MEG Energy Reports Record-High Production, Record-Low Non-Energy Operating Costs and Strong Pricing for the Third Quarter of 2014

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CALGARY, ALBERTA--(Marketwired - Oct 29, 2014) - MEG Energy Corp. (TSX:MEG) today reported third quarter 2014 operating and financial results. Highlights include:

- Record quarterly production of 76,471 barrels per day (bpd), an increase of 11 per cent over second quarter 2014 results;
- Record non-energy operating costs of $7.16 per barrel with cash operating netbacks of $48.70 per barrel, a continuation of strong second quarter 2014 results;
- Near-record cash flow from operations of $238.7 million, driven by increased production levels and continuing strong cash operating netbacks.

"While there has been significant volatility in the general oil markets this quarter, MEG's third quarter shows that we are very much on track with our strategy," said Bill McCaffrey, President and Chief Executive Officer. "The critical parts of the equation - higher production, lower costs and attractive and more stable heavy oil pricing - are all reflected in our results."

MEG's production during the third quarter of 2014 increased to a record of 76,471 barrels per day (bpd), more than 120 per cent over comparative third quarter 2013 production of 34,246 bpd. Higher production rates reflect the ramp-up of MEG's Christina Lake Phase 2B project, as well as incremental production associated with the company's RISER initiative on phases 1 and 2 of the Christina Lake Project. For the first nine months of 2014, average production rose to 68,108 bpd from 32,980 bpd in the same period of 2013. Nine month production volumes for both 2013 and 2014 were impacted by planned maintenance.

On phases 1 and 2 of the Christina Lake Project, commercial deployment of MEG's proprietary *enhanced and modified steam and gas push* (eMSAGP) continued to advance, with its implementation on all original well pads from both phases. Steam-oil ratios and production trends have met or exceeded expectations.

Bitumen sales for the third quarter of 2014 were 69,757 bpd. The difference between sales and production in the third quarter is primarily due to MEG utilizing approximately 6,100 bpd of bitumen for linefill for the Access Pipeline expansion. The pipeline (50% MEG-owned) and the Stonefell Terminal (100% MEG-owned) are central to the company's 'Hub and Spoke' marketing strategy. MEG's Hub and Spoke strategy provides low-cost transportation to the Edmonton area marketing hub and the ability to temporarily store products during periods of market disruption or transportation constraint.

Third quarter 2014 non-energy operating costs decreased to $7.16 per barrel from $9.20 per barrel in the same period of 2013, primarily as a result of production increases that spread fixed costs over higher volumes. Net operating costs, which include natural gas energy costs as well as the benefit of electricity sales, were $10.31 per barrel in the third quarter of 2014, compared to $9.40 per barrel in the third quarter of 2013. The difference reflects higher natural gas energy costs and a decrease of approximately 22 per cent in average prices for electricity sold into the Alberta power grid.

Cash operating netback - the net revenue received by MEG after adjusting for operating and transportation costs - remained strong at $48.70 per barrel in the third quarter of 2014 compared to $51.45 per barrel in the second quarter. Cash operating netbacks for the first nine months of 2014 were $48.18 per barrel compared to $40.32 per barrel for the first nine months of 2013. The increase in year-to-date cash operating netbacks is primarily due to increased crude oil benchmark prices and narrowing light-heavy oil differentials, partially offset by an increase in natural gas energy prices and a decrease in power sales pricing.

"Pricing for Western Canadian heavy oil blends remains attractive," said McCaffrey. "This is a trend that we expect to see continue as new infrastructure, such as the Flanagan-Seaway pipeline system and expanded rail-loading facilities, come into play over the next several months."

Record production volumes, low operating costs and strong price realizations in the third quarter of 2014 contributed to quarterly cash flow from operations of $238.7 million ($1.06 per share, diluted), compared to $144.5 million ($0.64 per share, diluted) in the third quarter of 2013. MEG's third quarter 2014 cash flow from operations is the second highest quarter on record for the company.

Operating earnings, which are adjusted for items that are not indicative of operating performance, increased to $87.5 million ($0.39 per share, diluted) in the third quarter of 2014 from $56.2 million ($0.25 per share, diluted) in the same period of 2013, reflecting the same factors that impacted cash flow from operations.

MEG recorded a net loss of $101.0 million ($0.45 per share, diluted) in the third quarter of 2014 compared to net income of $115.4 million ($0.51 per share, diluted) in the third quarter of 2013. The difference primarily reflects $203.1 million of unrealized foreign exchange losses on the translation of the company's US$ denominated debt in the third quarter of 2014 compared to unrealized foreign exchange gains of $64.3 million in the third quarter of 2013.

Operational and Financial Highlights

The following table summarizes selected operational and financial information of the Corporation for the periods noted. All dollar amounts are stated in Canadian dollars unless otherwise noted:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Bitumen production - bpd	76,471	34,246	68,108	32,980
Bitumen sales - bpd	69,757	32,175	66,275	32,948
Steam to oil ratio (SOR)	2.5	2.5	2.5	2.4
West Texas Intermediate (WTI) US$/barrel	97.16	105.83	99.61	98.14
West Texas Intermediate (WTI) C$/barrel	105.84	109.90	109.02	100.45
Access Western Blend (AWB) US$/barrel	72.16	83.20	73.54	68.98
Access Western Blend (AWB) C$/barrel	78.60	86.40	80.49	70.60
Differential - WTI vs AWB - %	25.7%	21.4%	26.2%	29.7%
Bitumen realization - $/barrel	65.12	74.33	67.02	53.35
Net operating costs(1) - $/barrel	10.31	9.40	12.76	9.56
Non-energy operating costs - $/barrel	7.16	9.20	8.59	9.33
Cash operating netback(2) - $/barrel	48.70	59.59	48.18	40.32
Total cash capital investment(3) - $000	310,814	476,362	974,643	1,799,121
Net income (loss)(4) - $000	(100,975)	115,383	44,538	(18,223)
Per share, diluted	(0.45)	0.51	0.20	(0.08)
Operating earnings(5) - $000	87,471	56,171	239,269	33,071
Per share, diluted(5)	0.39	0.25	1.06	0.15
Cash flow from operations(5) - $000	238,659	144,521	657,359	230,776
Per share, diluted(5)	1.06	0.64	2.92	1.03
Cash, cash equivalents and short-term investments - $000	776,522	647,096	776,522	647,096
Long-term debt - $000(6)	4,217,536	2,857,740	4,217,536	2,857,740

(1) Net operating costs include energy and non-energy operating costs, reduced by power revenue.

(2) Cash operating netbacks are calculated by deducting the related diluent, transportation, field operating costs and royalties from proprietary sales volumes and power revenues, on a per barrel basis.

(3) Includes capitalized interest of $19.5 million and $61.1 million for the three and nine months ended September 30, 2014, respectively ($21.8 million and $53.6 million respectively, for the three and nine months ended September 30, 2013).

(4) Includes an unrealized foreign exchange loss of $203.1 million on conversion of the U.S. dollar denominated debt for the three months ended September 30, 2014. Includes an unrealized foreign exchange loss of $218.5 million on conversion of the U.S. dollar denominated debt for the nine months ended September 30, 2014. Includes an unrealized foreign exchange gain on conversion of U.S. dollar denominated debt of $64.3 million and an unrealized foreign exchange loss of $85.9 million, respectively, for the three and nine months ended September 30, 2013.

(5) Please refer to "Non-GAAP Financial Measures" below.

(6) Includes current and non-current portion.

A full version of MEG's Third Quarter 2014 Report to Shareholders, including unaudited financial statements, is available at www.megenergy.com/investors and at www.sedar.com.

A conference call will be held to review the financial results at 7:30 a.m. Mountain Time (9:30 a.m. Eastern Time) on Wednesday, October 29, 2014. The U.S./Canada toll-free conference call number is 1 866-223-7781. The international/local conference call number is 416-340-2216.

Forward-Looking Information

This document may contain forward-looking information including but not limited to: expectations of future production, revenues, expenses, cash flow, operating costs, steam-oil ratios ("SORs"), pricing differentials, reliability, profitability and capital investments; estimates of reserves and resources; the anticipated reductions in operating costs as a result of optimization and scalability of certain operations; and the anticipated sources of funding for operations and capital investments. Such forward-looking information is based on management's expectations and assumptions regarding future growth, results of operations, production, future capital and other expenditures, plans for and results of drilling activity, environmental matters, business prospects and opportunities.

By its nature, such forward-looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: risks associated with the oil and gas industry, for example, the securing of adequate supplies and access to markets and transportation infrastructure; the availability of capacity on the electrical transmission grid; the uncertainty of reserve and resource estimates; the uncertainty of estimates and projections relating to production, costs and revenues; health, safety and environmental risks; risks of legislative and regulatory changes to, amongst other things, tax, land use, royalty and environmental laws; assumptions regarding and the volatility of commodity prices and foreign exchange rates; risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the expansion of MEG's projects; risks and uncertainties related to the timing of completion, commissioning, start-up, of MEG's future phases, expansions and projects; and the operational risks and delays in the development, exploration, production, and the capacities and performance associated with MEG's projects.

Although MEG believes that the assumptions used in such forward-looking information are reasonable, there can be no assurance that such assumptions will be correct. Accordingly, readers are cautioned that the actual results achieved may vary from the forward-looking information provided herein and that the variations may be material. Readers are also cautioned that the foregoing list of assumptions, risks and factors is not exhaustive.

Further information regarding the assumptions and risks inherent in the making of forward-looking statements can be found in MEG's annual information form ("AIF") dated March 5, 2014, along with MEG's other public disclosure documents. Copies of the AIF and MEG's other public disclosure documents are available through the SEDAR website which is available at www.sedar.com.

The forward-looking information included in this document is expressly qualified in its entirety by the foregoing cautionary statements. Unless otherwise stated, the forward-looking information included in this document is made as of the date of this document and the Corporation assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Non-GAAP Financial Measures

This document includes references to financial measures commonly used in the crude oil and natural gas industry, such as operating earnings and cash flow from operations. These financial measures are not defined by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and therefore are referred to as non-GAAP measures. The non-GAAP measures used by MEG may not be comparable to similar measures presented by other companies. MEG uses these non-GAAP measures to help evaluate its performance. Management considers operating earnings to be an important measure of profitability relative to current commodity prices. Management uses cash flow from operations to measure MEG's ability to generate funds to finance capital expenditures and repay debt. These non-GAAP measures should not be considered as an alternative to or more meaningful than net income (loss) or net cash provided by (used in) operating activities, as determined in accordance with IFRS, as an indication of MEG's performance. The non-GAAP measure of operating earnings is reconciled to net income (loss), while cash flow from operations is reconciled to net cash provided by (used in) operating activities, as determined in accordance with IFRS, under the heading "Non-GAAP Measurements" in MEG's Management's Discussion and Analysis pertaining to the third quarter of 2014.

MEG Energy Corp. is focused on sustainable in situ oil sands development and production in the southern Athabasca oil sands region of Alberta, Canada. MEG is actively developing enhanced oil recovery projects that utilize SAGD extraction methods. MEG's common shares are listed on the Toronto Stock Exchange under the symbol "MEG".

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