

Extractive Sector Transparency Measures Act - Annual Report

Reporting Entity Name	MEG Energy Corp.					
Reporting Year	From	1/1/2017	To:	12/31/2017	Date submitted	5/31/2018
Reporting Entity ESTMA Identification Number	E553106		<input type="radio"/> Original Submission <input checked="" type="radio"/> Amended Report		Report Version	
					2	
Other Subsidiaries Included (optional field)						
Not Consolidated						
Not Substituted						
Attestation Through Independent Audit						
<p><i>In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.</i></p> <p><i>The auditor expressed an unmodified opinion, dated 2018-05-30, on the ESTMA Report for the entity(ies) and period listed above.</i></p> <p><i>The independent auditor's report can be found at At End of Report.</i></p>						
Full Name of Director or Officer of Reporting Entity	Eric Toews			Date	5/30/2018	
Position Title	Chief Financial Officer					

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Reporting Entity Name	MEG Energy Corp.		Currency of the Report CAD
Reporting Entity ESTMA Identification Number	E553106		
Subsidiary Reporting Entities (if necessary)			

Payments by Payee

Country	Payee Name	Departments, Agency, etc... within Payee that Received Payments	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid to Payee	Notes
Canada	Government of Alberta		1,330,000	20,360,000	4,340,000					26,030,000	Note 1
Canada	Government of Canada				3,470,000					3,470,000	Note 2
Canada	Regional Municipality of Wood Buffalo		15,030,000		460,000		480,000			15,970,000	Note 3
Canada	Fort McMurray First Nation						360,000			360,000	
TOTAL			16,360,000	20,360,000	8,270,000		840,000			45,830,000	

Additional Notes:	<p>¹ Government of Alberta, Alberta Boilers Safety Association, Alberta Elevating Devices and Amusement Rides Safety Association, Alberta Energy Regulator, Minister of Finance, Petroleum Tank Management Association of Alberta, Safety Codes Council.</p> <p>² Industry Canada, Export Development Canada.</p> <p>³ Regional Municipality of Wood Buffalo, Conklin Community Association.</p> <p>⁴ Taxes: property, business and carbon tax.</p> <p>⁵ Fees: rental fees, administration fees, letter of credit fees, annual fees, timber charges, research fees, interest penalty charges, regulatory charges, consultation capacity funding as well as fees or other consideration for licenses, permits or concessions.</p> <p>⁶ Bonuses: social payments.</p> <p>⁷ The Corporation does not pay royalties in-kind and does not have any other in-kind payments.</p> <p>⁸ This report is presented in Canadian dollars (\$ or C\$), which is the Corporation's functional reporting currency, and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada Technical Reporting Specifications. Foreign currency payments are translated into Canadian dollars at exchange rates prevailing at the dates of the associated payments.</p> <p>⁹ Payments are rounded to the nearest \$10,000.</p>
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Reporting Entity Name	MEG Energy Corp.		Currency of the Report CAD
Reporting Entity ESTMA Identification Number	E553106		
Subsidiary Reporting Entities (if necessary)			

Payments by Project

Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes
Canada	Christina Lake	16,290,000	20,360,000	7,280,000		480,000			44,410,000	
Canada	Surmont	70,000		220,000		360,000			650,000	
Canada	May River			60,000					60,000	
Canada	Growth Properties			710,000					710,000	
	TOTAL	16,360,000	20,360,000	8,270,000		840,000			45,830,000	

Additional Notes:

- ¹ Taxes: property, business and carbon tax.
- ² Fees: rental fees, administration fees, letter of credit fees, annual fees, timber charges, research fees, interest penalty charges, regulatory charges as well as fees or other consideration for licenses, permits or concessions.
- ³ Bonuses: social payments.
- ⁴ The Corporation does not pay royalties in-kind and does not have any other in-kind payments.
- ⁵ This report is presented in Canadian dollars (\$ or C\$), which is the Corporation's functional reporting currency, and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada Technical Reporting Specifications. Foreign currency payments are translated into Canadian dollars at exchange rates prevailing at the dates of the associated payments.
- ⁶ Payments are rounded to the nearest \$10,000.

NOTES TO THE EXTRACTIVE SECTOR TRANSPARENCY MEASURES ACT REPORT FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

1. INTRODUCTION

MEG Energy Corp. (the “Corporation”) has prepared the following consolidated report (“the Report”) of payments made to government entities for the year ended December 31, 2017 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 (“ESTMA” or “the Act”).

2. BASIS OF PRESENTATION

The report is presented in Canadian dollars (\$ or C\$), which is the Corporation’s functional reporting currency, and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada (“NRCan”) Technical Reporting Specifications. Foreign currency payments are translated into Canadian dollars at exchange rates prevailing at the dates of the associated payments.

The following is a summary of significant policies and judgments that the Corporation has made for the purpose of preparing the report.

3. SIGNIFICANT POLICIES

(a) Cash and in-kind payments

Payments are reported on a cash basis and have been reported in the period in which the payment was made. In-kind payments are converted to an equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. The valuation method for each in-kind payment, if any, has been disclosed in the notes section of the ESTMA Annual Report.

Payments to the “same payee” that meet or exceed \$100,000 in one category of payment are disclosed. Payments are rounded to the nearest \$10,000.

(b) Payee

For the purposes of the Act, a payee is:

- (i) Any government in Canada or in a foreign state;
- (ii) A body that is established by two or more governments; or
- (iii) Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (i) above or a body referred to in paragraph (ii) above.

Payees include governments at any level, including national, regional, provincial, local, or municipal levels. Payees also include any government-owned or government-controlled entities that exercise or perform a power, duty or function of government.

The Act deferred the requirement to report on payments made to Indigenous governments in Canada until June 1, 2017. All reportable payments to these payees made on or after that date is included in the Corporation's ESTMA reports. The same analysis and considerations are used in determining when and how to report payments to Indigenous governments as are used with any other payee.

The individual department, agency or other body of the payee that received the payment has been disclosed in the notes section of the ESTMA Annual Report.

(c) Reportable Payments

A reportable payment for ESTMA purposes is one that:

- (i) Is made to the same payee;
- (ii) Is made in relation to the commercial development of oil, gas or minerals; and
- (iii) Totals, as a single or multiple payments, C\$100,000 or more within one of the following seven categories:

Taxes

This category includes taxes paid by the Corporation on its income, profits or production in relation to the commercial development of its oil sands resources. Taxes reported include property taxes and business income taxes that relate to the commercial development of oil. Consumption taxes, personal income taxes and taxes withheld by others on behalf of the Corporation are excluded.

Royalties

These are payments for the rights to extract oil sands resources, typically at a set percentage of revenue. Cash royalties are reported in this category. For the year ended December 31, 2017, the Corporation does not have any royalties paid in-kind.

Fees

This category may include rental fees, administration fees, letter of credit fees, annual fees, timber charges, research fees, interest penalty charges and regulatory charges as well as fees or other consideration for licenses, permits or concessions. The fee category is broad and includes payments to various payees that in substance is a fee. Consultation payments to Indigenous governments are reported under this category. Amounts paid in ordinary course commercial transactions in exchange for goods or services provided by a payee are excluded.

Production entitlements

A payee's share of oil, gas or mineral production under a production sharing agreement or similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2017, there were no reportable production entitlement payments to a payee.

Bonuses

Signing, discovery, production and any other type of bonuses paid to a payee in relation to the commercial development of oil sands resources are reported under this category. Social payments to Indigenous governments are reported under this category. The bonus category is broad and includes payments to payees that in substance is a bonus.

Dividends

Dividends are dividend payments, other than dividends paid to a payee as an ordinary shareholder of the Corporation on shares that were acquired by the payee on the same terms as were available at the time of acquisition to other shareholders that are not in lieu of any other reportable payment. For the year ended December 31, 2017, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

This payment category consists of payments for the construction of infrastructure that do not relate primarily to the operational purposes of the Corporation. For the year ended December 31, 2017, there were no reportable infrastructure improvement payments to a payee.

4. SIGNIFICANT JUDGMENTS

The preparation of the Report in accordance with the Act requires the use of judgments and assumptions, which includes evaluation of the substance, rather than the form, of a payment.

Payments by Project Level

Payments have been reported at the project level as required by the Act, except for payments that are not attributable to a specific project and are reported at the entity or corporate level only. For the year ended December 31, 2017, there were no payments that could not be attributable to a specific project. A “project” means the operational activities are governed by a single contract, license, lease, concession or similar legal agreement that forms the basis for a payment liability with a payee. If multiple such agreements are substantially interconnected, they would be considered a single project.

“Substantially interconnected” means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government and give rise to payment liabilities.

The Corporation has determined that the operational activities governed by surface or mineral lease contracts related to key operational areas are substantially interconnected and has reported payments related to each such area as a single project. The Corporation has also considered cash generating units used for external reporting purposes in determining payments by project level as geographical location and geological formation are key indicators for making this determination.

Commercial Development

The Act defines “commercial development of oil, gas or minerals” as:

- (a) The exploration or extraction of oil, gas or minerals;
- (b) The acquisition or holding of a permit, license, lease or any other authorization to carry out any exploration or extraction of oil, gas or minerals; or
- (c) Any other prescribed activities in relation to oil, gas or minerals.

Reportable payments made by the Corporation to payees relating to the commercial development of oil, gas or minerals (“commercial development”) are disclosed in this Report. The Corporation’s initial processing activities, which are integrated with its extraction operations are included in commercial development. The Report excludes payments that are not related to the Corporation’s commercial development activities. Payments related to marketing, distribution, transportation and/or export are considered to be post-extraction activities and have been excluded from the Report.

Refunds and credits

Amounts paid to payees have been reported at the amount paid by the Corporation, including instances where an applicable credit reduces the amount payable, to reflect the net cash payment to the payee. Cash refunds received from payees have not been reported where they have not been applied as a credit to amounts owing.

Overcharging

If the cost of a good or service is significantly in excess of its fair market value, the payment, or a portion thereof, in excess of fair market value, could be reportable under the Act. For the year ended December 31, 2017, there were no reportable items related to overcharging.

Social Payments

In determining whether a social payment to Indigenous payees is reportable, the Corporation considers the nature, timing and extent of a payment.

Attribution of payments

Where a payment was made for the Corporation by another entity, such payment has been deemed to have been made by the Corporation. Also, a payment not directly made to a payee, or not received directly by the payee that is a payment for the payee is deemed to have been made to the payee. Whether a payment is made by a third party for the Corporation or to a third party for the payee may be difficult to determine and depends on the facts and circumstances including legal and contractual requirements in various jurisdictions. For the year ended December 31, 2017, there were no attribution of payments identified.



May 30, 2018

Independent Auditor's Report

**To the Audit Committee
of MEG Energy Corp.**

We have audited the accompanying Extractive Sector Transparency Measures Act – Annual Report of MEG Energy Corp. which comprise the schedules of payments by payee and payments by project for the year ended December 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information (the “ESTMA Report”). The ESTMA Report has been prepared by management using the basis of accounting described in the notes, which is in accordance with the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s 376 (the “Act”).

Management's responsibility for the ESTMA Report

Management is responsible for the preparation of the ESTMA Report in accordance with the basis of accounting described in the notes, and for such internal controls as management determines is necessary to enable the preparation of an ESTMA Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the ESTMA Report based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the ESTMA Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the ESTMA Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the ESTMA Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ESTMA Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the ESTMA Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the Extractive Sector Transparency Measures Act – Annual Report of MEG Energy Corp. for the year ended December 31, 2017 is prepared, in all material respects, in accordance with the basis of accounting described in the notes.

Basis of accounting

Without modifying our opinion, we draw attention to the notes to the ESTMA Report, which describe the basis of accounting. The ESTMA Report is prepared to assist MEG Energy Corp. in complying with the reporting requirements of the Act. As a result, the ESTMA Report may not be suitable for another purpose.

PricewaterhouseCoopers LLP

Chartered Professional Accountants