



MEG Energy's Board of Directors Unanimously Rejects Husky Energy's Offer and Recommends MEG Shareholders Not Tender

MEG's stand-alone plan is worth substantially more than the value proposed to be delivered by Husky in the Husky Offer

MEG's business is at an exciting inflection point and new CEO, Derek Evans, has plans to accelerate MEG's cash flow generation

The Husky Offer was timed opportunistically and substantially undervalues MEG's best-in-class assets and improves Husky's business

CALGARY, Oct. 17, 2018 /CNW/ – MEG Energy Corp. (TSX:MEG, “MEG”, or the “Company”) today announced its Board of Directors (the “**Board**”) has unanimously determined that Husky Energy’s (“**Husky**”) unsolicited bid to acquire MEG significantly undervalues the common shares (“**Common Shares**”) of MEG and is **NOT** in the best interests of MEG or the holders (“**MEG Shareholders**”) of Common Shares.

On October 2, 2018, Husky made a formal offer to acquire all of the issued and outstanding Common Shares, at the election of the MEG Shareholder, for (i) \$11.00 in cash or (ii) 0.485 of a common share (“**Husky Share**”) of Husky for each Common Share, subject to a maximum aggregate cash consideration of \$1 billion and a maximum aggregate number of Husky Shares of approximately 107 million (the “**Husky Offer**”). The Husky Offer must remain open until at least January 16, 2019 unless otherwise extended, accelerated or withdrawn in accordance with its terms.

In June, the Board completed a comprehensive strategic review of MEG’s business plan, operations and financial condition and considered alternatives available to support MEG’s corporate strategy and enhance MEG Shareholder value. In August, the Board appointed a new Chief Executive Officer, Derek Evans, to execute upon MEG’s business plan, pursuant to which the Board and management expect to generate substantial free cash flow for MEG over the next several years.

Upon receipt of the Husky Offer, the Board, operating through a Special Committee, engaged with financial and legal advisors to diligently review the Husky Offer. The Board has unanimously concluded that the Husky Offer significantly undervalues the Common Shares, is not in the best interests of MEG or MEG Shareholders and recommends that MEG Shareholders **REJECT** the Husky Offer and **NOT** tender their Common Shares.

“The Husky Offer significantly undervalues MEG’s assets, technology, expertise and business prospects. Over the last few years, there has been a substantial transformation of our business,

culminating in the appointment of a top-rated CEO and the strengthening of our management team. Since the start of 2017, the Company has successfully sold non-core assets, reduced debt and significantly extended our remaining debt maturities. MEG is now at an inflection point with a low risk business plan and a clear line of sight to significant free cash flow generation commencing in 2019,” said Jeffrey J. McCaig, Chairman of the Board.

The Board today filed its Directors’ Circular, which provides information for MEG Shareholders about MEG’s prospects and the Board’s analysis, deliberations and recommendations. The Directors’ Circular is available at www.megenergy.com/RejectHusky and at www.sedar.com. Additional information can be found in the Investor Presentation, which is also available at www.megenergy.com/RejectHusky.

Mr. Derek Evans, MEG’s Chief Executive Officer, said, “I took over the leadership of MEG because I believe that our assets and technologies set us up for an exciting period of growth and MEG Shareholder value creation. With a substantially improved balance sheet and continued focus on execution and cost control, we expect all future growth to be fully-funded through internal sources, while having significant free cash flow to pay down debt and return money to MEG Shareholders. All of these uses of our capital will drive significant MEG Shareholder value. None of this has been reflected in the Husky Offer which is widely acknowledged in the press and research community to be opportunistic. We urge MEG Shareholders to reject the Husky Offer.”

In its Directors’ Circular, the Board describes the reasons for its recommendations. Among other things, the Board notes:

- **MEG’s stand-alone plan is worth substantially more than the value proposed to be delivered by Husky in the Husky Offer.** MEG is producing approximately 100,000 barrels per day (bpd) today and has spent substantially all the capital required to increase production to 113,000 bpd by 2020. MEG expects that it can continue to produce at these levels, with a minimal decline rate, for approximately 40 years. The Company has 2.8 billion barrels of proved plus probable reserves with a \$18.9 billion of before-tax present value (10% discount rate) as assessed by GLJ Petroleum Consultants Ltd. (“GLJ”), MEG’s independent reserves evaluator, as of December 31, 2017 and using GLJ’s January 1, 2018 pricing models. The Board expects MEG to generate significant free cash flow from 2019 onward.
- **The timing of the Husky Offer is opportunistic** and was timed to deny MEG Shareholders the opportunity to fully evaluate the plans, and experience the value creation of MEG’s new CEO, Mr. Evans. The Board also notes that the value of the Husky Offer is below the market trading price the Common Shares achieved just three months ago, in July 2018.
- **In addition to being financially inadequate, the form of consideration offered in the Husky Offer is disadvantageous to MEG Shareholders.** If the Husky Offer is successful, most of the consideration will be delivered to MEG Shareholders in the form of equity in Husky, a tightly controlled company with a nearly 70% owner. Moreover, MEG Shareholders would be receiving an equity interest in a slower-growing company - with inferior, shorter-lived thermal assets and higher cost operations.
- **As the Husky Offer is presently structured, Husky’s existing owners are receiving the lion’s share of the benefits of the combination,** many of which Husky has not even

acknowledged. The inadequate price for MEG, together with the Husky acknowledged synergies, generates double-digit accretion for Husky shareholders and corresponding substantial dilution for MEG Shareholders. Moreover, Husky's existing shareholders would also benefit from applying MEG's superior technology across Husky's operations and from significant tax assets that could be worth as much as \$5 per Common Share, alone. Husky has the financial wherewithal to more fairly compensate MEG Shareholders for these benefits.

As noted in the Directors' Circular, the Board also took note of the fact that:

- Several large MEG Shareholders have publicly expressed concerns about the value of the Husky Offer;
- A majority of research analysts covering MEG have price targets above the effective value of the Husky Offer;
- MEG's share price has traded above the effective value of the Husky Offer continuously since Husky made the Husky Offer, reflecting the market's judgment that the Husky Offer is inadequate; and
- The Special Committee has given its financial advisor, BMO Capital Markets a mandate to investigate alternative transactions to the Husky Offer. A data room containing confidential information about MEG and the value of its business is expected to be opened in the near term. Several strategic parties to date have expressed interest in participating in this process. MEG will not be providing more information to the market on the status of the strategic alternative process until MEG has material developments to disclose.

The Board has received a written opinion from its financial advisor, BMO Capital Markets, to the effect that, as of October 16, 2018, and based upon and subject to the assumptions, limitations and qualifications contained therein, the consideration to be received by the MEG Shareholders pursuant to the Husky Offer is inadequate, from a financial point of view, to MEG Shareholders.

For the principal reasons outlined above, the Board, on the recommendation of the Special Committee, has **unanimously determined that the Husky Offer significantly undervalues the Common Shares and is not in the best interests of MEG or MEG Shareholders.**

MEG also notes that the Board fully analyzed, vetted and provided feedback to Husky about a financially identical non-binding proposal that Husky made privately to MEG on August 8th.

"When Husky approached MEG in August, the Board and its Special Committee engaged with financial advisors and fully analyzed Husky's non-binding proposal," said Timothy Hodgson, Chairman of the Special Committee. "We told Husky then, after our full review, that its non-binding proposal was insufficient and highlighted numerous reasons for that conclusion. Instead of increasing the consideration under its non-binding proposal or continuing to engage with our Board, Husky is attempting to cajole MEG Shareholders into selling their Common Shares at the offered price. We encourage MEG Shareholders to reject the Husky Offer."

NO ACTION is required to reject the Husky Offer.

If you have already tendered your Common Shares to the Husky Offer, you can withdraw your Common Shares by contacting your broker or Kingsdale Shareholder Services, North American Toll Free at 1-866-228-8614 or via email at contactus@kingsdaleadvisors.com.

Advisors

MEG has retained BMO Capital Markets as financial advisor, and Burnet, Duckworth & Palmer LLP as legal counsel to MEG and the MEG Board and Bennett Jones LLP as legal counsel to the Special Committee.

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" 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, this news release contains forward-looking statements with respect to: expectations regarding the value of MEG's stand alone plan; expectations that MEG's business plan will generate substantial or significant free cash flow over the next several years; expectations that MEG is at an inflection point with its business plan; expectations that MEG's assets and technologies sets it up for a period of growth and MEG Shareholder value creation; MEG's plan to focus on best-in-class execution and cost control; expectations that MEG's future growth will be fully-funded through internal sources; plans to obtain and use significant free cash flow to pay down debt and return money to MEG Shareholders; expectations that planned uses of capital will drive significant MEG Shareholder value; plans to increase production to 113,000 bpd by 2020 and expectations that MEG has spent substantially all the capital required to effect this anticipated production increase; expectations that MEG can continue to produce at these levels for approximately 40 years; anticipated production decline rates; expectations with respect to the MEG's CEO ability to create value; expectations with respect to the benefits to the Husky shareholders of Husky if the Husky Offer is successful; expectations that Husky has the financial wherewithal to more fairly compensate MEG Shareholders; the ability of MEG to attract other interested parties through the strategic alternatives process; the availability of superior offers or alternatives emerging from MEG's strategic alternatives process to capture the value of MEG's business; the expected disadvantages to the MEG Shareholders if the Husky Offer is successful; the intrinsic value of MEG's business; opportunities to apply technological innovation for long-term growth; estimates of reserves and resources; the composition, utilization and value of MEG's tax pools; expectations respecting future value creation for MEG; and expectations respecting MEG's future capital efficiencies and operations.

Forward-looking information contained in this news 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, foreign exchange rates and interest rates; the recoverability of MEG's reserves and contingent resources; MEG's ability to market production of bitumen blend successfully to customers; future growth, results of operations and production levels; future capital and other expenditures; plans for and results of drilling activity; the regulatory framework governing royalties, land use, taxes and environmental matters in which MEG conducts and will conduct its business; 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 include, but are not limited to: risks associated with 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; 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 and projects; the operational risks and delays in the development, exploration, production, and the capacities and performance associated with MEG's projects; and uncertainties arising in connection with any future disposition of assets. 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. The effect of any one risk, uncertainty or factor on particular forward-looking information is uncertain because these factors are independent and management's future course of action would depend on an assessment of all available information at that time. Further information regarding the assumptions and risks inherent in the making of forward-looking statements can be found in MEG's AIF under the heading "Notice Regarding Forward Looking Information", 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 press release 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.

ADVISORY REGARDING OIL AND GAS INFORMATION

The reserves information contained in this news release has been prepared in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* of the Canadian

Securities Administrators ("NI 51-101"). The reserves estimates described herein are estimates only and the actual quantities of recoverable bitumen may be greater or less than those estimated. The estimated future net revenues presented in this news release do not necessarily represent the fair market value of the Corporation's reserves. For complete NI 51-101 reserves disclosure, please see MEG's Annual Information Form for the year end December 31, 2017.

ADVISORY REGARDING NON-IFRS MEASURES

Certain financial measures within this presentation including free cash flow are not defined by International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures provided by other companies. These non-IFRS financial measures should not be considered in isolation or as an alternative to, or more meaningful than, MEG's consolidated statement of cash flow as determined in accordance with IFRS, as an indicator of financial performance. Cash flow is presented to assist management and investors in analyzing performance by MEG in the stated period.

In this news release, cash flow has been calculated as net cash provided by (used in) operating activities adjusted for net proceeds on dispositions and cash provided used in financing activities. Free cash flow has been calculated as cash flow less capital expenditures.

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