

FINAL TRANSCRIPT

MEG Energy Corp.

First Quarter Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Phil Skolnick

Eight Capital — Analyst

Greg Pardy

RBC Capital Markets — Analyst

Paul Chambers

Barclays — Analyst

Joe Gemino

Morningstar — Analyst

John

J.P. Morgan — Analyst

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S&P Global Platts — Journalist

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PRESENTATION

Operator

Good morning. My name is Stephanie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the MEG Energy First Quarter Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Thank you.

Mr. John Rogers, you may begin your conference.

John Rogers — Vice President, Investor Relations and External Communications, MEG Energy Corp.

Great. Thanks, Stephanie, and good morning, everyone, and welcome to our first quarter conference call.

I have in the room with me today Bill McCaffrey, our President and CEO; Jeff McCaig, Chairman of the Board of MEG Energy; Eric Toews, CFO; and Helen Kelley; and myself.

We're going to start out with the usual format. I'm going to give you a few of the highlights which we think are notable from the quarter, Bill's going to have a few comments, and then we're going to open the call for any Q&A you may have.

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So I think some of the areas which are notable in the quarter for us is we did see record production values of 93,207 barrels. Now clearly this is illustrating just how well the implementation of eMSAGP is progressing, and we feel very confident it'll meet its mark that we set for it.

Our annual guidance of 85,000 to 88,000 barrels per day is clearly achievable after taking into account the maintenance turnaround which we are going to have in the second quarter. We do expect and continue to expect that we will exit the year with production in the 95,000 to 100,000 barrels a day range.

Second point is non-energy operating costs of \$4.55 and net operating costs of \$5.98 per barrel continued their downward trajectory. Obviously, cost management continues to be a key focus of the company, and we do continue to spread more barrels over what is our well-known fixed costs of the operation.

The sale of the Access Pipeline and Stonefell to Wolf was closed in the quarter, and 1.225 billion was allocated to paying down our debt. Now long-term debt decreased to 3.54 billion, about 25 percent lower than it was at the start of the year, which was in the range of 4.678 billion.

Capital spending of 148 million, most of which was spent on eMSAGP, is progressing on time and on budget, and we feel very comfortable with the 700 million which we have allocated for our capital spending for this year, taking into account the amount of money we will actually spend on the turnaround in the second quarter.

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Now one area I'm going to take a little bit of time on, but I think it's incredibly important, is to highlight the price realizations we are getting for those barrels which we're selling into the Gulf Coast. Now today, we are selling in the neighbourhood of about one-third of our barrels there, and did in the first quarter receive well over US\$10 per barrel versus selling into Pad 2. Now that takes into account—that US\$10 is after taking into account the pipeline charges which are necessary to get those barrels to the Gulf Coast.

So clearly this is a strength of our company, and we witnessed that in our cash flow and earnings this quarter. And we're pleased with the one-third that we have today of our sales and quite excited in 2020 we will begin to move about two-thirds of our barrels to the Gulf Coast. So again, clearly, our marketing strategy is paying off handsomely for us.

The strong cash position to 675 million and a \$1.4 billion undrawn line of credit leaves us with sufficient liquidity to fund both 2018 and 2019 capital programs as we sit here today and we looked at it. We're very pleased with the ability to fully fund both of those capital programs again, as we see it today. And we're looking forward to the completion of that journey to 113,000 barrels a day.

So that's all the comments I had in terms of highlights that I wanted to pass on to you. I'm going to turn it over to Bill to make a few comments.

So, Bill, if you'll take it away.

Bill McCaffrey — President and Chief Executive Officer, MEG Energy Corp.

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Thanks, John. At present, MEG is focused on the implementation of its Vision 20/20. To achieve our production target of 113,000 barrels a day, the company must first finish its buildout of its eMSAGP program on its Phase 2B producing assets.

And just to give an update of where we're at on that, we've finished—we anticipate finishing the drilling and the tie-in of the wells in the third quarter of this year, and that'll be followed by a ramp-up, the remaining part of the ramp-up of the eMSAGP program, to 100,000 barrels a day by early 2019.

And then at the same time, we're in the process of implementing a small brownfield expansion that will add a further 13,000 barrels a day. As John indicated, they're fully funded, and they will add to the production to get us to the completion of our 113,000 by 2020, which is part of the vision which I'll talk about in a minute.

A little colour on where we're at with the brownfield expansion is we anticipate completing the expansion work in Q3 of 2019, with ramp up to follow and the incremental production coming on in 2020.

Now you might ask why these two growth projects are so important to us. Well, upon completion of these projects, we will have dropped our overall cash cost by approximately \$3 a barrel, our balance sheet metrics will have continued to improve, and if recent prices hold, we'll be generating meaningful free cash flow, and management and the board will be discussing the best way to deploy it.

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Now given the low decline nature of our production base, it is a model that doesn't just pay at once, but numerous times over the life of the assets. As evidenced by the first quarter results, I'm very pleased of how well we're progressing with the implementation of our vision. Simply stated, MEG is firing on all cylinders at the present time.

As mentioned earlier, the implementation of our eMSAGP technology continues on Phase 2B and is on schedule and well under the original budget. The brownfield expansion has started, and given the nature of the project, I'm also very confident in bringing it in on time and on budget.

The advancement of the eMVAPEX to a full well pad is moving forward, and we continue to be cautiously optimistic about the potential of this technology and how it may shape our future growth and our operations.

A little extra in that area. In Q3 of this year, we anticipate completing the recycle facilities at the pad, and that will allow us for the conversion of up to another seven well pairs. That'll occur over about a 9- to 12-month period as we bring it on in phases there.

Now I set a lot of goals for the Corporation over my tenure as CEO, and from an operational point of view, I must say I'm very, very proud of the team for having never missed a quarter. My final goal now is to ensure an orderly transition takes place, and that the culture of operational excellence continues.

And with that, I'm going to turn it back to John.

John Rogers

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Great. Thanks, Bill. And with that, that wraps up our prepared comments for the conference call. Stephanie, we'll turn it over to questions from the audience.

I do remind you that Helen and I will be available after the call to answer any detailed questions you may have as you complete your models.

So with that, Stephanie, if we can open the lines for questions.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypad.

Your first question comes from Phil Skolnick with Eight Capital. Please go ahead.

Phil Skolnick — Eight Capital

Yeah. Thanks. Good morning. Just one quick question.

John Rogers

Good morning, Phil.

Phil Skolnick

Did you rail any of your volumes? Or were they all piped to the Gulf Coast?

Bill McCaffrey

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We do move some barrels by rail just to add flexibility to the system, but we do move the majority of it by pipe. We do have an ability to move more by rail if we need to as well.

Phil Skolnick

Okay. And in terms of pricing relative to Maya, any colour that you could give us on what you're experiencing there?

Bill McCaffrey

On the Gulf Coast, it's extremely strong right now. There's a number of factors that are contributing to that. With Venezuela's production declining in Mexico and the Saudis reducing their heavy components, it is an extremely strong market. I don't want to give an exact price on it right now, but we are seeing very low discounts to WTI right now.

Phil Skolnick

Okay. Great. That's all for me. And all the best to you, Bill, in your retirement.

Bill McCaffrey

Thanks very much, Phil. And thanks for the support over time. Much appreciated.

Phil Skolnick

You're welcome.

Operator

Your next question comes from Greg Pardy with RBC Capital Markets. Please go ahead.

Greg Pardy — RBC Capital Markets

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Thanks. Good morning. And just to carry on with what Phil mentioned, Bill, all the very best, and I'm sure you're going to be spending a lot more time in Sedona going forward.

Bill McCaffrey

Thank you.

Greg Pardy

Just a couple questions for me. I guess the first one is is there—you provided some colour, great colour in terms of some of the timing of the expansions. What can you say just about the progress of eMVAPEX right now?

Bill McCaffrey

Yes. Well, the key right now for us is that we have the three well pairs that have been converted. The time factor on it is that we're completing the recycle facilities right now, and as I say, those will be done third quarter of this year.

Then what we'll do is we'll start recycling propane that comes back, and as we build on that, we'll just add more wells along the way to ultimately get to as much of the full pad being converted. And as I say, it's probably a 9- to 12-month conversion.

Greg Pardy

Okay. Great. Okay. And then secondly I guess is just in terms of shifting gears, and as you touched on pricing and so on, so as the company does move into a free cash flow position then,

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does the balance sheet continue to get the lion's share of free cash flow in terms of debt reduction?
Or how should we think about that?

Bill McCaffrey

Yeah. I think the way I'd look at it is there's really three general buckets. We could pay down more debt or grow further or return cash to shareholders, and really it'll be a decision of the board at the time, depending on the conditions. But it is very exciting to see that there's a clear path for MEG right now to be free cash flow and to be able to fund its growth from that.

And that does provide the option for greater debt reduction from cash flow, or other alternatives, and it could be and/or other alternatives, whichever the board wants to do at the time.

Greg Pardy

Okay. Great. Thanks.

John Rogers

Greg, if I can just add one other piece.

Greg Pardy

Yeah.

John Rogers

We do expect once we're at 113,000 barrels a day, if prices are similar to where they are today, our debt to EBITDA will be in the 2 to 3 range. So I have to take that into context in terms of where the market is from a leverage point of view, and that'll be part of the decision-making.

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**Greg Pardy**

Okay. Greg. Yep. Thanks very much.

John Rogers

Thanks, Greg.

Bill McCaffrey

Thanks, Greg. Appreciate it.

Operator

Your next question comes from Paul Chambers with Barclays. Please go ahead.

Paul Chambers — Barclays

Yes. Great. Thank you. Yeah. And first, Bill, tip of the hat to you, sir, for the type of company you've built with your team there, and best of luck in your next phase of life.

Bill McCaffrey

Thank you.

Paul Chambers

The question's on diluent cost. You guys reported it looked like it was about 83.90 a barrel; that's about 105 percent, say, of WTI. The last three quarters that had been running closer to 110 percent. I'm just kind of curious if there's anything going on in the condensate market? Or anything you can really say about your costs per barrel in the first quarter that might have been different, say, from the second half of 2017?

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**Bill McCaffrey**

We do have some good—we did a lot of forward purchases of condensate for the year. In 2017, we did that for 2018. We do have good access from the Gulf Coast, and that has helped us a lot. It's pipeline access, and it's allowed us to be able to acquire condensate on favourable pricing.

Paul Chambers

Okay. Okay. And okay. So going forward, it would probably look more like the first quarter than, say, where it was maybe in the second through fourth quarter of last year, given your comments? On a percentage of WTI, I meant. Yeah.

Bill McCaffrey

Yes.

Paul Chambers

Okay. Great. A follow-up question has to do with transport. You said that I think for the—you've incurred somewhere around 3 million—or just 2.8 million in transport cost incremental to the new TSA agreement that you've signed, and that was for the 10-day period. I'm just trying to—I know Christina Lake will be down for maintenance in the second quarter, but if we adjust that, does that give us kind of a quantified look at what the second half of 2018 transport would be on a per barrel basis?

Bill McCaffrey

Well, we think it's probably about 80 million for the full year on that one, and so you can—

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Paul Chambers

Okay.

Bill McCaffrey

—adjust it (unintelligible).

Paul Chambers

And that's 80 million annualized from—

Bill McCaffrey

Sorry, that's correct. Yeah. That would be an annual average per barrel.

Paul Chambers

Okay. Okay. Great. Thanks for that. That's it for me.

Bill McCaffrey

Okay. Thank you. Thanks for your comments.

Operator

Your next question comes from Joe Gemino with Morningstar. Please go ahead.

Joe Gemino — Morningstar

How do you think about your growth projects with the potential delays in the pipeline expansion projects?

Bill McCaffrey

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Well, these projects are extremely economic at the present time, and so—and we do have access to markets. As we look at the—as mentioned, we’ve got the capacity to take 50,000 or roughly a third of our barrels down there now, and by 2020 we’ll have additional third, so two-thirds of barrels—we’ll have the capacity for two-thirds of our barrels will go to the Gulf Coast.

So when you think of these extremely economic projects, the eMSAGP and the brownfield, they fit well.

Joe Gemino

Great. And when you say you’re going to have double your expansion down to the Gulf Coast, is that dependent on like Line 3 coming through?

Bill McCaffrey

No. It’s a contractual thing that we had agreed to at the start. We wanted to cage in our access to the Gulf Coast so that we could align it better with our development plans over time. So it’s been part of the planning from the beginning.

Joe Gemino

Great. Sounds good.

Bill McCaffrey

Thank you.

Joe Gemino

Thank you very much.

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**Operator**

Your next question comes from Tarek Hamid with J.P. Morgan. Please go ahead.

John — J.P. Morgan

Hey, guys. This is John (phon) in for Tarek. Just on the 2Q turnaround, could you provide a little bit of colour on the timing? And how you guys came to that 5,000 to 6,000 barrel per day impact?

Bill McCaffrey

Sure. Well, the turnaround is the largest the company has done to date. It's about a 30- to 35-day turnaround. It starts in the next week or so here, and then obviously we're running into June on that part of it.

So the turnaround is focused on our Phase 2B plant, which is—design capacity is 35,000 barrels a day, but we do put upwards of 55,000, 60,000 through that plant. So when that plant is down for that time—and it's not down the whole time; it's down in portions—so we bring on ... we go through and we check to see everything's good and bring components on all along the way.

But that's the net effect of that 5,000 to 6,000 barrels a day on an annualized basis.

John

Okay. Great. That's really helpful.

Bill McCaffrey

Okay.

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John

And also on your guys' transportation expense, I understood it was down quarter over quarter. Could you guys just give us a little better picture of kind of what to expect going forward pro forma for your sale of the Access interest?

Bill McCaffrey

Can you repeat that question at the end? I couldn't quite hear you there.

John

Yeah. No worries. We noticed your transportation expense was down sequentially quarter over quarter. And if you could just give us a little better idea of what to expect going forward pro forma for the sale of Access on transportation expense kind of per BOE?

Bill McCaffrey

Well, in terms of Access, it's going to be an additional \$80 million annualized for this year. So if you take our forecasted production on that, you can back out the transportation component associated with the Access Pipeline.

John

Okay. Okay. Great. And then last one, you mentioned earlier that you can move more via rail if you wanted to. What kind of incremental capacity would you guys be able to expand up to, do you think?

Bill McCaffrey

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Well, we can certainly—I don't think we've actually release the number on it, so I want to be a little sensitive because we do have to be careful on that on the lines here. But I can say that we are not limited. We can move more barrels if we so choose and can add another—well, we can add meaningful amounts more than we are requiring right now.

John Rogers

So we do feel we have sufficient capacity by rail to make up for any potential apportionment issues that may come our way through the year.

Bill McCaffrey

Yeah.

John

Okay. Great. Really helpful, guys. Thanks again.

Bill McCaffrey

Okay. Thanks.

Operator

Again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from Ashok Dutta with Platts. Please go ahead.

Ashok Dutta — Journalist, S&P Global Platts

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Hi. Good morning, Bill. Good morning, John. Thank you for taking my question. I'm just wanting to understand this very quickly a little better. So, John, you said that right now you're selling one-third of your barrels to the US South Coast.

John Rogers

Yeah.

Ashok Dutta

And that's going primarily on the Seaway and the Flanagan South?

John Rogers

That's correct.

Ashok Dutta

And you have capacity of 50,000 on that?

John Rogers

That's correct.

Ashok Dutta

With an option to go up to 20,000. Okay. What about the remaining—

Bill McCaffrey

No, actually—

Ashok Dutta

Some of it is going—

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**Bill McCaffrey**

Yeah. We have the capacity secured to go to 100 in 2020.

Ashok Dutta

Okay. So one-third is going to the Gulf Coast. What about the remaining two-thirds, if I may ask?

Bill McCaffrey

We have options on rail to take more to the Gulf Coast as well. Once it's on rail it can go anywhere. And then we have Pad 2 as well, and then we do have other markets that we focus on that are international as well on that.

Ashok Dutta

So when you say international, you mean you are exporting barrels out of Canada?

Bill McCaffrey

Out of the continent.

Ashok Dutta

Okay. All right. Okay. Thanks.

Bill McCaffrey

Yeah. Thank you.

Operator

There are no further questions at this time.

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John Rogers

Great. Thanks, Stephanie, and thanks, everyone, for your interest in listening in to our first quarter conference call.

Of course, Helen and I will be available after the call to answer any further questions that may come to mind.

Thanks again for your interest in listening in, and hopefully everybody has a good day.

Bye now.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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