



PRESS RELEASE

MEG Energy announces second quarter 2020 free cash flow of \$69 million, exiting the quarter with credit facility undrawn and \$120 million of cash on hand

All financial figures are in Canadian dollars (\$) or C\$) and all references to barrels are per barrel of bitumen sales unless otherwise noted

CALGARY, ALBERTA (July 27, 2020) – MEG Energy Corp. (TSX:MEG, “MEG” or the “Corporation”) reported its second quarter 2020 operational and financial results.

MEG continues to proactively respond to the safety and financial challenges associated with the COVID-19 pandemic and remains committed to ensuring the health and safety of all of its personnel and the safe and reliable operation of the Christina Lake facility.

“The second quarter was characterized by extreme negative movements in commodity prices coupled with unprecedented uncertainty regarding near-term crude oil supply and demand balances due to COVID-19” said Derek Evans, President and Chief Executive Officer. “Our team continued to react quickly during the quarter to protect MEG’s financial liquidity by voluntarily curtailing production, making additional cuts to our capital budget and further reducing G&A and non-energy operating expenses, all of which when supplemented by our strong hedge position allowed MEG to exit the quarter with an undrawn revolver and \$120 million of cash on hand.”

MEG remains well positioned from a financial liquidity perspective, benefiting not only from its significant 2020 hedge book and the term and structure of its outstanding indebtedness and credit facility, but also from the low decline and low cost structure of its high-quality Christina Lake asset.

Second quarter financial and operating highlights include:

- Free cash flow of \$69 million driven by adjusted funds flow of \$89 million (\$0.29 per share) and disciplined capital spending of \$20 million;
- \$120 million of cash on hand at quarter end benefiting from a \$215 million realized gain on commodity risk management in the quarter. MEG’s \$800 million modified covenant-lite revolver remains undrawn;
- Bitumen production volumes of 75,687 barrels per day (bbls/d) at a steam-oil ratio (SOR) of 2.3, while undertaking planned turnaround activities;
- Net operating costs of \$6.14 per barrel, including non-energy operating costs of \$4.09 per barrel and strong power sales which had the impact of offsetting 32% of per barrel energy operating costs, resulting in a net energy operating cost of \$2.05 per barrel;
- On May 4, 2020, as a result of the negative and uncertain commodity price environment at that time, MEG reduced full year 2020 capital investment by an additional \$50 million to \$150 million, or 40% below original guidance of \$250 million. Approximately 75% of the aggregate \$100 million capital reduction in the year was associated with future bitumen production. MEG also reduced non-energy operating cost and general and administrative (“G&A”) expense guidance by \$20 million and \$10 million, respectively; and

- During the quarter, a decision was made to roll back salaries across the company, with an emphasis on Board, executive and senior leader compensation. Effective June 1, 2020, base cash compensation for Board members was reduced by 25%. The President and Chief Executive Officer had his annual base salary reduced by 25%, the Chief Operating Officer and Chief Financial Officer each took a 15% annual base salary reduction, vice presidents received a 12% annual base salary rollback and all other employees received a 7.5% annual base salary rollback. In addition, the value of target 2020 long-term incentive awards issued to employees and directors on April 1, 2020 was reduced by 20%.

Blend Sales Pricing and North American Market Access

MEG realized an average AWB blend sales price of US\$15.12 per barrel during the three months ended June 30, 2020 compared to US\$27.12 per barrel in the first quarter of 2020. The reduction in average AWB blend sales price quarter over quarter was primarily a result of the average WTI price decreasing by US\$18.32 per barrel, partially offset by the average WTI:AWB differential at Edmonton narrowing by US\$9.34 per barrel. MEG sold 35% (all via pipe) of its sales volumes to the US Gulf Coast (“USGC”) in the second quarter of 2020 compared to 23% (21% via pipe and 2% via rail) in the first quarter of 2020. The increase in sales to the USGC in the second quarter is a result of lower apportionment on the Enbridge mainline of 13% compared with 50% apportionment in the first quarter of 2020.

Transportation and storage costs averaged US\$5.92 per barrel of AWB blend sales in the second quarter of 2020 compared to US\$4.39 per barrel of AWB blend sales in the first quarter of 2020. The increase in transportation and storage costs is primarily due to the fixed costs associated with contracted capacity allocated to 29% lower AWB blend sales volumes quarter over quarter, partially offset by the elimination of rail costs to the USGC. MEG’s AWB blend sales by rail was 4,391 bbls/d (all FOB Edmonton) in the second quarter of 2020 compared to 30,152 bbls/d (27,867 bbls/d FOB Edmonton) in the first quarter of 2020. The reduction in barrels sold via rail quarter over quarter was a result of rail cost mitigation efforts undertaken by the Corporation in the second quarter given the relative economics of rail transportation compared to pipeline transportation costs.

Excluding transportation and storage costs upstream of the Edmonton index sales point, MEG’s net AWB blend sales price at Edmonton averaged US\$11.28 per barrel during the three months ended June 30, 2020 compared to the posted AWB index price at Edmonton of US\$14.41 per barrel, largely as a result of having sales exposure to the weaker priced months of April and May (approximately 110,000 bbls/d of AWB blend sales), with reduced volumes sold in the stronger priced month of June (approximately 84,000 bbls/d of AWB blend sales) due to the major planned turnaround initiated at the beginning of June.

Operational Performance

Bitumen production averaged 75,687 bbls/d in the second quarter of 2020, compared to 91,557 bbls/d in the first quarter of 2020. Bitumen production in the second quarter was impacted primarily by major planned turnaround activities at the Corporation’s Phase 1 & 2 facilities which began at the beginning of June, impacting production by approximately 10,000 bpd in the quarter, and voluntary price-related production curtailments in the April and May timeframe. Net operating costs in the second quarter of 2020 averaged \$6.14 per barrel, an 11% increase compared to the first quarter of 2020, directly impacted by lower surplus power sales revenue from MEG’s cogeneration facilities. Non-energy operating costs averaged \$4.09 per barrel in the second quarter of 2020 compared to \$4.57 per barrel in the first quarter of 2020. Net energy operating costs averaged \$2.05 per barrel in the second quarter of 2020 compared to \$0.94 in the first quarter of 2020.

G&A expense was \$9 million, or \$1.29 per barrel of production, in the second quarter of 2020 compared to \$16 million, or \$1.96 per barrel of production, in the first quarter of 2020. The decrease in aggregate G&A quarter over quarter was primarily a result of the temporary Canadian Emergency Wage Subsidy, salary rollbacks and reductions in staff and consulting costs.

Adjusted Funds Flow and Net Loss

MEG's bitumen realization averaged \$10.18 per barrel in the second quarter of 2020 compared to \$19.45 per barrel in the first quarter of 2020. The reduction in average bitumen realization quarter over quarter was driven by the lower WTI price and lower sales volumes, partially offset by a narrower WTI:AWB differential which resulted in a higher recovery of the cost of diluent through blend sales, decreasing the Corporation's per barrel cost of diluent.

Offsetting the decline in bitumen realization was a realized commodity risk management gain of \$215 million in the quarter increasing MEG's bitumen realization by \$21.65 per barrel quarter over quarter. The realized commodity risk management gain contributed to the increase in the Corporation's cash operating netback of \$25.84 per barrel in the second quarter of 2020 compared to \$16.83 per barrel in the first quarter of 2020. The increased cash operating netback drove the increase in the Corporation's adjusted funds flow from \$78 million in the first quarter of 2020 to \$89 million in the second quarter of 2020.

The Corporation recognized a net loss of \$80 million in the second quarter of 2020 compared to a net loss of \$284 million in the first quarter of 2020. Non-cash items in the second quarter of 2020 include an unrealized gain on foreign exchange of \$114 million, and an unrealized loss on commodity risk management of \$267 million. Comparatively, in the first quarter of 2020, non-cash items consisted of an unrealized foreign exchange loss of \$267 million, an exploration expense of \$366 million associated with certain non-core growth properties and an inventory impairment charge of \$29 million, partially offset by a \$429 million unrealized gain on commodity risk management contracts.

Capital Expenditures

MEG reacted quickly to the extremely negative oil price environment experienced in the second quarter of 2020, protecting the Corporation's financial liquidity partially by reducing capital expenditures to \$20 million in the quarter compared to \$54 million in the first quarter of 2020. Of the \$20 million, \$10 million was directed towards sustaining and maintenance activities with the remaining \$10 million related to the planned turnaround at the Christina Lake Phase 1 and 2 facilities which was initiated at the beginning of June. The expanded scope and duration of the planned turnaround, which was committed to in early May, is expected to be executed at reduced costs by relying on internal resources and will eliminate the need for a turnaround in 2021.

COVID-19 Global Pandemic

The Corporation is continuously monitoring and responding to the ongoing evolving COVID-19 situation. The Corporation's business activities have been declared an essential service by the Alberta Government and the Corporation remains committed to the health and safety of all personnel and to the safety and continuity of operations. The health and safety measures implemented by the Corporation's COVID-19 task force during the first quarter of 2020 currently remain in place. The vast majority of office staff are still working remotely, however, beginning in June the Corporation lifted certain restrictions which allowed more location essential personnel at the Christina Lake site to facilitate MEG's planned turnaround activity while still maintaining COVID-19 related screening, procedures and protocols to ensure continued safe and reliable operations.

Outlook

On May 4, the Corporation suspended full year 2020 production guidance due to the global crude oil price environment at that time, which was experiencing multi-decade lows coupled with extreme levels of volatility driven by the unprecedented demand shock due to COVID-19.

Since that time, crude oil price levels and volatility have stabilized to a level that allows the Corporation to re-instate full year production guidance which is now targeted at 78,000 – 80,000 bbls/d. Compared to the original guidance of 94,000 – 97,000 bbls/d announced November 21, 2019, approximately half of the difference is due to the impact of the scheduled 70-day major turnaround at the Christina Lake Phase 1 and 2 facilities announced May 4, 2020. The remainder of the difference results from a combination of previously disclosed weather-related production impacts

in the first quarter of 2020, voluntary price-related production curtailments in the second quarter of 2020 and the impact of reduced well capital throughout 2020, which made up approximately 75% of the combined \$100 million reduction in capital spending announced on March 10 and May 4 of 2020.

Guidance for non-energy operating costs, G&A expense and capital expenditures remain unchanged from the revised guidance announced May 4, 2020.

Financial Liquidity

Notwithstanding multi-decade low crude oil prices, MEG generated \$92 million of free cash flow in the first half of year, and exited the second quarter with its credit facility undrawn and \$120 million of cash on hand.

The Corporation's earliest long-term debt maturity is approximately four years out, represented by US\$600 million of senior unsecured notes due March 2024. None of the Corporation's outstanding long-term debt contain financial maintenance covenants. Additionally, MEG's modified covenant-lite \$800 million revolving credit facility has no financial maintenance covenant unless drawn in excess of \$400 million. If drawn in excess of \$400 million, MEG is required to maintain a quarterly first lien net leverage ratio (first lien net debt to last twelve-month EBITDA) of 3.5 or less. Under MEG's credit facility, first lien net debt is calculated as debt under the credit facility plus other debt that is secured on a *pari passu* basis with the credit facility, less cash on hand.

2H 2020 Commodity Hedges

For the second half of 2020, to date MEG has entered into benchmark WTI fixed price hedges for approximately 70% of forecast second half bitumen production at an average price of approximately US\$46 per barrel. The table below reflects all of MEG's current 2020 financial and physical hedge positions.

	Forecast Period		
	Q3 2020	Q4 2020	2H 2020
WTI Hedges			
WTI Fixed Price Hedges			
Volume (bbls/d)	60,812	46,783	53,797
Weighted average fixed WTI price (US\$/bbl)	\$44.74	\$47.42	\$45.91
Enhanced WTI Fixed Price Hedges with Sold Put Options ⁽¹⁾			
Volume (bbls/d)	16,870	24,500	20,685
Weighted average fixed WTI price (US\$/bbl) /	\$59.38 /	\$59.11 /	\$59.22 /
Put option strike price (US\$/bbl)	\$52.00	\$52.00	\$52.00
WTI:WCS Differential Hedges			
Volume ⁽²⁾ (bbls/d)	45,853	41,150	43,501
Weighted average fixed WTI:WCS differential (US\$/bbl)	(\$17.82)	(\$20.02)	(\$18.86)
Condensate Hedges			
Volume ⁽³⁾ (bbls/d)	23,208	23,208	23,208
Average % of WTI landed in Edmonton (%)	100%	100%	100%

(1) Includes fixed price swaps and sold put options entered into for the second half of 2020. At an average 2H 2020 WTI price of US\$52.00 per barrel or higher, MEG's effective WTI hedge price for 2H 2020 is US\$49.60 per barrel. Illustratively, at an average 2H 2020 WTI price of US\$40.00, MEG's effective WTI hedge price for 2H 2020 is US\$46.27 per barrel.

(2) Includes approximately 24,500 bbls/d (Q3 2020) and 13,000 bbls/d (Q4 2020) of physical forward blend sales at a fixed WTI:AWB differential.

(3) 2H 2020 includes approximately 8,200 bbls/d of physical forward condensate purchases. Where applicable, the average % of WTI landed in Edmonton includes estimated net transportation costs to Edmonton.

Conference Call

A conference call will be held to review MEG's second quarter 2020 operating and financial results at 6:30 a.m. Mountain Time (8:30 a.m. Eastern Time) on Tuesday, July 28th, 2020. To participate, please dial the North American toll-free number 1-888-390-0546, or the international call number 1-587-880-2171.

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

Operational and Financial Highlights

	Six months ended June 30		2020		2019				2018	
	2020	2019	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(\$millions, except as indicated)</i>										
Bitumen production - bbls/d	83,622	92,228	75,687	91,557	94,566	93,278	97,288	87,113	87,582	98,751
Steam-oil ratio	2.31	2.18	2.32	2.31	2.27	2.26	2.16	2.20	2.22	2.17
Bitumen sales - bbls/d	83,806	92,486	70,397	97,214	94,347	94,992	95,120	89,822	88,283	93,856
Bitumen realization - \$/bbl	15.56	56.42	10.18	19.45	46.86	53.37	62.23	50.21	15.31	49.63
Net operating costs - \$/bbl ⁽¹⁾	5.78	5.39	6.14	5.51	5.87	4.30	4.66	6.17	4.55	4.34
Non-energy operating costs - \$/bbl	4.37	4.86	4.09	4.57	4.49	4.22	4.53	5.22	4.25	4.38
Cash operating netback - \$/bbl ⁽²⁾	20.62	33.98	25.84	16.83	28.33	32.44	37.88	29.80	7.14	24.01
Adjusted funds flow ⁽³⁾	166	378	89	78	157	192	227	151	(37)	116
Per share, diluted	0.55	1.26	0.29	0.26	0.51	0.63	0.76	0.50	(0.13)	0.39
Revenue	972	1,980	307	665	992	958	1,062	919	520	803
Net earnings (loss)	(364)	(111)	(80)	(284)	26	24	(64)	(48)	(199)	118
Per share, diluted	(1.21)	(0.37)	(0.26)	(0.95)	0.09	0.08	(0.21)	(0.16)	(0.67)	0.39
Capital expenditures	74	85	20	54	72	40	32	53	144	139
Cash and cash equivalents	120	399	120	62	206	154	399	154	318	373
Long-term debt - C\$	3,096	3,582	3,096	3,212	3,123	3,257	3,582	3,660	3,740	3,544
Long-term debt - US\$	2,274	2,737	2,274	2,275	2,409	2,459	2,737	2,740	2,741	2,742

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

(2) Cash operating netback is a non-GAAP measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies.

(3) Refer to Note 20 of the June 30, 2020 interim consolidated financial statements for further detail.

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 Measures

Certain financial measures in this news release including free cash flow and cash operating netback are non-GAAP measures. These 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.

Free Cash Flow

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. Free cash flow is calculated as adjusted funds flow less capital expenditures.

(\$millions)	Three months ended June 30, 2020		Six months ended June 30, 2020	
	2020	2019	2020	2019
Net cash provided by (used in) operating activities	117	302	216	233
Net change in non-cash operating working capital items	(48)	(75)	(78)	145
Funds flow from (used in) operations	69	227	138	378
Adjustments:				
Contract cancellation ⁽¹⁾	20	-	26	-
Decommissioning expenditures	-	-	2	-
Adjusted funds flow	89	227	166	378
Capital expenditures	(20)	(32)	(74)	(85)
Free cash flow	69	195	92	293

⁽¹⁾ Costs incurred to mitigate rail sales contract exposure. Contract cancellation costs or recoveries are excluded from adjusted funds flow as they are not considered part of ordinary continuing operating results.

Cash operating netback is a non-GAAP measure widely used in the oil and gas industry as a supplemental measure of a company's efficiency and its ability to fund future capital expenditures. The Corporation's cash operating netback is calculated by deducting the related cost of diluent, blend purchases, transportation and storage, third-party curtailment credits, operating expenses, royalties and realized commodity risk management gains or losses from blend sales and power revenue. The per barrel calculation of cash operating netback is based on bitumen sales volume.

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 actions taken to respond to safety and financial challenges associated with the COVID-19 pandemic; the Corporation's commitment to ensuring the health and safety of its personnel and safe and reliable operations of the Christina Lake facility; the Corporation's actions taken to protect its financial liquidity, including voluntary production curtailments, additional reductions in the Corporation's capital budget, and reductions in non-energy operating costs and general and administrative expenses; the Corporation's ongoing financial liquidity; all statements relating to the Corporation's revised guidance, including full year 2020 production, non-energy operating costs, general and administrative expenses and capital expenditures; the impact of the major turnaround at the Christina Lake facility, voluntary production curtailments and reduced well capital; the expectation that the expanded scope and duration of the planned turnaround will be executed at reduced costs and eliminate the need for a turnaround in 2021; and all statements relating to the Corporation's 2020 hedge book.

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, level of apportionment on the Enbridge mainline, the level of contango in benchmark crude oil prices, 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; extent and timelines of the Alberta Government's mandatory production curtailment program, 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; ability to reduce oil sands production, including without negative impacts to its assets; forecast production volumes are subject to potential further ramp down of production based on business and market conditions; 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 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; 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; legislative and regulatory changes to, amongst other things, tax, land use, royalty and environmental laws and production curtailment; 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; 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; access to pipeline and rail transportation; timing of completion, commissioning, and start-up, of MEG's turnarounds, and of future phases, expansions and projects; 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 production to desired levels; MEG's ability to finance sustaining 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; MEG's response to the COVID-19 global pandemic; the severity and duration of the COVID-19 pandemic; the potential for a temporary suspension of operations impacted by an outbreak of COVID-19; continued weakness and volatility of crude oil and other petroleum products due to decreased global demand due to the COVID-19 pandemic; 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.sedar.com.

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 hedging program, capital expenditures, production, operating costs and general and administrative 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. MEG's 2019 Annual Management's Discussion and Analysis ("MD&A") and 2019 Annual Consolidated Financial Statements are available at www.megenergy.com/investors and at www.sedar.com.

About MEG

MEG is an energy company focused on sustainable in situ thermal oil production in the southern Athabasca region of Alberta, Canada. MEG is actively developing innovative enhanced oil recovery projects that utilize steam- assisted gravity drainage ("SAGD") extraction methods to improve the responsible economic recovery of oil as well as lower carbon emissions. MEG transports and sells its thermal oil production to refiners throughout North America and internationally.

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