

CALGARY, AB --(Marketwired - April 28, 2016) - [MEG Energy Corp.](#) today reported first quarter 2016 operating and financial results. Highlights include:

- Quarterly production of 76,640 barrels per day (bpd), which includes the impact of planned turnaround work;
- Net operating costs of \$8.53 per barrel, a decrease of 19% from the first quarter of 2015 and in line with record-low costs of \$8.52 per barrel in the fourth quarter of 2015;
- Cash flow used in operations of \$0.58 per share, primarily resulting from lower bitumen price realizations;
- A reduction in planned annual capital spending from \$328 million to \$170 million, while still maintaining annual guidance of 80,000 to 83,000 bpd at \$6.75 to \$7.75 per barrel non-energy operating costs;
- Continuing strong financial liquidity, exiting the quarter with \$125 million of cash and cash equivalents and an undrawn US\$2.5 billion credit facility.

"Operating results for the first quarter were right on plan," said Bill McCaffrey, President and Chief Executive Officer. "Strong, steady and reliable production, combined with low operating costs and capital flexibility, are the foundation this company is built on."

MEG recorded production of 76,640 bpd in the first quarter of 2016. This included the impact of a turnaround at the company's Christina Lake facilities that was brought forward from the second quarter of 2016 to take advantage of the lower oil price environment. Volumes in the first quarter of 2016 were only slightly lower than the first quarter 2015, which was not impacted by a turnaround.

MEG continues to target average production of 80,000 to 83,000 barrels per day in 2016 at an average non-energy operating cost of \$6.75 to \$7.75 per barrel.

Net operating costs in the first quarter of 2016 averaged \$8.53 per barrel compared to \$10.49 per barrel in the first quarter of 2015. The significant decrease in net operating costs reflects the implementation of efficiency measures through MEG's RISER initiative and a continuing focus on cost management for services at the company's operating facilities. Net operating costs also benefited from a decrease in the cost of natural gas used to power the company's SAGD facilities.

"The low commodity price environment continued to impact cash flow generated from the strong operating performance," says McCaffrey. "Low operating and capital costs, strong liquidity and well-structured debt have all helped MEG to navigate through this current low price environment."

MEG reported cash flow used in operations of \$131 million for the first quarter of 2016, compared to cash flow used in operations of \$30 million for the same period in 2015. Cash flow used in operations increased primarily due to lower bitumen realization and reduced sales volumes associated with the turnaround, partially offset by lower net operating costs and lower royalties. The decrease in bitumen realization is directly correlated to the significant decline of U.S. crude oil benchmark pricing.

MEG recognized an operating loss of \$197 million for the first quarter of 2016, compared to an operating loss of \$124 million in the same period of 2015. Comparative results are primarily impacted by the same factors affecting cash flow used in operations.

In the first quarter of 2016, MEG reduced its 2016 capital budget to \$170 million from \$328 million and expects annual capital spending will be primarily directed towards sustaining activities. As a result of ongoing cost control initiatives, MEG has reduced, respectively, non-energy operating costs by 15% per barrel and general and administrative expenses by 12% per barrel, compared to the first quarter of 2015.

In addition, the company is implementing a strategic hedging program to increase the predictability of future cash flows.

At the end of the first quarter, MEG had \$125 million of cash on hand. At current strip prices, MEG anticipates its US\$2.5 billion revolving credit facility will be undrawn at the end of 2016.

Operational and Financial Highlights

The following table summarizes selected operational and financial information for the periods noted. Dollar values are in \$Cdn millions unless otherwise noted.

	2016				2015			
(\$ millions, except as indicated)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Bitumen production - bpd	76,640	83,514	82,768	71,376	82,398	80,349	76,471	68,984
Bitumen realization - \$/bbl	11.43	23.17	31.03	44.54	25.82	50.48	65.12	72.75

Net operating costs - \$/bbl ⁽¹⁾	8.53	8.52	9.10	9.43	10.49	10.13	10.31	14.49
Non-energy operating costs - \$/bbl	6.45	5.66	5.98	7.01	7.57	6.42	7.16	9.64
Cash operating netback - \$/bbl ⁽²⁾	(3.71)	) 9.05	16.41	29.64	9.83	35.56	48.70	51.45
Cash flow from (used in) operations ⁽³⁾	(131)	) (44	) 24	99	(30)	) 134	239	262
Per share, diluted ⁽³⁾	(0.58)	) (0.20)	) 0.11	0.44	(0.13)	) 0.60	1.06	1.16
Operating earnings (loss) ⁽³⁾	(197)	) (140)	) (87)	) (23)	) (124)	) 8	87	111
Per share, diluted ⁽³⁾	(0.88)	) (0.62)	) (0.39)	) (0.10)	) (0.56)	) 0.04	0.39	0.49
Revenue ⁽⁴⁾	290	445	460	555	467	615	706	829
Net earnings (loss) ⁽⁵⁾	131	(297)	) (428)	) 63	(508)	) (150)	) (101)	) 249
Per share, basic	0.58	(1.32)	) (1.90)	) 0.28	(2.27)	) (0.67)	) (0.45)	) 1.12
Per share, diluted	0.58	(1.32)	) (1.90)	) 0.28	(2.27)	) (0.67)	) (0.45)	) 1.11
Total cash capital investment ⁽⁶⁾	35	54	32	90	80	324	291	299
Cash and cash equivalents	125	408	351	438	471	656	777	840
Long-term debt ⁽⁷⁾	4,859	5,190	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 expense, transportation, operating expenses and royalties from proprietary blend revenues 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 IFRS and therefore may not be comparable to similar measures used by other companies. For the three months ended March 31, 2016 and March 31, 2015, the non-GAAP measure of cash flow used in operations is reconciled to net cash used in operating activities and the non-GAAP measure of operating loss is reconciled to net earnings (loss) in accordance with IFRS under the heading "NON-GAAP MEASURES" and discussed further in the "ADVISORY" section.

(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 gain of \$320.3 million on the Corporation's U.S. dollar denominated debt and U.S. dollar denominated cash and cash equivalents for the three months ended March 31, 2016. The net loss for the three months ended March 31, 2015 includes a net unrealized foreign exchange loss of \$370.8 million.

(6) Defined as total capital investment excluding dispositions, capitalized interest, and non-cash items.

(7) On February 3, 2016, Moody's Investors Service ("Moody's") downgraded the Corporation's Corporate Family Rating (CFR) to Caa2 from B1, Probability of Default Rating to Caa2-PD from B1-PD, secured bank credit facility rating to B3 from Ba2 and senior unsecured notes rating to Caa3 from B2. The Speculative Grade Liquidity Rating was lowered to SGL-2 from SGL-1. The rating outlook is negative. The Corporation's senior secured term loan and senior unsecured notes do not include any provision that would require any changes in payment schedules or terminations as a result of a credit downgrade.

(8) Totals may not add due to rounding.

ADVISORY

Basis of Presentation

MEG prepares its financial statements in accordance with International Financial 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 used in operations is a non-GAAP measure utilized by the Corporation to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capital, decommissioning expenditures and payments on onerous contracts while the IFRS measurement "Net cash used in operating activities" includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below.

	Three months ended March 31	
(\$000)	2016	2015
Net cash used in operating activities	\$ (220,671)	\$ (16,942)
Add (deduct):		
Net change in non-cash operating working capital items	87,840	(13,488)
Decommissioning expenditures	962	896
Payments on onerous contracts	629	-
Cash flow used in operations	\$ (131,240)	\$ (29,534)

Operating Earnings (Loss)

Operating 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 loss is defined as net earnings (loss) as reported, excluding unrealized foreign exchange gains and losses, unrealized gains and losses on derivative financial instruments, onerous contracts and the respective deferred tax impact of these adjustments. Operating loss is reconciled to "Net earnings (loss)", the nearest IFRS measure, in the table below.

	Three months ended March 31	
(\$000)	2016	2015
Net earnings (loss)	\$ 130,829	\$ (508,307)
Add (deduct):		
Unrealized net loss (gain) on foreign exchange ⁽¹⁾	(320,281)	370,849
Unrealized loss (gain) on derivative financial instruments ⁽²⁾	(11,474)	3,531
Onerous contracts ⁽³⁾	4,371	-
Deferred tax expense (recovery) relating to these adjustments	(731)	9,506
Operating loss	\$ (197,286)	\$ (124,421)

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

(2) *Unrealized gains and losses on derivative financial instruments result from the interest rate floor on the Corporation's long-term debt and interest rate swaps entered into to effectively fix a portion of its variable rate long-term debt. Unrealized gains or losses on commodity risk management contracts represent the change in the mark-to-market position of the unsettled commodity risk management contracts during the period.*

(3) *During the first quarter of 2016, an onerous operating lease expense was recognized primarily related to the reduction of the Corporation's capital program for 2016 and its impact on drilling contracts.*

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, interest rates and foreign exchange rates, and, risks and uncertainties related to commodity price, interest rate and foreign exchange rate swap contracts and/or derivative financial instruments that MEG may enter into from time to time to manage its risk related such prices and 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 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.

A full version of MEG's First Quarter 2016 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 9:00 a.m. Mountain Time (11:00 a.m. Eastern Time) on Thursday, April 28, 2016. The U.S./Canada toll-free conference call number is 1 866-225-6564. The international/local conference call number is 416-340-2220.

[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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