

MEG Energy announces second quarter 2023 financial and operating results

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All financial figures are in Canadian dollars (\$) or C\$) and all references to barrels are per barrel of bitumen unless otherwise noted. The Corporation's Non-GAAP and Other Financial Measures are detailed in the Advisory section of this news release. They include: cash operating netback, bitumen realization net of transportation and storage expense, operating expenses net of power revenue, energy operating costs net of power revenue, non-energy operating costs, energy operating costs, adjusted funds flow, free cash flow and net debt.

CALGARY, July 27, 2023 - [MEG Energy Corp.](#) (TSX: MEG) ("MEG" or the "Corporation") reported its second quarter 2023 operational and financial results.

"I want to congratulate and thank the MEG team on the execution of a safe and successful second quarter turnaround despite the challenging labour market and ongoing supply chain constraints", said Derek Evans, President and Chief Executive Officer. "Our Christina Lake operation is well positioned to deliver even higher second half free cash flow and build on the US\$126 million of debt reduction and \$169 million of share buybacks achieved in the first half of the year".

Second quarter 2023 highlights include:

- Bitumen production of 85,974 barrels per day ("bbls/d") at a 2.25 steam-oil ratio ("SOR") reflecting the impact of the major planned turnaround in the quarter;
- Funds flow from operating activities ("FFO") and adjusted funds flow ("AFF") of \$278 million, or \$0.96 per share;
- Free cash flow ("FCF") of \$129 million, after \$149 million of capital expenditures, including \$66 million directed towards completion of the major planned turnaround;
- Debt repayment of US\$40 million (approximately \$54 million) during the second quarter of 2023 and US\$126 million (approximately \$171 million) year-to-date. Net debt declined to US\$994 million (approximately \$1.3 billion) at the end of the second quarter of 2023;
- MEG returned \$66 million to shareholders through the buyback and cancellation of 3.1 million shares at a weighted average price of \$21.51 per share. Year-to-date buybacks totaled 8.0 million shares, returning \$169 million to shareholders;
- Operating expenses net of power revenue of \$6.63 per barrel. Power revenue offset 75% of energy operating costs, resulting in energy operating costs net of power revenue of \$0.97 per barrel and non-energy operating costs of \$5.66 per barrel, all reflecting lower production in the quarter due to the major planned turnaround;
- The Christina Lake operation reached post-payout status under the Oil Sands Royalty Regulation resulting in an increase to the effective royalty rate as expected; and
- On April 14, 2023, S&P Global Ratings raised the Corporation's long-term issuer credit rating to BB- with a stable outlook from B+ and affirmed the issue-level rating on the Corporation's senior unsecured notes at BB-. On May 24, 2023, Moody's Investors Service raised the Corporation's long-term issuer credit rating to Ba3 with a stable outlook from B1 and raised the issue-level rating on the Corporation's senior unsecured notes to B1 from B2.

	Six months ended June 30		2023		2022			2021	
	2023	2022	Q2	Q1	Q4	Q3	Q2	Q1	Q4
(\$millions, except as indicated)									
Bitumen production - bbls/d	96,349	84,099	85,974	106,840	110,805	101,983	67,256	101,128	100,698

Steam-oil ratio	2.25	2.44	2.25	2.25	2.22	2.39	2.46	2.43	2.42
Bitumen sales - bbls/d	94,942	86,564	83,531	106,480	113,582	95,759	73,091	100,186	98,894
Bitumen realization after net transportation and storage expense ⁽¹⁾ - \$/bbl	49.69	108.07	57.64	43.40	54.75	74.75	103.29	84.31	59.67
Operating expenses - \$/bbl	10.01	13.46	9.58	10.34	11.05	10.61	16.05	11.54	10.78
Operating expenses net of power revenue ⁽¹⁾ - \$/bbl	6.35	10.68	6.63	6.13	5.83	5.45	12.97	8.98	8.20
Non-energy operating costs ⁽²⁾ - \$/bbl	5.17	5.13	5.66	4.77	4.34	4.49	5.65	4.74	4.56
Cash operating netback ⁽¹⁾ - \$/bbl	37.89	75.10	42.38	34.32	43.89	62.63	81.75	70.21	37.87
General & administrative expense - \$/bbl of bitumen production volumes	1.90	1.92	1.85	1.94	1.62	1.72	2.37	1.61	1.58
Funds flow from operating activities	626	999	278	348	383	501	412	587	260
Per share, diluted	2.15	3.18	0.96	1.19	1.28	1.63	1.31	1.87	0.83
Adjusted funds flow ⁽³⁾	552	1,038	278	274	401	496	478	559	274
Per share, diluted ⁽³⁾	1.90	3.30	0.96	0.94	1.34	1.61	1.52	1.78	0.88
Free cash flow ⁽³⁾	290	846	129	161	295	418	374	471	168
Revenues	2,771	3,102	1,291	1,480	1,445	1,571	1,571	1,531	1,307
Net earnings (loss)	217	587	136	81	159	156	225	362	177
Per share, diluted	0.74	1.87	0.47	0.28	0.53	0.51	0.72	1.15	0.57
Capital expenditures	262	192	149	113	106	78	104	88	106
Long-term debt, including current portion	1,382	2,026	1,382	1,466	1,581	1,803	2,026	2,440	2,762
Net debt ⁽³⁾ - C\$	1,316	1,782	1,316	1,381	1,389	1,634	1,782	2,150	2,401

Net debt ⁽³⁾ - US\$	994	1,384	994	1,020	1,026	1,193	1,384	1,722	1,897
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Non-GAAP financial measure - please refer to the Advisory section of this news release.

(1)

(2) Supplementary financial measure - please refer to the Advisory section of this news release.

(3) Capital management measure - please refer to the Advisory section of this news release.

Financial Results

AFF and FFO in the second quarter of 2023 declined to \$278 million from \$478 million and \$412 million, respectively, in the same period of 2022, mainly reflecting a lower cash operating netback partially offset by lower interest expense due to reduced debt levels.

Cash operating netback per barrel declined 48% to \$42.38 per barrel in the second quarter of 2023 from \$81.75 in the same period of 2022 mainly reflecting a lower bitumen realization after net transportation and storage expense partially offset by reduced royalties and operating expenses net of power revenue. Bitumen realization after net transportation and storage expense declined to \$57.64 per barrel in the second quarter of 2023, compared to \$103.29 in the same period of 2022, due to a lower blend sales price, higher diluent expense and increased net transportation and storage expense.

Compared to the first quarter of 2023, second quarter cash operating netback rose 23% as bitumen realization after net transportation and storage expense improved by \$14.24 per barrel mainly driven by a narrowing WTI:AWB differential.

The Corporation's Christina Lake operation reached post-payout status under the Oil Sands Royalty Regulation during the second quarter of 2023 resulting in an increase in the effective royalty rate as expected. The impact of this higher post-payout rate was offset by lower gross revenue relative to the second quarter of 2022 and, as a result, the total royalty burden was consistent across both periods.

The Corporation sold 82% and 79% of its blend sales volumes in the USGC market during the second quarters of 2023 and 2022, respectively. Average heavy oil apportionment on the Enbridge mainline system was 1% and 0% in those periods.

FCF was \$129 million in the second quarter of 2023, compared to \$374 million in the same period of 2022, driven by the lower AFF and an increase in capital spending to \$149 million from \$104 million.

Higher 2023 capital expenditures reflect increased scope and timing of field development and maintenance activities. Turnarounds at the Christina Lake facility during both comparative quarters were successfully completed on time, however, increased turnaround costs in the second quarter of 2023 reflect a larger planned turnaround scope, found work, inflationary pressures on labour costs and ongoing supply chain challenges.

Net earnings were \$136 million and \$225 million in the second quarters of 2023 and 2022, respectively. The 2023 decline mainly reflects a lower cash operating netback and higher depletion and depreciation expense, partially offset by an unrealized foreign exchange gain and reduced income tax expense.

Operating Results

Bitumen production rose approximately 28% in the second quarter of 2023 to 85,974 bbls/d, from 67,256 bbls/d in the same period of 2022. Higher 2023 production was delivered at a 2.25 SOR, a 9% reduction from 2.46 in the second quarter of 2022. This reflects the Corporation's continued focus on optimized well spacing, enhanced completion designs, a capital efficient well redevelopment program and targeted facility enhancements. Production for the second quarters of both 2023 and 2022 was impacted by major planned turnaround activities at the Christina Lake Facility.

Non-energy operating costs of \$5.66 per barrel of bitumen sales in the second quarter of 2023 were consistent with \$5.65 per barrel during the same period of 2022.

Energy operating costs net of power revenue decreased to \$0.97 per barrel in the second quarter of 2023, from \$7.32 per barrel in the comparable period of 2022 reflecting a weaker AECO natural gas price. Power revenue offset 75% and 30% of energy operating costs in the second quarters of 2023 and 2022, respectively.

Debt Repurchases and Share Buybacks

The \$129 million of second quarter 2023 FCF was primarily used for debt repurchases and share buybacks. The Corporation repurchased US\$40 million (approximately \$54 million) of outstanding 7.125% senior unsecured notes at a weighted average price of 102.3%. Share buybacks totaled \$66 million through the repurchase and cancellation of 3.1 million shares at a weighted average price of \$21.51 per share. Year-to-date the Corporation repurchased US\$126 million (approximately \$171 million) of outstanding 7.125% senior unsecured notes at a weighted average price of 102.2% and share buybacks totaled \$169 million through the repurchase and cancellation of 8.0 million shares at a weighted average price of \$21.12 per share.

Capital Allocation Strategy

Approximately 50% of 2023 FCF is being allocated to debt reduction with the remainder applied to share buybacks. This allocation will remain until the US\$600 million net debt target is achieved. The Corporation exited the second quarter of 2023 with net debt of US\$994 million.

Sustainability and Pathways Update

MEG, along with its Pathways Alliance ("Alliance") peers, continues to progress pre-work on the proposed foundational carbon capture and storage ("CCS") project, which will transport CO₂ via pipeline from multiple oil sands facilities to be stored safely and permanently underground in the Cold Lake region of Alberta.

During the second quarter of 2023, the Alliance continued to evaluate the Pathways Alliance proposed storage hub and is working to obtain a carbon sequestration agreement from the Government of Alberta by year-end 2023 to allow for regulatory submissions for the carbon storage hub. In addition, the Alliance continued to advance engineering and field work related to the proposed CCS project in order to support a regulatory application anticipated in the fourth quarter of 2023 for the CCS network. Formal consultation with about 25 Indigenous groups along the proposed CO₂ transportation and storage network corridor has commenced and follows early engagement with these groups over the last two years.

The Alliance continues to work collaboratively with both the federal and Alberta governments on the necessary policy and co-financing frameworks required to move the project forward. During the second quarter of 2023, the Government of Alberta released its Emissions Reduction and Energy Development Plan with the goal of reducing emissions and achieving net zero, while ensuring industry can compete globally, attract investment and continue to provide economic growth and prosperity for Albertans and Canadians. The Government of Alberta recognized that a coordinated approach with the federal government and industry is needed to compete with the United States, Europe and others for investment in wide scale carbon capture, utilization and storage deployment, essential to achieve emissions reduction goals. The Alberta and federal governments are also in discussions relating to the formation of a bilateral working group to incentivize carbon capture and storage and other emissions-reduction technologies.

For further details on the Corporation's approach to ESG matters, please refer to the Corporation's 2021 ESG Report and its 2022 ESG Performance Data Supplement available in the "Sustainability" section of the Corporation's website at www.megenergy.com and the most recently filed AIF on www.sedarplus.ca.

Outlook

Bitumen production in the second half of the year is forecast at approximately 105,000 bbls/d moving annual

bitumen production towards the low end of the guidance range and non-energy operating costs and G&A expense towards the high end of their respective ranges. The 2023 guidance remains unchanged.

The Corporation has capacity to ship 100,000 bbls/d of AWB blend sales, on a pre-apportionment basis, to the USGC market via its committed FSP capacity. In addition, 20,000 bbls/d of capacity is contracted on the TMX pipeline system to Canada's West Coast. TMX is scheduled to come into service in early 2024, which will further broaden MEG's market access.

Summary of 2023 Guidance	
Capital expenditures	\$450 million
Bitumen production - annual average ⁽¹⁾	100,000 - 105,000 bbls/d
Non-energy operating costs	\$4.75 - \$5.05 per bbl
G&A expense	\$1.70 - \$1.90 per bbl

(1) 2023 guidance includes the bitumen production impact of the second quarter turnaround which impacted annual average bitumen production by approximately 6,000 barrels per day.

Adjusted Funds Flow Sensitivity

MEG's production is comprised entirely of crude oil and AFF is highly correlated with crude oil benchmark prices and light-heavy oil differentials. The following table provides an annual sensitivity estimate to the most significant market variables.

Variable	Range	2023 AFF Sensitivity ⁽¹⁾⁽²⁾ - C\$mm
WCS Differential (US\$/bbl)	+/- US\$1.00/bbl	+/- C\$45mm
WTI (US\$/bbl)	+/- US\$1.00/bbl	+/- C\$27mm
Bitumen Production (bbls/d)	+/- 1,000 bbls/d	+/- C\$17mm
Condensate (US\$/bbl)	+/- US\$1.00/bbl	+/- C\$14mm
Exchange Rate (C\$/US\$)	+/- \$0.01	+/- C\$9mm
Non-Energy Opex (C\$/bbl)	+/- C\$0.25/bbl	+/- C\$6mm
AECO Gas ⁽³⁾ (C\$/GJ)	+/- C\$0.50/GJ	+/- C\$2mm

Each sensitivity is independent of changes to other variables.

(1)

(2) Assumes low end of 2023 production guidance, US\$80.00/bbl WTI, US\$18.50/bbl WTI:AWB Edmonton discount, US\$9.00/bbl WTI:AWB Gulf Coast discount, C\$1.32/US\$ F/X rate, condensate purchased at 100% of WTI and one bbl of bitumen per 1.44 bbls of blend sales (1.44 blend ratio).

(3) Assumes 1.3 GJ/bbl of bitumen, 70% of 150 MW of power generation sold externally and a 30.0 GJ/MWh heat rate.

Conference Call

A conference call will be held to review MEG's second quarter 2023 operating and financial results at 6:30

a.m. Mountain Time (8:30 a.m. Eastern Time) on July 28, 2023. To participate, please dial the North American toll-free number 1-888-390-0546, or the international call number 1-416-764-8688.

A recording of the call will be available by 12 p.m. Mountain Time (2 p.m. Eastern Time) on the same day at <https://www.megenergy.com/investors/presentations-events/>.

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 and Other Financial Measures

Certain financial measures in this news release are non-GAAP financial measures or ratios, supplementary financial measures and capital management measures. These measures are not defined by IFRS and, therefore, may not be comparable to similar measures provided by other companies. These non-GAAP and other financial measures should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS.

Adjusted Funds Flow and Free Cash Flow

Adjusted funds flow and free cash flow are capital management measures and are defined in the Corporation's consolidated financial statements. Adjusted funds flow and free cash flow are presented to assist management and investors in analyzing operating performance and cash flow generating ability. Funds flow from operating activities is an IFRS measure in the Corporation's consolidated statement of cash flow. Adjusted funds flow is calculated as funds flow from operating activities excluding items not considered part of ordinary continuing operating results. By excluding non-recurring adjustments, the adjusted funds flow measure provides a meaningful metric for management and investors by establishing a clear link between the Corporation's cash flows and cash operating netback. Free cash flow is presented to assist management and investors in analyzing performance by the Corporation as a measure of financial liquidity and the capacity of the business to repay debt and return capital to shareholders. Free cash flow is calculated as adjusted funds flow less capital expenditures.

In the second quarter of 2022, an adjustment was made to the presentation of adjusted funds flow and free cash flow. In April 2020, the Corporation issued cash-settled RSUs under its long-term incentive ("LTI") plan when the share price was at a historic low of \$1.57 per share. Concurrent with the issuance, the Corporation entered equity price risk management contracts to manage share price volatility in the subsequent three-year period, effectively reducing share price appreciation cash flow risk. The increase in the Corporation's share price from April 2020 to June 30, 2022 resulted in the recognition of a significant cash-settled stock-based compensation expense, which was previously included as a component of adjusted funds flow and free cash flow. The actual cash impact of the 2020 cash-settled RSUs, however, is subject to equity price risk management contracts, so the cash impact over the term of these RSUs has been reduced and the change in value does not provide a valuable indication of operating performance.

Therefore, the financial statement impacts of the April 2020 cash-settled stock-based compensation and the equity price risk management contracts have been excluded from adjusted funds flow and free cash flow. All prior periods presented have been adjusted to reflect this change in presentation.

The following table reconciles FFO to AFF to FCF:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
(\$millions)				
Funds flow from operating activities	\$ 278	\$ 412	\$ 626	\$ 999
Adjustments:				
Impact of cash-settled SBC units subject to equity price risk management	-	66	13	85
Realized equity price risk management gain	-	-	(87)	(46)
Adjusted funds flow	278	478	552	1,038
Capital expenditures	(149)	(104)	(262)	(192)
Free cash flow	\$ 129	\$ 374	\$ 290	\$ 846

Net Debt

Net debt is a capital management measure and is defined in the Corporation's consolidated financial statements. Net debt is an important measure used by management to analyze leverage and liquidity. Net debt is calculated as long-term debt plus current portion of long-term debt less cash and cash equivalents.

The following table reconciles the Corporation's current and long-term debt to net debt:

As at	June 30, 2023	December 31, 2022
Long-term debt	\$ 1,382	\$ 1,578
Current portion of long-term debt	-	3
Cash and cash equivalents	(66)	(192)
Net debt - C\$	\$ 1,316	\$ 1,389
Net debt - US\$	\$ 994	\$ 1,026

Cash Operating Netback

Cash operating netback is a non-GAAP financial measure, or ratio when expressed on a per barrel basis. Its terms are not defined by IFRS and, therefore, may not be comparable to similar measures provided by other companies. This non-GAAP financial measure should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS.

Cash operating netback is a financial measure widely used in the oil and gas industry as a supplemental measure of a company's efficiency and its ability to generate cash flow for debt repayment, capital expenditures, or other uses. The per barrel calculation of cash operating netback is based on bitumen sales volumes.

Revenues is an IFRS measure in the Corporation's consolidated statement of earnings (loss) and comprehensive income (loss) which is the most directly comparable primary financial statement measure to cash operating netback. A reconciliation from revenues to cash operating netback has been provided below:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
(\$millions)				
Revenues	\$ 1,291	\$ 1,571	\$ 2,771	\$ 3,102
Diluent expense	(363)	(415)	(861)	(932)
Transportation and storage expense	(152)	(130)	(295)	(248)
Purchased product	(373)	(376)	(787)	(536)
Operating expenses	(73)	(107)	(172)	(211)
Realized gain (loss) on commodity risk management	(7)	1	(5)	2
Cash operating netback	\$ 323	\$ 544	\$ 651	\$ 1,177

Blend Sales and Bitumen Realization

Blend sales and bitumen realization are non-GAAP financial measures, or ratios when expressed on a per barrel basis, and are used as a measure of the Corporation's marketing strategy by isolating petroleum revenue and costs associated with its produced and purchased products and excludes royalties. Their terms are not defined by IFRS and, therefore, may not be comparable to similar measures provided by other companies. These non-GAAP financial measures should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS. Blend sales per barrel is based on blend sales volumes and bitumen realization per barrel is based on bitumen sales volumes.

Revenues is an IFRS measure in the Corporation's consolidated statement of earnings (loss) and comprehensive income (loss), which is the most directly comparable primary financial statement measure to blend sales and bitumen realization. A reconciliation from revenues to blend sales and bitumen realization has been provided below:

	Three months ended June 30				Six months ended June 30			
	2023		2022		2023		2022	
(\$millions, except as indicated)		\$/bbl		\$/bbl		\$/bbl		\$/bbl
Revenues	\$ 1,291		\$ 1,571		\$ 2,771		\$ 3,102	
Power and transportation revenue	(24)		(22)		(65)		(46)	
Royalties	58		58		89		105	
Petroleum revenue	1,325		1,607		2,795		3,161	
Purchased product	(373)		(376)		(787)		(536)	
Blend sales	952	\$ 87.81	1,231	\$ 128.20	2,008	\$ 81.22	2,625	\$ 115.23
Diluent expense	(363)	(10.27)	(415)	(5.51)	(861)	(14.48)	(932)	(7.16)
Bitumen realization	\$ 589	\$ 77.54	\$ 816	\$ 122.69	\$ 1,147	\$ 66.74	\$ 1,693	\$ 108.07

Net Transportation and Storage Expense

Net transportation and storage expense is a non-GAAP financial measure, or ratio when expressed on a per barrel basis. Its terms are not defined by IFRS and, therefore may not be comparable to similar measures provided by other companies. This non-GAAP financial measure should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS. Per barrel amounts are based on bitumen sales volumes.

It is used as a measure of the Corporation's marketing strategy by focusing on maximizing the realized AWB sales price after transportation and storage expense by utilizing its network of pipeline and storage facilities to optimize market access.

Transportation and storage expense is an IFRS measure in the Corporation's consolidated statements of earnings (loss) and comprehensive income (loss).

Power and transportation revenue is an IFRS measure in the Corporation's consolidated statement of earnings (loss) and comprehensive income (loss), which is the most directly comparable primary financial statement measure to transportation revenue. A reconciliation from power and transportation revenue to transportation revenue has been provided below.

	Three months ended June 30				Six months ended June 30			
	2023		2022		2023		2022	
(\$millions, except as indicated)		\$/bbl		\$/bbl		\$/bbl		\$/bbl
Transportation and storage expense	\$ (152)	\$ (20.01)	\$ (130)	\$ (19.57)	\$ (295)	\$ (17.15)	\$ (248)	\$ (15.86)
Power and transportation revenue	\$ 24		\$ 22		\$ 65		\$ 46	
Less power revenue	(23)		(21)		(63)		(44)	
Transportation revenue	\$ 1	\$ 0.11	\$ 1	\$ 0.17	\$ 2	\$ 0.10	\$ 2	\$ 0.16
Net transportation and storage expense	\$ (151)	\$ (19.90)	\$ (129)	\$ (19.40)	\$ (293)	\$ (17.05)	\$ (246)	\$ (15.70)

Bitumen Realization after Net Transportation and Storage Expense

Bitumen realization after net transportation and storage expense is a non-GAAP financial measure, or ratio when expressed on a per barrel basis. Its terms are not defined by IFRS and, therefore may not be comparable to similar measures provided by other companies. This non-GAAP financial measure should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS. Per barrel amounts are based on bitumen sales volumes.

It is used as a measure of the Corporation's marketing strategy by focusing on maximizing the realized AWB sales price after net transportation and storage expense by utilizing its network of pipeline and storage facilities to optimize market access.

	Three months ended June 30				Six months ended June 30			
	2023		2022		2023		2022	
		\$/bbl		\$/bbl		\$/bbl		\$/bbl
(\$millions, except as indicated)								
Bitumen realization ⁽¹⁾	\$ 589	\$ 77.54	\$ 816	\$ 122.69	\$ 1,147	\$ 66.74	\$ 1,693	\$ 108.07
Net transportation and storage expense ⁽¹⁾	(151)	(19.90)	(129)	(19.40)	(293)	(17.05)	(246)	(15.70)
Bitumen realization after net transportation and storage expense	\$ 438	\$ 57.64	\$ 687	\$ 103.29	\$ 854	\$ 49.69	\$ 1,447	\$ 92.37

Non-GAAP financial measure as defined in this section.

(1)

Operating Expenses net of Power Revenue and Energy Operating Costs net of Power Revenue

Operating expenses net of power revenue and Energy operating costs net of power revenue are both non-GAAP financial measures, or ratios when expressed on a per barrel basis. Their terms are not defined by IFRS and, therefore, may not be comparable to similar measures provided by other companies. These non-GAAP financial measures should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS. Per barrel amounts are based on bitumen sales volumes.

Operating expenses net of power revenue is used as a measure of the Corporation's cost to operate its facilities at the Christina Lake project after factoring in the benefits from selling excess power to offset energy costs.

Energy operating costs net of power revenue is used to measure the performance of the Corporation's cogeneration facilities to offset energy operating costs.

Non-energy operating costs and energy operating costs are supplementary financial measures as they represent portions of operating expenses. Non-energy operating costs comprise production-related operating activities and energy operating costs reflect the cost of natural gas used as fuel to generate steam and power. Per barrel amounts are based on bitumen sales volumes.

Operating expenses is an IFRS measure in the Corporation's consolidated statement of earnings (loss) and comprehensive income (loss). Power and transportation revenue is an IFRS measure in the Corporation's consolidated statement of earnings (loss) and comprehensive income (loss) which is the most directly comparable primary financial statement measure to power revenue. A reconciliation from power and transportation revenue to power revenue has been provided below.

	Three months ended June 30				Six months ended June 30			
	2023		2022		2023		2022	
(\$millions, except as indicated)		\$/bbl		\$/bbl		\$/bbl		\$/bbl
Non-energy operating costs	\$ (43)	\$ (5.66)	\$ (38)	\$ (5.65)	\$ (89)	\$ (5.17)	\$ (80)	\$ (5.13)
Energy operating costs	\$ (30)	\$ (3.92)	\$ (69)	\$ (10.40)	\$ (83)	\$ (4.84)	\$ (131)	\$ (8.33)
Operating expenses	\$ (73)	\$ (9.58)	\$ (107)	\$ (16.05)	\$ (172)	\$ (10.01)	\$ (211)	\$ (13.46)
Power and transportation revenue	\$ 24		\$ 22		\$ 65		\$ 46	
Less transportation revenue	\$ (1)		\$ (1)		\$ (2)		\$ (2)	
Power revenue	\$ 23	\$ 2.95	\$ 21	\$ 3.08	\$ 63	\$ 3.66	\$ 44	\$ 2.78
Operating expenses net of power revenue	\$ (50)	\$ (6.63)	\$ (86)	\$ (12.97)	\$ (109)	\$ (6.35)	\$ (167)	\$ (10.68)
Energy operating costs net of power revenue	\$ (7)	\$ (0.97)	\$ (48)	\$ (7.32)	\$ (20)	\$ (1.18)	\$ (87)	\$ (5.55)

Forward-Looking Information

Certain statements contained in this news release may constitute forward-looking statements within the meaning of applicable Canadian securities laws. These statements relate to future events or MEG's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", "target", "potential" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are often, but not always, identified by such words. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In particular, and without limiting the foregoing, this press release contains forward looking statements with respect to: the Corporation's expectation that the Christina Lake operations is well positioned to deliver higher second half cash flow; the impact on SOR of optimized well spacing, enhanced completion designs, well development program and targeted facility enhancements; the Corporation's expectation of allocating 50% of free cash flow to share buybacks with the remaining cash flow applied to ongoing debt reduction until it reaches its net debt floor of US\$600 million; all statements relating to the Corporation's 2023 guidance, including forecast second half production and non-energy operating costs and general and administration costs; the Corporation's expectation that the TMX pipeline system will come into service in early 2024; and the Corporation's expectations regarding the Pathways Alliance projects and government support of these projects.

Forward-looking information contained in this press release is based on management's expectations and assumptions regarding, among other things: future crude oil, bitumen blend, natural gas, electricity, condensate and other diluent prices, differentials, the level of apportionment on the Enbridge Mainline system, foreign exchange rates and interest rates; the recoverability of MEG's reserves and contingent resources; MEG's ability to produce and market production of bitumen blend successfully to customers; future growth, results of operations and production levels; future capital and other expenditures; revenues, expenses and cash flow; operating costs; reliability; continued liquidity and runway to sustain operations through a prolonged market downturn; MEG's ability to reduce or increase production to desired levels, including without negative impacts to its assets; anticipated reductions in operating costs as a result of optimization and scalability of certain operations; anticipated sources of funding for operations and capital

investments; plans for and results of drilling activity; the regulatory framework governing royalties, land use, taxes and environmental matters, including the timing and level of government production curtailment and federal and provincial climate change policies, in which MEG conducts and will conduct its business; the availability of government support to industry to assist in the achievement of net zero GHG emissions by 2050; the impact of MEG's response to the COVID-19 global pandemic; and 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 and uncertainties include, but are not limited to, risks and uncertainties related to: the oil and gas industry, for example, the securing of adequate access to markets and transportation infrastructure (including pipelines and rail) and the commitments therein; 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, including public health crises, such as the COVID-19 pandemic, and any related actions taken by governments and businesses; legislative and regulatory changes to, amongst other things, tax, land use, royalty and environmental laws and production curtailment; the cost of compliance with current and future environmental laws, including climate change laws; risks relating to increased activism and public opposition to fossil fuels and oil sands; the inability to access government support to industry to assist in the achievement of net zero GHG emissions by 2050; assumptions regarding and the volatility of commodity prices, interest rates and foreign exchange rates; 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 to such prices and rates; timing of completion, commissioning, and start-up, of MEG's turnarounds; the operational risks and delays in the development, exploration, production, and the capacities and performance associated with MEG's projects; MEG's ability to reduce or increase production to desired levels, including without negative impacts to its assets; MEG's ability to finance capital expenditures; MEG's ability to maintain sufficient liquidity to sustain operations through a prolonged market downturn; changes in credit ratings applicable to MEG or any of its securities; the severity and duration of ongoing consequences of the COVID-19 pandemic; actions taken by OPEC+ in relation to supply management; the impact of the Russian invasion of Ukraine and associated sanctions on commodity prices; the availability and cost of labour and goods and services required in the Corporation's operations, including inflationary pressures; supply chain issues including transportation delays; the cost and availability of equipment necessary to our operations; and changes in general economic, market and business conditions.

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 Company's website at www.megenergy.com/investors and through the SEDAR+ website at www.sedarplus.ca.

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

This news release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about MEG's prospective results of operations including, without limitation, the Corporation's capital expenditures, production, non-energy operating costs, general and administrative costs and transportation costs, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. MEG's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits MEG will derive therefrom. MEG has included the FOFI in order to provide readers with a more complete perspective on MEG's future operations and such information may not be appropriate for other purposes. MEG disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

About MEG

MEG is an energy company focused on sustainable in situ thermal oil production in the southern Athabasca oil region of Alberta, Canada. MEG is actively developing innovative enhanced oil recovery projects that utilize steam-assisted gravity drainage extraction methods to improve the responsible economic recovery of oil as well as lower carbon emissions. MEG transports and sells thermal oil (AWB) to customers throughout North America and internationally. MEG is a member of the Pathways Alliance, a group of Canada's largest oil sands producers working together to address climate change and achieve the goal of net zero emissions¹ by 2050. MEG's common shares are listed on the Toronto Stock Exchange under the symbol "MEG" (TSX: MEG).

Learn more at: www.megenergy.com

For further information, please contact:

Investor Relations

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¹ Scope 1 and scope 2 emissions

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