15%	17%	19%	
16	8%	12%	14%	15%	16%	

While we aren't remotely close to sure what will happen over the next 12 months, we are much more confident that over the next decade, MEG will be able to cancel ~6% of their stock annually, with WTI concurrently trading in the US\$70-80/Bbl range

Source: HTM Energy Research Estimates, generated April 16th, 2025

Assumes: 132,000Bbls/d of bitumen production at with blending requirements in-line with historical figures; US\$2/Bbl Edmonton condensate premium; US\$13/Bbl Hardisty WCS discount; strip AECO; strip AESO; 3% annual inflation; maintenance capital average of \$520MM in 2029+; transport costs in-line with tariff and/or inflation schedules outlined by MEG's midstream counterparties; flat \$1.40 USD/CAD FX; IRR is calculated at a mid-year exit; includes MEG's current cash dividend though does not assume any further increases; current growth plans are considered, though no further growth is modelled; leverage remains flat at YE 2024 levels resulting in \$50MM in annual interest expense; \$100MM in annual SG&A expense; \$45MM in SBC expense, all of which we assume is cash settled for the sake of the exercise; FCFPS defined as corporate cashflow from operations minus capital required to maintain 132,000Bbls/d; fully taxable; buybacks are not calculated as compounding, IRR is shown only as a simple exit per-share FCF multiple; 260MM basic shares outstanding at YE 2024.

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