MEG ENERGY

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MEG Energy announces comprehensive refinancing plan including an extended 5 year covenant-lite revolving credit facility, a CDN$357 million equity financing and a return to growth 2017 capital budget

Debt refinancing and equity financing are expected to lead to a stronger balance sheet and the ability to implement highly economic growth projects

CALGARY, ALBERTA (January 11, 2017) - MEG Energy Corp. ("MEG" or the "Company") (TSX:MEG) announced today comprehensive refinancing transactions which are expected to support a strengthened balance sheet, as well as increased production and reduced costs through an expansion of the Company's growth program. The refinancing plan retains the covenant-lite flexibility of its current debt structure. MEG also announced today its 2017 capital investment plan and operational guidance.

All dollar figures are in $CDN unless otherwise noted.

The comprehensive refinancing plan is comprised of the following four transactions (the "Transactions"):

- An extension of the maturity date on substantially all of the commitments under the Company's covenant-lite revolving credit facility, which will be extended two years to November 5, 2021. The commitment amount of the facility will be reduced to US$1.4 billion;
- MEG's US$1.2 billion term loan will be refinanced to extend its maturity (the "Term Loan Refinancing");
- MEG's existing US$750 million of unsecured notes due 2021 will be refinanced and extended with new second lien indebtedness (the "Second Lien Refinancing"); and
- Raising $357 million of equity in the form of subscription receipts on a bought deal basis from a syndicate of underwriters (the "Subscription Receipt Offering").

Closings of the various components of the Transactions are all expected to be mutually conditional. MEG expects to close all elements of the comprehensive refinancing plan by mid-February 2017.

"This comprehensive refinancing provides us with a five-year window to grow the business and to pursue additional deleveraging alternatives. The amended covenant-lite credit facility, which at closing remains undrawn, is sufficient to meet our foreseeable liquidity needs," said Eric Toews, Chief Financial Officer.

The Company has also announced today a $590 million capital budget focused on funding approximately 20,000 barrels per day of highly economic eMSAGP production growth. This growth is expected to drive further reductions in the Company's breakeven cash costs, significantly de-risking MEG's business and positioning the Company to grow shareholder value.

Transactions Details

Credit Facility Amendment, Revolver Extension and Commitment Reduction

MEG is amending its credit agreement and extending the maturity date on substantially all of the commitments under the Company's covenant-lite revolving credit facility by two years to November 5, 2021. Upon the effective date of the Transactions, the commitment amount of the facility will be reduced to US$1.4 billion.

The credit facility will also be amended to give the Company additional tools to de-lever in the future, in particular:

- Ability to issue second lien debt;
- Ability to sell the Company's interest in the Access Pipeline without lender consent, provided 70% of the net proceeds are used to repay first lien term debt; and
- Ability to sell an additional US$550 million of certain encumbered assets, in addition to the US$200 million already permitted, without lender consent, provided that 70% of the net proceeds from any such sale are used to repay first lien term debt.

The Subscription Receipt Offering

As part of the Transactions, MEG has entered into an agreement with a syndicate of underwriters co-led by BMO Capital Markets, Barclays, and RBC Capital Markets (the "Underwriters"), pursuant to which the Underwriters have agreed to purchase for resale to the public, on a bought-deal basis, 46,000,000 subscription receipts of MEG at a price of $7.75 per subscription receipt for gross proceeds of approximately $357 million. The Company has granted the Underwriters an option, exercisable at the offering price for a period of 30 days following the closing of the Subscription Receipt Offering, to purchase up to an additional 15% of the Subscription Receipt Offering to cover over-allotments, if any.

Each subscription receipt will entitle the holder thereof to receive automatically, upon the effectiveness of the credit facility and term loan refinancings and the closing of the Second Lien Refinancing, without any further action on the part of the holder thereof and without payment of additional consideration, one common share of the Company.

The bought deal offering will be completed in all of the provinces and territories of Canada by way of a prospectus supplement and the Company's accompanying base shelf prospectus dated December 1, 2016 and only to persons reasonably believed to be qualified institutional buyers in accordance with Rule 144A of the U.S. Securities Act of 1933, as amended, (the "U.S. Securities Act").

The net proceeds from the offering will be used to partially fund the Company's 2017 $590 million capital budget announced today, and for general corporate purposes.

The Subscription Receipt Offering is subject to the receipt of all necessary regulatory and stock exchange approvals. The closing date of the Subscription Receipt Offering is expected to be on or about January 24, 2017. The subscription receipts are expected to be automatically exchanged for common shares upon the effectiveness of the credit facility and term loan refinancing and the closing of the Second Lien Refinancing, which is expected to occur by mid-February 2017, and in any event no later than March 15, 2017.

This press release is not an offer of subscription receipts (including the common shares issuable upon conversion thereof) for sale in the United States, and the subscription receipts (including the common shares issuable upon conversion thereof) may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from MEG and will contain detailed information about MEG and management, as well as financial statements.

<u>Term Loan and Second Lien Refinancings</u>

Following today's announcement, the Company intends to:

- Refinance and extend the term of its entire US$1.2 billion first lien term loan to provide for an extension of the maturity and other terms consistent with the credit facility amendment; and
- Refinance and extend the maturity of MEG's existing US$750 million of unsecured notes due 2021 with new second lien indebtedness that will be secured by a second lien security interest in substantially all of the Company's assets.

Refinancings will not result in the addition of financial covenants.

2016 Fourth Quarter and Full-Year Financial and Operating Data

The following table summarizes selected financial and operating data for MEG's fourth quarter, which remains subject to finalization.

CDN$ mm, unless noted	**Three months ended December 31, 2016 Range of Expected results (unaudited; in millions of Canadian dollars, except as indicated)**		**Three months ended December 31, 2015**
	Low	**High**	
Production (bpd)	81,500	82,500	83,514
Non-energy Operating Costs ($ / bbl)	$4.95	$5.25	$5.66
Cash Flow from (used in) Operations	$30	$40	($44)
Per Share	$0.13	$0.18	($0.20)
Total Cash capital investment	$45	$60	$54
Cash and Cash equivalents	$140	$160	$408

2017 Capital Budget and Operational Guidance

The Company also announced today its 2017 capital investment plan and operational guidance. Highlights include:

- MEG will commence its eMSAGP growth initiative at Christina Lake Phase 2B during 2017. The project is anticipated to deliver approximately 20,000 barrels per day (bpd) of highly economic production growth by early 2019, roughly a 25% increase over current levels;

- A 2017 capital budget of $590 million, approximately 55% of which is directed towards initiation of the eMSAGP growth project, 35% towards sustaining and turnaround costs, and the remainder towards supporting marketing, corporate and other initiatives;

- Financial resources available to the corporation to fund its 2017 capital program include net proceeds from a $357 million equity issuance, internally generated cash flow, and cash on hand;

- Targeted 2017 average production in the range of 80,000 to 82,000 bpd, 2017 exit production in the range of 86,000 – 89,000 bpd approaching year end 2017, and non-energy operating costs of $5.75 to $6.75 per barrel.

2016 Capital Investment Update

MEG invested approximately $125 million in 2016, a reduction of 62% from its original 2016 budget of $328 million. The lower level of 2016 capital spending was driven primarily through efficiency gains associated with the implementation of eMSAGP at Phase 2, as well as a deferral of certain growth projects.

2017 Capital Investment

“To date, we have applied eMSAGP to about 25% of our production, which has increased volumes using less steam and cut the steam-oil ratio on those wells by half,” said Bill McCaffrey, President and Chief Executive Officer. “When you take into account MEG’s comprehensive refinancing combined with our growth plans which increase production while reducing costs per barrel, and view it all in the context of improved crude oil markets, it is clear that MEG is well-positioned to move the business forward.”

The estimated capital cost of the anticipated 20,000 bpd eMSAGP growth at Christina Lake Phase 2B is approximately $400 million. MEG is planning to invest $320 million, or approximately 80% of the total estimated cost, in 2017. The capital will support the drilling of infill wells and new well pairs, which is anticipated to increase production utilizing steam freed up by the application of MEG’s proprietary eMSAGP technology. The capital will also support minor facility debottlenecks. Incremental production is expected to begin coming on stream in the second half of 2017 and reach full capacity by early 2019.

“This phase of eMSAGP growth offers some of the highest economic returns available to the Company today. At current strip prices, the project is anticipated to deliver over 50% IRR and add approximately 20,000 bpd of production once fully ramped up in early 2019,” added McCaffrey. “When fully implemented, this growth is anticipated to bring MEG’s total production to approximately 100,000 bpd, significantly improving the sustainability of the business by driving cash costs down by as much as $4-5 per barrel."

Sustaining and maintenance capital of approximately $200 million includes the drilling of new sustaining wells in the Christina Lake area and turnaround activities predominantly at the Company's Christina Lake Phase 2 processing facilities, as well as some additional work on Phase 2B. Both turnarounds are currently planned for the second quarter of 2017. Sustaining capital is expected to be approximately $5.65/bbl and turnaround costs are expected to be approximately $1.15/bbl, assuming the midpoint of the 2017 production guidance range.

MEG has allocated approximately $70 million in 2017 to eMVAPEX pilot, marketing, corporate and other initiatives. eMVAPEX (a MEG patented process) is a continuation of the eMSAGP technology development. If proven successful, it will further enhance MEG's growth potential and reduce GHG emissions. Marketing investments primarily involve necessary spending related to the Access Pipeline. Other initiatives include core hole drilling, regulatory capital, reservoir optimization and support infrastructure capital.

2017 Capital Investment Summary	**$ millions**
eMSAGP growth capital	320
Sustaining and maintenance	200
eMVAPEX, marketing, corporate and other	70
	590

MEG expects to fund its 2017 capital budget with net proceeds of its $357 million equity issuance, 2017 cash flow from operations, and cash on hand. MEG has significant flexibility to adapt the pace of implementation of its eMSAGP process if market conditions require.

MEG has entered into a series of hedges for 2017 designed to protect its capital program against downward oil price movements. The table below summarizes the crude oil hedges currently in place:

Current Hedge Positions for 2017

As of January 11, 2017

	Volume	**% of Hedge[1]**	**Price US$**
WTI Fixed Hedges	8,300	7%	$54.63
WTI Collars (Average Put/Call)	38,125	32%	$46.43/$56.10
Total WTI hedged volume	**46,425**	**39%**	
WTI:WCS Fixed Differential Hedges[2]	**25,481**	**22%**	**$(15.64)**

1. Percentage of hedged volumes are based on the mid-point of 2017 annual production guidance of 80,000 to 82,000 bpd and assumes a blend ratio of 0.45 bbl of diluent per barrel of bitumen

2. Includes physical hedges where fixed differential sales contracted

2017 Operational Guidance

MEG is targeting 2017 average production of 80,000 to 82,000 bpd and 2017 exit production of 86,000 to 89,000 bpd. Related non-energy operating costs for 2017 are anticipated to be in the range of $5.75 to $6.75 per barrel. The operational guidance takes into account a major turnaround at the Company's Christina Lake Phase 2 production facility and a smaller turnaround at Phase 2B, both of which are planned for the second quarter of 2017.

	2017 guidance
Production - average	80,000 to 82,000 bpd
Production - exit	86,000 to 89,000 bpd
Non-energy operating costs	$5.75 to $6.75 per barrel

Advisors

BMO Capital Markets is acting as financial advisor to MEG on all elements of the Transactions. Bennett Jones LLP and Latham & Watkins LLP are acting as MEG's legal advisors.

About MEG Energy

MEG Energy Corp. is focused on sustainable in situ oil sands development and production in the southern Athabasca oil sands region of Alberta, Canada. MEG is actively developing enhanced oil recovery projects that utilize SAGD extraction methods. MEG's common shares are listed on the Toronto Stock Exchange under the symbol "MEG."

Disclaimer

This press release is not an offer of securities for sale in the United States, and the securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from MEG and will contain detailed information about MEG and management, as well as financial statements.

Forward-Looking Information

This news release may contain forward-looking information including but not limited to the potential for consummation of a refinancing plan and the use of proceeds therefrom. Such forward-looking information is based on certain assumptions and analysis made by MEG in light of its experience and perception of current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to MEG's expectations and predictions is subject to market conditions and a number of known and unknown risks and uncertainties which could cause actual results to differ materially from MEG's expectations. Other factors which could materially affect such forward-looking information are described in the risk factors detailed in the offering documentation prepared and delivered by MEG in connection with the Subscription Receipt Offering and in MEG's most recently filed Annual Information Form ("AIF"), along with MEG's other public disclosure documents. Copies of the AIF and MEG's other public disclosure documents are available through the SEDAR website which is available at www.sedar.com.

Such forward-looking information includes but is not limited to: expectations of future production, revenues, expenses, cash flow, operating costs, non-energy costs, steam-oil ratios, pricing differentials, reliability, profitability, capital investments, and the timing thereof; estimates of reserves and resources; the anticipated sources of funding for operations and capital investments, including the anticipated closing of the Company's announced equity offering and debt refinancing; the allocation of the Company's 2017 Capital Budget; the expectation that the Company's revolver will remain undrawn at the end of 2017; the anticipated implementation of eMSAGP at Christina Lake, the capital costs associated therewith and the anticipated timing of incurring such capital costs; the anticipated turnarounds at the Company's Christina Lake Phase 2 and Phase 2B facilities and the anticipated reductions in operating costs as a result of optimization and scalability of certain operations. Such forward-looking information is based on management's expectations and assumptions regarding future growth, results of operations, production, future capital and other expenditures, plans for and results of drilling activity, environmental matters, business prospects and opportunities.

By its nature, such forward-looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: risks associated with the oil and gas industry, for example, the securing of adequate supplies and access to markets and transportation infrastructure; the availability of capacity on the electricity transmission grid; the uncertainty of reserve and resource estimates; the uncertainty of estimates and projections relating to production, costs and revenues; health, safety and environmental risks; risks of legislative and regulatory changes to, amongst other things, tax, land use, royalty and environmental laws; assumptions regarding and the volatility of commodity prices, interest rates and foreign exchange rates, and, risks and uncertainties related to commodity price, interest rate and foreign exchange rate swap contracts and/or derivative financial instruments that MEG may enter into from time to time to manage its risk related to such prices and rates; risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with MEG's future phases and the expansion and/or operation of MEG's projects; risks and uncertainties related to the timing of completion, commissioning, and start-up, of MEG's future phases, expansions, initiatives and projects; and the operational risks and delays in the development, exploration, production, and the capacities and performance associated with MEG's projects.

Although MEG believes that the assumptions used in such forward-looking information are reasonable, there can be no assurance that such assumptions will be correct. Accordingly, readers are cautioned that the actual results achieved may vary from the forward-looking information provided herein and that the variations may be material. Readers are also cautioned that the foregoing list of assumptions, risks and factors is not exhaustive.

Further information regarding the assumptions and risks inherent in the making of forward-looking statements can be found in MEG's most recently filed Annual Information Form ("AIF"), along with MEG's other public disclosure documents. Copies of the AIF and MEG's other public disclosure documents are available through the SEDAR website which is available at www.sedar.com.

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

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