

# Extractive Sector Transparency Measures Act - Annual Report



Reporting Entity Name

MEG Energy Corp.

Reporting Year

From

1/1/2018

To:

12/31/2018

Date submitted

5/30/2019

Reporting Entity ESTMA Identification Number E553106

- Original Submission  
 Amended Report

Other Subsidiaries Included

(optional field)

Not Consolidated

Not Substituted

Attestation Through Independent Audit

*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.*

*The auditor expressed an unmodified opinion, dated 2019-05-30, on the ESTMA Report for the entity(ies) and period listed above.  
The independent auditor's report can be found at end of report.*

Full Name of Director or Officer of Reporting Entity

Eric L. Toews

Date

5/30/2019

Position Title

Chief Financial Officer

## Extractive Sector Transparency Measures Act - Annual Report

<b>Reporting Year</b>	<b>From:</b> 1/1/2018	<b>To:</b> 12/31/2018	<b>Currency of the Report</b> CAD
<b>Reporting Entity Name</b>	MEG Energy Corp.		
<b>Reporting Entity ESTMA Identification Number</b>	E553106		
<b>Subsidiary Reporting Entities (if necessary)</b>			

### 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	Note 1	1,300,000	44,160,000	3,710,000					49,170,000	
Canada	Regional Municipality of Wood Buffalo	Regional Municipality of Wood Buffalo Conklin Community Association	13,160,000		620,000		280,000			14,060,000	
Canada	Government of Canada	Receiver General Export Development Canada			4,220,000					4,220,000	
Canada	Fort McMurray First Nation				100,000		500,000			600,000	
Canada	Heart Lake First Nation						130,000			130,000	
Canada	Chipewyan Praire First Nation				140,000					140,000	
	<b>TOTAL</b>		<b>14,460,000</b>	<b>44,160,000</b>	<b>8,790,000</b>	<b>-</b>	<b>910,000</b>	<b>-</b>	<b>-</b>	<b>68,320,000</b>	

**Additional Notes:**

- 1 Government of Alberta, Alberta Boilers Safety Association, Alberta Elevating Devices and Amusement Rides Safety Association, Alberta Energy Regulator, Minister of Finance, Alberta Environment and Parks, Alberta Innovates - Technology Futures, Petroleum Tank Management Association of Alberta, Safety Codes Council, Native Counselling Services of Alberta.
- 2 Taxes: property and business tax.
- 3 Fees: rental fees, administration fees, letter of credit fees, annual fees, interest penalty charges, regulatory charges, consultation capacity funding as well as fees or other consideration for licenses, permits or concessions.
- 4 Bonuses: social payments.
- 5 The Corporation does not pay royalties in-kind and does not have any other in-kind payments.
- 6 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.
- 7 Payments are rounded to the nearest \$10,000.

## Extractive Sector Transparency Measures Act - Annual Report

<b>Reporting Year</b>	<b>From:</b> 1/1/2018	<b>To:</b> 12/31/2018	
<b>Reporting Entity Name</b>	MEG Energy Corp.		<b>Currency of the Report</b> CAD
<b>Reporting Entity ESTMA Identification Number</b>	E553106		
<b>Subsidiary Reporting Entities (if necessary)</b>			

### 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	14,380,000	44,160,000	7,550,000		410,000			<b>66,500,000</b>	
Canada	Summont	80,000		240,000		500,000			<b>820,000</b>	
Canada	Growth Properties			770,000					<b>770,000</b>	
Canada	May River			230,000					<b>230,000</b>	
	<b>TOTAL</b>	<b>14,460,000</b>	<b>44,160,000</b>	<b>8,790,000</b>	<b>-</b>	<b>910,000</b>	<b>-</b>	<b>-</b>	<b>68,320,000</b>	

**Additional Notes:**

- 1 Taxes: property and business tax.
- 2 Fees: rental fees, administration fees, letter of credit fees, annual fees, interest penalty charges, regulatory charges, consultation capacity funding as well as fees or other consideration for licenses, permits or concessions.
- 3 Bonuses: social payments.
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- 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, 2018

### 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, 2018 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 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, 2018, 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, 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, 2018, 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, 2018, there were no reportable dividend payments to a payee.

#### **Infrastructure improvement payments**

This payment category consists of payments for the construction of infrastructure that does not relate primarily to the operational purposes of the Corporation. For the year ended December 31, 2018, 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, 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, 2018, 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, 2018, 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, 2018, there were no attribution of payments identified.



## *Independent auditor's report*

To the Management of MEG Energy Corp.

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### *Our opinion*

In our opinion, the accompanying Extractive Sector Transparency Measures Act (ESTMA) – Annual Report of MEG Energy Corp. (the Entity) for the year ended December 31, 2018 is prepared, in all material respects, in accordance with the basis of accounting described in the notes.

### **What we have audited**

The Entity's consolidated financial information comprises the ESTMA – Annual Report of MEG Energy Corp. for the year ended December 31, 2018 and the notes to the consolidated financial information, which include a summary of significant accounting policies and other explanatory information (the ESTMA Report).

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the ESTMA Report* section of our report.

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

### **Independence**

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the ESTMA Report in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Emphasis of matter – basis of accounting*

We draw attention to the notes to the ESTMA Report, which describe the basis of accounting. The ESTMA Report is prepared to assist the Entity in complying with the reporting requirements of the ESTMA. As a result, the ESTMA Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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



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### *Responsibilities of management and those charged with governance for the ESTMA Report*

Management is responsible for the preparation of the ESTMA Report in accordance with the reporting requirements of ESTMA, and for such internal control 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.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

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### *Auditor's responsibilities for the audit of the ESTMA Report*

Our objectives are to obtain reasonable assurance about whether the ESTMA Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this ESTMA Report.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the ESTMA Report whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain sufficient appropriate audit evidence regarding the ESTMA Report of business activities within the Entity to express an opinion on the ESTMA Report. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jason Grodziski.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
May 30, 2019