

Non-energy operating cost target reduced to \$6.90 to \$7.10 per barrel from \$7.30 to \$9.30 per barrel; All financial figures in C\$ unless otherwise noted

CALGARY, AB--(Marketwired - October 28, 2015) - [MEG Energy Corp.](#) (TSX: MEG) today reported third quarter 2015 operating and financial results. Highlights include:

- Net operating costs of \$9.10 per barrel, supported by record-low non-energy operating costs of \$5.98 per barrel in the third quarter and with annual guidance reduced to a targeted \$6.90 to \$7.10 non-energy operating cost per barrel;
- Record-high quarterly production volumes of 82,768 barrels per day (bpd);
- Cash flow from operations of \$24 million, or \$0.11 per share, and reduced capital spending supporting strong financial liquidity, exiting the quarter with \$351 million in cash and an undrawn US\$2.5 billion credit facility;
- The 2015 capital program has been revised downwards to approximately \$280 million from the previous guidance of \$305 million.

"Despite the challenging commodity price environment, we continue to see positive results from the cost reduction strategy that has moved MEG to a net operating cost of less than \$10 per barrel," said Bill McCaffrey, President and Chief Executive Officer. "This is a result of our ongoing efforts to further improve our operating efficiencies, as well as our success in steadily increasing production volumes from our existing assets."

MEG's third quarter 2015 production was a record 82,768 bpd, compared to 76,471 bpd for the third quarter of 2014. Production in the current quarter was slightly reduced from normal plant throughput levels as facilities ramped-up following planned major turnaround work, which was completed early in the third quarter. The turnaround work had been delayed from the original schedule due to wildfires in the Christina Lake area. Year-to-date production for the first nine months of 2015 increased 16% to 78,849 bpd from 68,108 bpd for the same period in 2014. MEG continues to target annual production of 78,000 to 82,000 bpd for 2015.

Net operating costs for the third quarter of 2015 averaged \$9.10 per barrel compared to \$10.31 per barrel for the third quarter of 2014. The decrease in net operating costs is due to a record-low non-energy operating cost of \$5.98 per barrel and a decrease in energy operating costs related to lower natural gas prices. These positive impacts were partially offset by a decrease in power revenue from electricity sold to the market from MEG's cogeneration facilities.

"The combination of advancements in technology, together with continued success in reducing our overall cost base, has enabled us to lower non-energy operating costs, along with sustaining and maintenance expenditures," said McCaffrey. "We've been able to reduce our non-energy operating cost guidance by 16% to between \$6.90 and \$7.10 per barrel and decrease our sustaining and maintenance capital to the \$7.00 to \$8.00 per barrel range."

MEG reported cash flow from operations of \$24 million for the third quarter of 2015 compared to \$239 million for the same period in 2014. The decrease is primarily due to lower crude oil benchmark pricing and higher transportation and interest costs. These impacts were partially offset by higher sales volumes and reduced royalties (reflecting lower commodity prices).

MEG recognized an operating loss of \$87 million for the third quarter of 2015 compared to operating earnings of \$87 million for the third quarter of 2014. Operating earnings were impacted by the same factors that impacted cash flow, as well as an increase in depletion and depreciation expense.

MEG's 2015 planned annual capital program guidance has been revised downward to approximately \$280 million from the previous guidance of \$305 million. The aggregate reduction in the annual capital program is \$49 million, after considering the revised \$280 million program includes \$24 million of capitalized turnaround costs, which were not part of the initial \$305 million capital program.

Financial Liquidity

As at September 30, 2015, MEG's available capital resources included \$351 million of cash and cash equivalents and an undrawn US\$2.5 billion syndicated revolving credit facility. The company also has a US\$500 million guaranteed letter of credit facility, under which US\$151 million of letters of credit have been issued. All of MEG's long-term debt is free of any financial maintenance covenants and is not dependent on, nor calculated from, MEG's crude oil reserves.

Along with its focus on cost reductions, MEG is reviewing its options around the monetization of the Access Pipeline to assist in further strengthening of the balance sheet.

Operational and Financial Highlights

The following table summarizes selected operational and financial information for the periods noted. All dollar amounts are

stated in Canadian dollars (\$ or C\$) unless otherwise noted.

	Nine months ended Sept 30 2015			2014				
(\$ millions, except as indicated)	2015	2014	Q3	Q2	Q1	Q4	Q3	Q2
Bitumen production - bbls/d	78,849	68,108	82,768	71,376	82,398	80,349	76,471	68,984
Bitumen realization - \$/bbl	33.20	67.02	31.03	44.54	25.82	50.48	65.12	72.75
Net operating costs - \$/bbl ⁽¹⁾	9.69	12.76	9.10	9.43	10.49	10.13	10.31	14.49
Non-energy operating costs - \$/bbl	6.84	8.59	5.98	7.01	7.57	6.42	7.16	9.64
Cash operating netback ⁽²⁾ - \$/bbl	18.01	48.18	16.41	29.64	9.83	35.56	48.70	51.45
Cash flow from (used in) operations ⁽³⁾	94	657	24	99	(30)	134	239	262
Per share, diluted ⁽³⁾	0.42	2.92	0.11	0.44	(0.13)	0.60	1.06	1.16
Operating earnings (loss) ⁽³⁾	(234)	239	(87)	(23)	(124)	8	87	111
Per share, diluted ⁽³⁾	(1.04)	1.06	(0.39)	(0.10)	(0.56)	0.04	0.39	0.49
Revenue ⁽⁴⁾	1,481	2,215	460	555	467	615	706	829
Net earnings (loss) ⁽⁵⁾	(872)	45	(428)	63	(508)	(150)	(101)	249
Per share, basic	(3.89)	0.20	(1.90)	0.28	(2.27)	(0.67)	(0.45)	1.12
Per share, diluted	(3.89)	0.20	(1.90)	0.28	(2.27)	(0.67)	(0.45)	1.11
Total cash capital investment ⁽⁶⁾	203	914	32	90	80	324	291	299
Cash, cash equivalents and short-term investments	351	777	351	438	471	656	777	840
Long-term debt	5,024	4,203	5,024	4,678	4,759	4,350	4,203	4,002

- (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, operating expenses and royalties from proprietary sales volumes and power revenues, on a per barrel of bitumen sales volume basis.
- (3) Cash flow from (used in) operations, Operating earnings (loss), and the related per share amounts do not have standardized meanings prescribed by International Financial Reporting Standards (IFRS) and therefore may not be comparable to similar measures used by other companies. For the three and nine months ended September 30, 2015 and September 30, 2014, the non-GAAP measure of cash flow from operations is reconciled to net cash provided by (used in) operating activities and the non-GAAP measure of operating earnings (loss) is reconciled to net earnings (loss) in accordance with IFRS under the heading "NON-GAAP MEASURES" and discussed within the reconciliation below.
- (4) The total of Petroleum revenue, net of royalties and Other revenue as presented on the Interim Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).
- (5) Includes a net unrealized foreign exchange loss of \$330.5 million and \$626.3 million on MEG's U.S. dollar denominated debt and U.S. dollar denominated cash and cash equivalents for the three and nine months ended September 30, 2015, respectively. The net earnings (loss) for the three and nine months ended September 30, 2014 include a net unrealized foreign exchange loss of \$188.7 million and \$194.1 million, respectively.
- (6) Defined as total capital investment excluding capitalized interest and non-cash items.
- (7) Totals may not add due to rounding.

Cash Flow from Operations⁽¹⁾

Cash flow from operations is a non-GAAP measure utilized by MEG to analyze operating performance and liquidity. Cash flow from operations excludes the net change in non-cash operating working capital, contract cancellation recovery and decommissioning expenditures while the IFRS measurement "Net cash provided by (used in) operating activities" includes these items. Cash flow from operations is reconciled to Net cash provided by (used in) operating activities in the table below.

	Three months ended September 30		Nine months ended September 30	
(\$000)	2015	2014	2015	2014
Net cash provided by (used in) operating activities	\$ (5,188)	\$ 221,859	\$ 99,631	\$ 557,515
Add (deduct):				
Net change in non-cash operating working capital items	28,887	16,651	(1,594)	98,923
Contract cancellation recovery	-	-	(5,880)	-
Decommissioning expenditures	178	149	1,429	921
Cash flow from operations	\$ 23,877	\$ 238,659	\$ 93,586	\$ 657,359

- (1) Cash flow from operations is a non-GAAP measure as defined in the "ADVISORY" section.

Operating Earnings (Loss)⁽¹⁾

	Three months ended September 30		Nine months ended September 30	
(\$000)	2015	2014	2015	2014
Net earnings (loss)	\$ (427,503)	\$ (100,975)	\$ (872,396)	\$ 44,538
Add (deduct):				
Unrealized net loss on foreign exchange ⁽²⁾	330,478	188,687	626,301	194,140
Unrealized loss (gain) on derivative financial liabilities ⁽³⁾	6,807	(4,696)	2,600	(6,913)
Unrealized fair value gain on other assets	-	(429)	-	(429)
Contract cancellation recovery ⁽⁴⁾	-	-	(5,880)	-
Deferred tax expense relating to these adjustments	3,449	4,884	15,235	7,933
Operating earnings (loss)	\$ (86,769)	\$ 87,471	\$ (234,140)	\$ 239,269

(1) *Operating earnings (loss) is a non-GAAP measure as defined in the "ADVISORY" section.*

(2) *Unrealized net foreign exchange gains and losses result from the translation of U.S. dollar denominated long-term debt and cash and cash equivalents using period-end exchange rates.*

(3) *Unrealized gains and losses on derivative financial liabilities result from the interest rate floor on MEG's long-term debt and interest rate swaps entered into to effectively fix a portion of its variable rate long-term debt.*

(4) *A recovery related to project cancellation costs initially recorded in the fourth quarter of 2014.*

ADVISORY

Basis of Presentation

MEG prepares its financial statements in accordance with International Reporting Standards ("IFRS") and presents financial results in Canadian dollars (\$ or C\$), which is the corporation's functional currency.

Non-GAAP Financial Measures

This document includes references to financial measures commonly used in the crude oil and natural gas industry, such as cash flow from (used in) operations and operating earnings (loss). These financial measures are not defined by 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. These non-GAAP measures should not be considered as an alternative to or more meaningful than net cash provided by (used in) operating activities or net earnings (loss), as determined in accordance with IFRS, as an indication of MEG's performance.

Cash Flow from (Used In) Operations

Cash flow from (used in) operations is a non-GAAP measure utilized by MEG to analyze operating performance and liquidity. Cash flow from (used in) operations excludes the net change in non-cash operating working capital, contract cancellation cost (recovery) and decommissioning expenditures while the IFRS measurement "Net cash provided by (used in) operating activities" includes these items.

Operating Earnings (Loss)

Operating earnings (loss) is a non-GAAP measure which the corporation uses as a performance measure to provide comparability of financial performance between periods by excluding non-operating items. Operating earnings (loss) is defined as net earnings (loss) as reported, excluding unrealized foreign exchange gains and losses, unrealized gains and losses on derivative financial liabilities, unrealized fair value gains and losses on other assets, contract cancellation cost (recovery) and the respective deferred tax impact of these adjustments.

A full version of MEG's Third Quarter 2015 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 MEG's third quarter results at 7:30 a.m. Mountain Time (9:30 a.m. Eastern Time) on Wednesday, October 28. The U.S./Canada toll-free conference call number is 1 800-396-7098. The international/local conference call number is 416-340-8527.

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, 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 electricity 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 MEG's future phases and the expansion and/or operation of MEG's projects; risks and uncertainties related to the timing of completion, commissioning, and 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 most recently filed Annual Information Form ("AIF"), 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 MEG assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

[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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