MEG Energy (TSX: MEG)

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MEG ENERGY

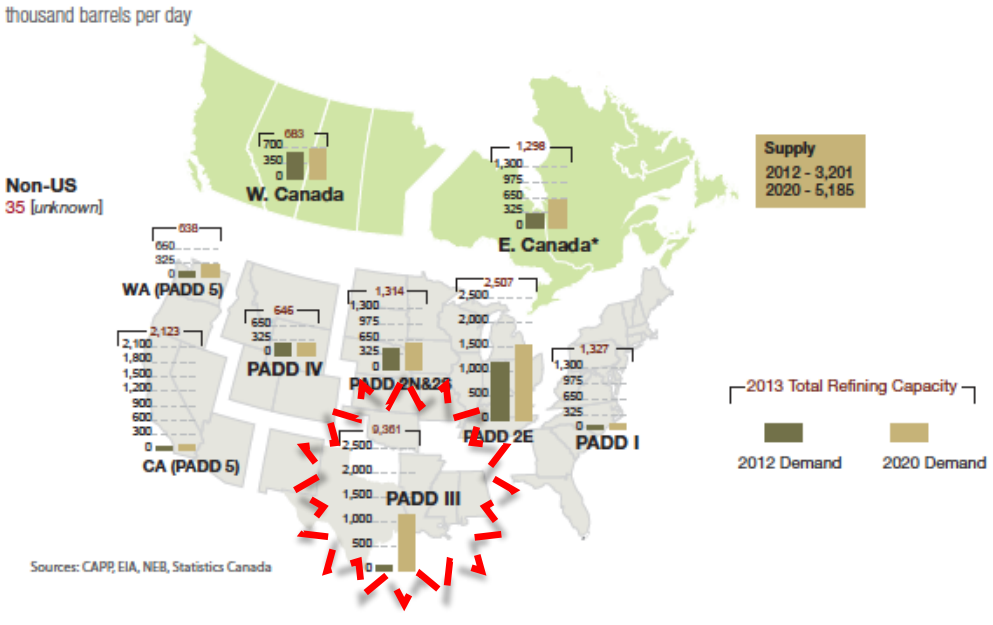
I. Heavy Oil Thesis Revisited

Heavy Oil Thesis Revisited

1. Increasing heavy oil refinery demand in the states due to:
    1. Large coking capacity capital investments over the past few years
    2. Mexican and Venezuelan heavy oil production declines due to lower capital investment
    3. Dumbbelling of the North American crude stream (large supply of light oil and need for heavy oil to produce medium end refined products which are in high demand e.g. diesel and heating oil)
2. Takeaway Capacity:
    1. Keystone XL approval: WCS-MAYA differential narrows to pipeline transportation cost ($7-11) in 2016-2019
    2. Transmountain and Energy East approval; WCS-MAYA differential narrows to pipeline transportation cost ($7 – $11) beyond 2018
    3. Crude by rail optionality: even in the case of no pipeline approval, significant growth in crude by rail would result in differential narrowing to rail transportation cost ($15 – $20) after 2014; this is lower than the $24 average differential we have seen over the past 2 years (reaching ~$40 in some cases)
3. Negative sector sentiment due to WCS volatility and market skepticism on oil sand companies' financing prospects has led to a disconnect between oil sands valuations and future WCS prices, as well as those determined by market fundamentals we discussed (supply and demand)

Markets for Canadian Oil

Demand for Western Canadian Oil - 2012A vs. 2020E



Global Coking Capacity

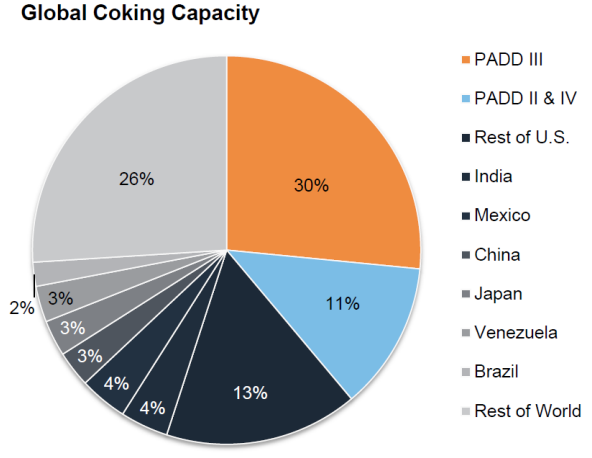


Figure 48.
Source: Oil & Gas Journal, EIA, AltaCorp Capital

US PADD III (Gulf Coast) will be the main market for Canada's heavy oil growth; very little currently supplied due to infrastructure constraints (~120 Mbbl/d)

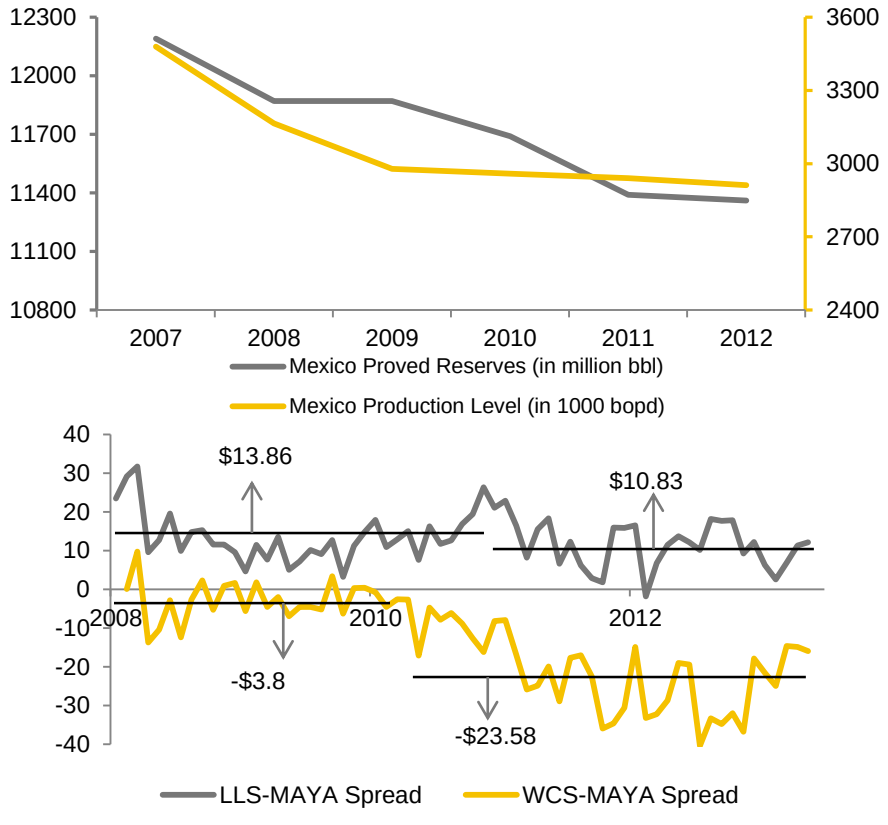
Why the Gulf Coast?

PADD III Refinery Capacity: ~9.4 mmbbl/day

- ✓ Majority of heavy oil refining capacity is located in the USGC; recent refinery capex to convert to heavy oil capacity before light oil boom was anticipated
- ✓ Historically, heavy oil was imported from offshore sources, mainly Mexico & Venezuela
- ✓ Mexico supply is in decline due to lack of capital investment
- ✓ Venezuela also lacks capital investment and has entered substantial supply commitments to China

- **Increase in heavy demand from refiners; LLS-MAYA average spread narrows by $3/bbl**
- **Lack of enough transportation capacity to the gulf coast; average WCS-MAYA spread widens by -$20**

Displacing the Mexican MAYA



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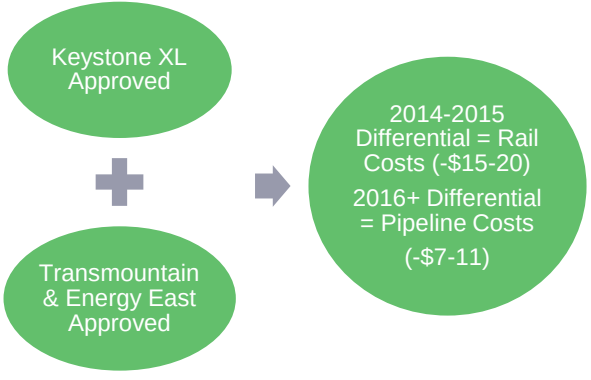
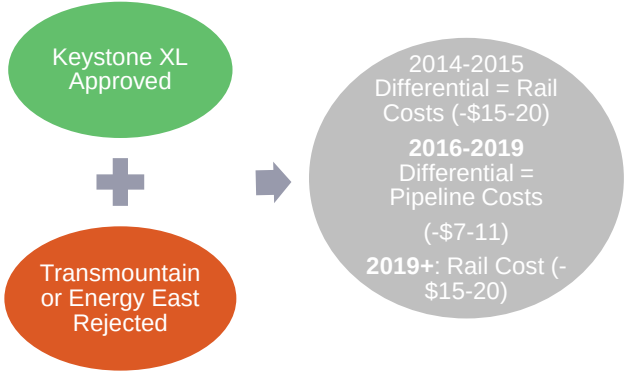
Source: DCM Equity Research.

Verdict: WCS Outlook By End of 2017

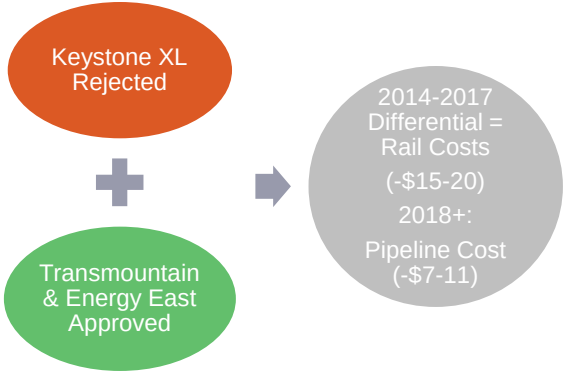
Upside Case: Outperform



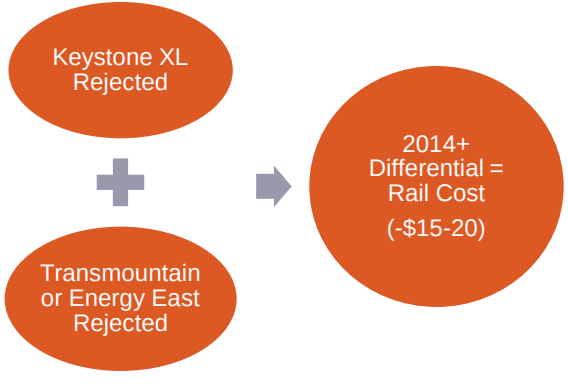
Base Case: Short-term Outperform



Base Case: Short-term Market Perform



Downside Case: Underperform



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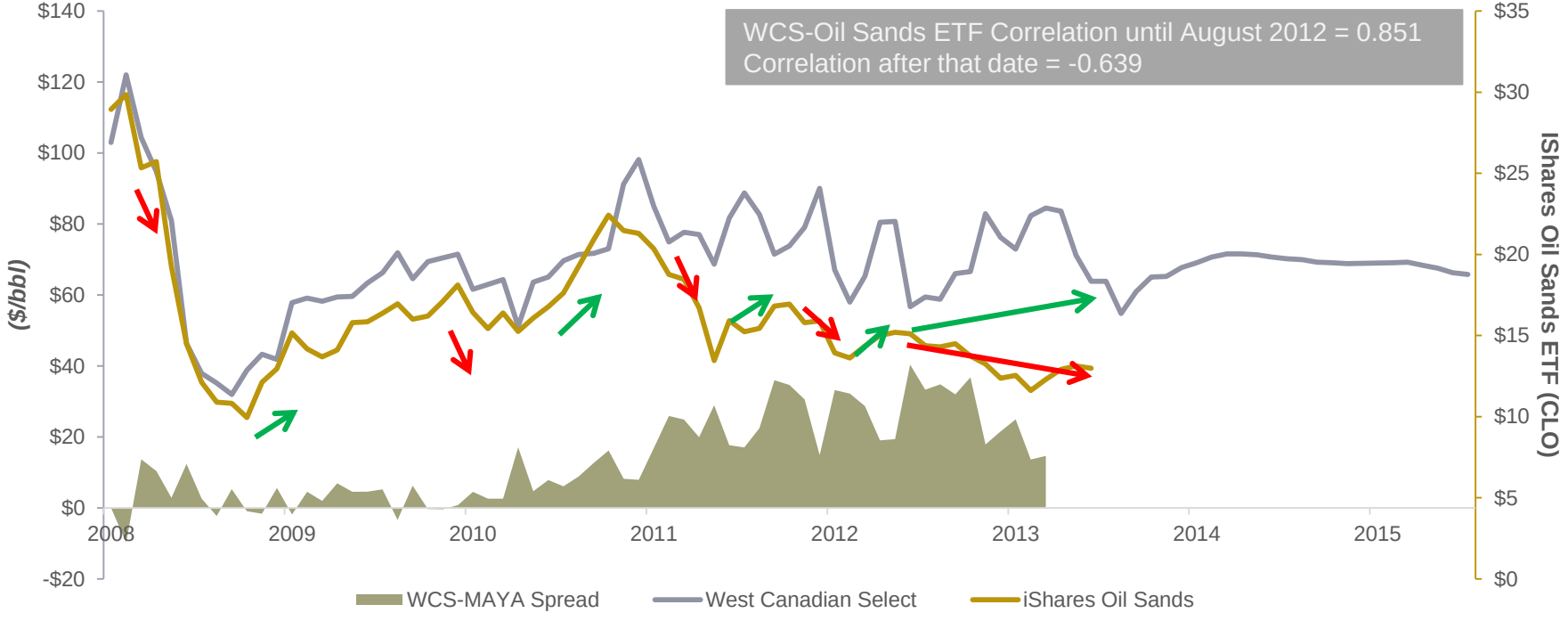
Source: DCM Equity Research

WCS vs. Heavy Oil Equity Valuation: The Market Disagrees



- Correlations broke after August 2012; oil sands equity prices did NOT trend with WCS prices
- The market does not realize our thesis although futures data indicates a spread narrowing and stabilizing WCS prices (the spread narrows but on generally lower oil prices)
- Oil Sands valuations do not reflect current and future WCS prices, as well as those determined by market fundamentals we discussed (supply and demand)
- This can be attributed to negative sector sentiment and market skepticism on oil sand company's ability to finance their projects

Source: DCM Equity Research

II. Company Overview

Company Overview

Company Description

- MEG Energy is a pure play Canadian oil sands company focused on sustainable in situ and SAGD development and production in the southern Athabasca oil sands region of Alberta
- Proved + Probable reserves of 2,644 mmbbls
  - Contingent Resource of 3,420 mmbbls
- Q3 2013 production of 34,246 bbls/d
- Q3 2013 cash operating netback of $59.59
  - Cogeneration, strategic marketing plan

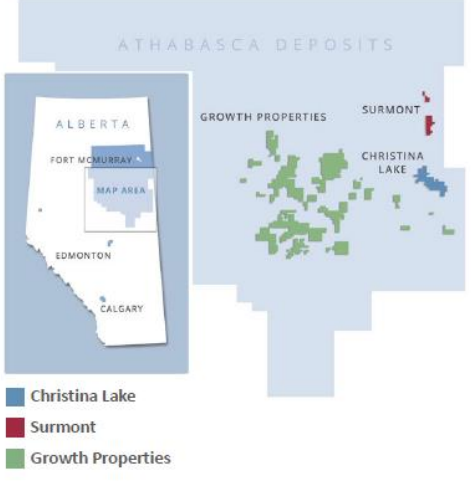
Financial Summary

TSE:MEG as of November 5, 2013	
Share Price	$31.30
Dividend Yield	0.0%
52 Week High	$37.99
52 Week Low	$25.50
Fully Diluted Shares O/S (MM)	225
Market Capitalization	$7,053
Net Debt	$2,625
Total Enterprise Value	$9,678

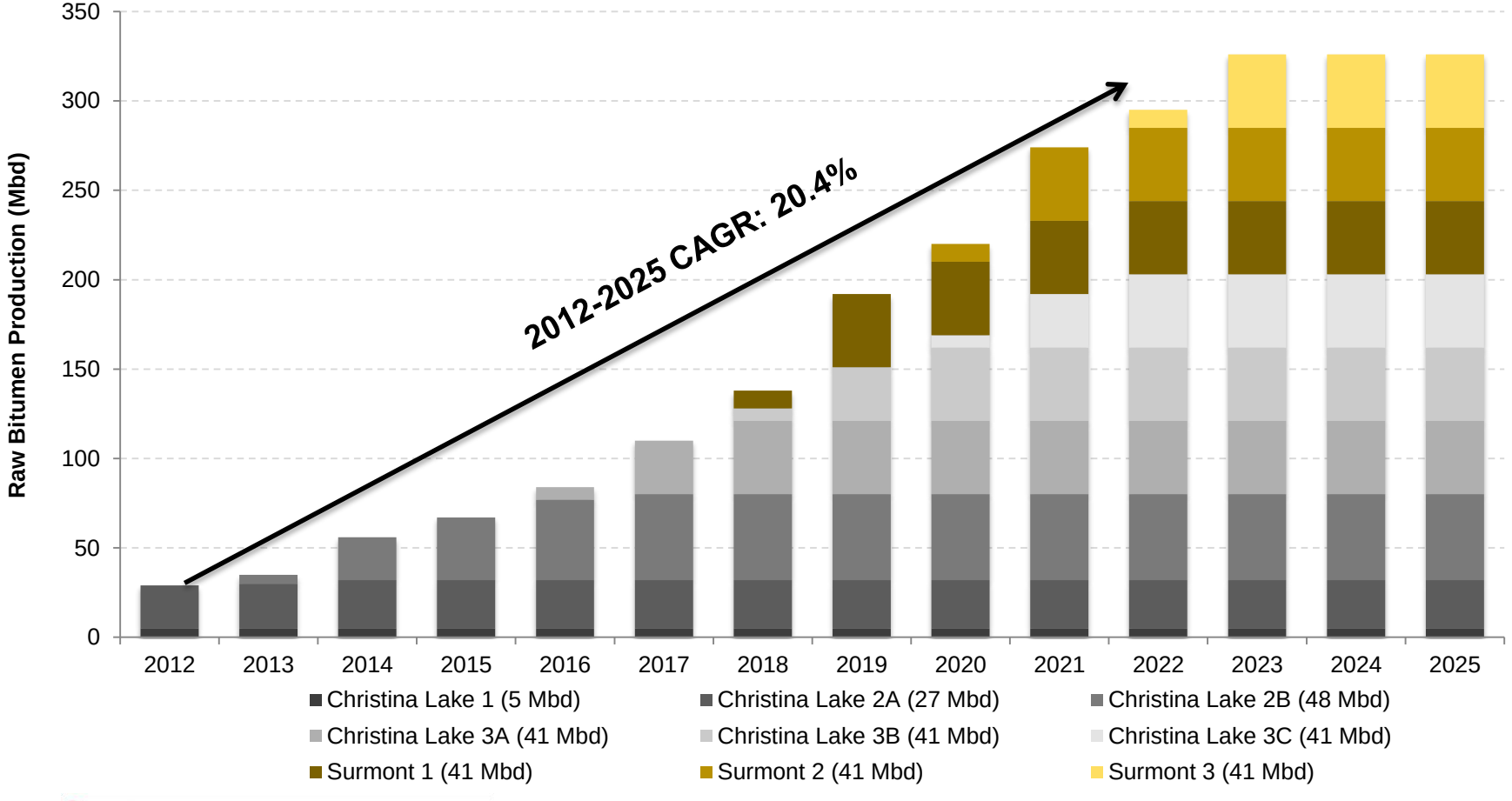
Core Assets

- Oil sands properties
  - Christina Lake
  - Surmont
  - Growth Properties
- Key infrastructure assets
  - Access Pipeline (50% working interest)
  - Stonefell Terminal

Asset Map

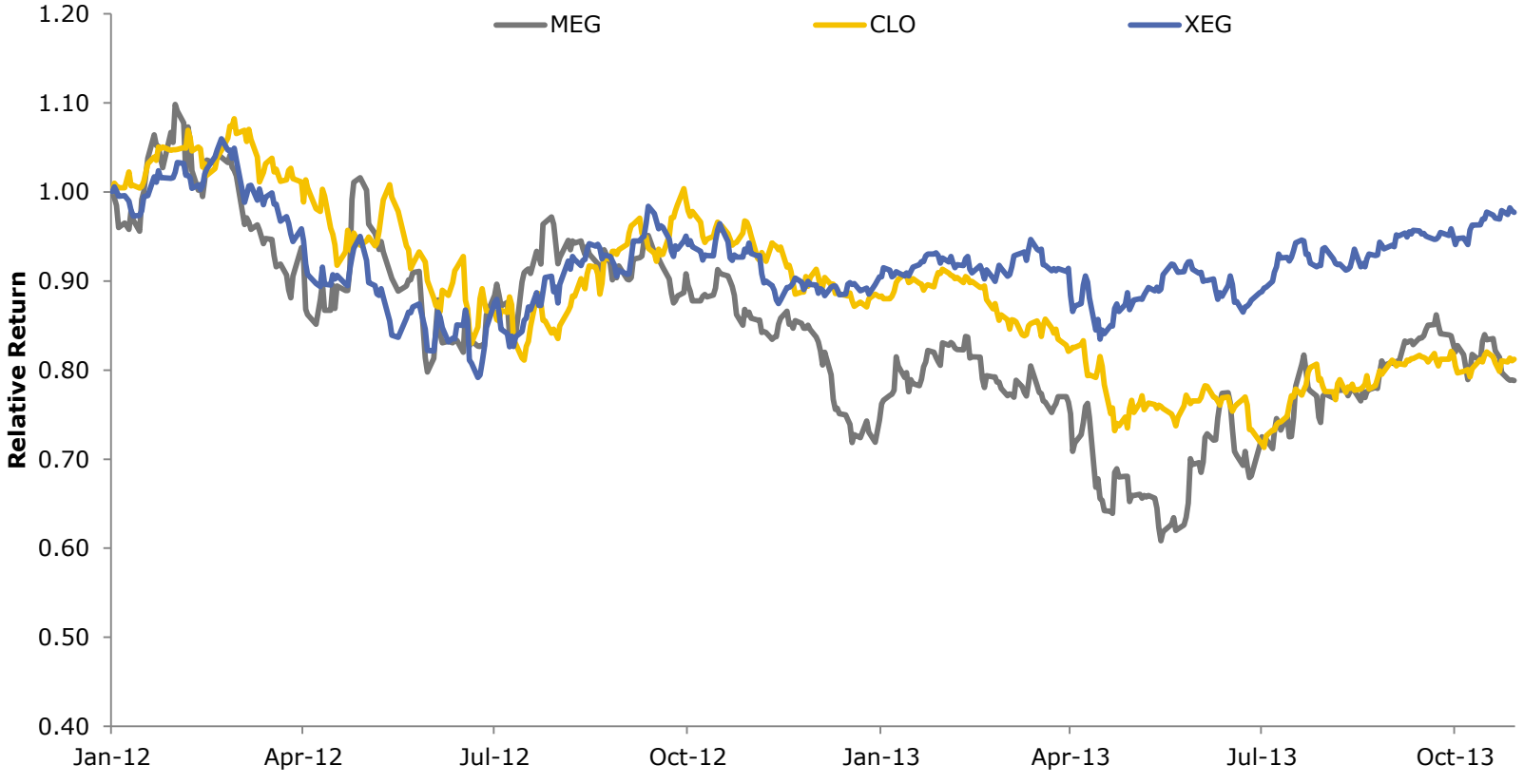


Bitumen Production Forecast

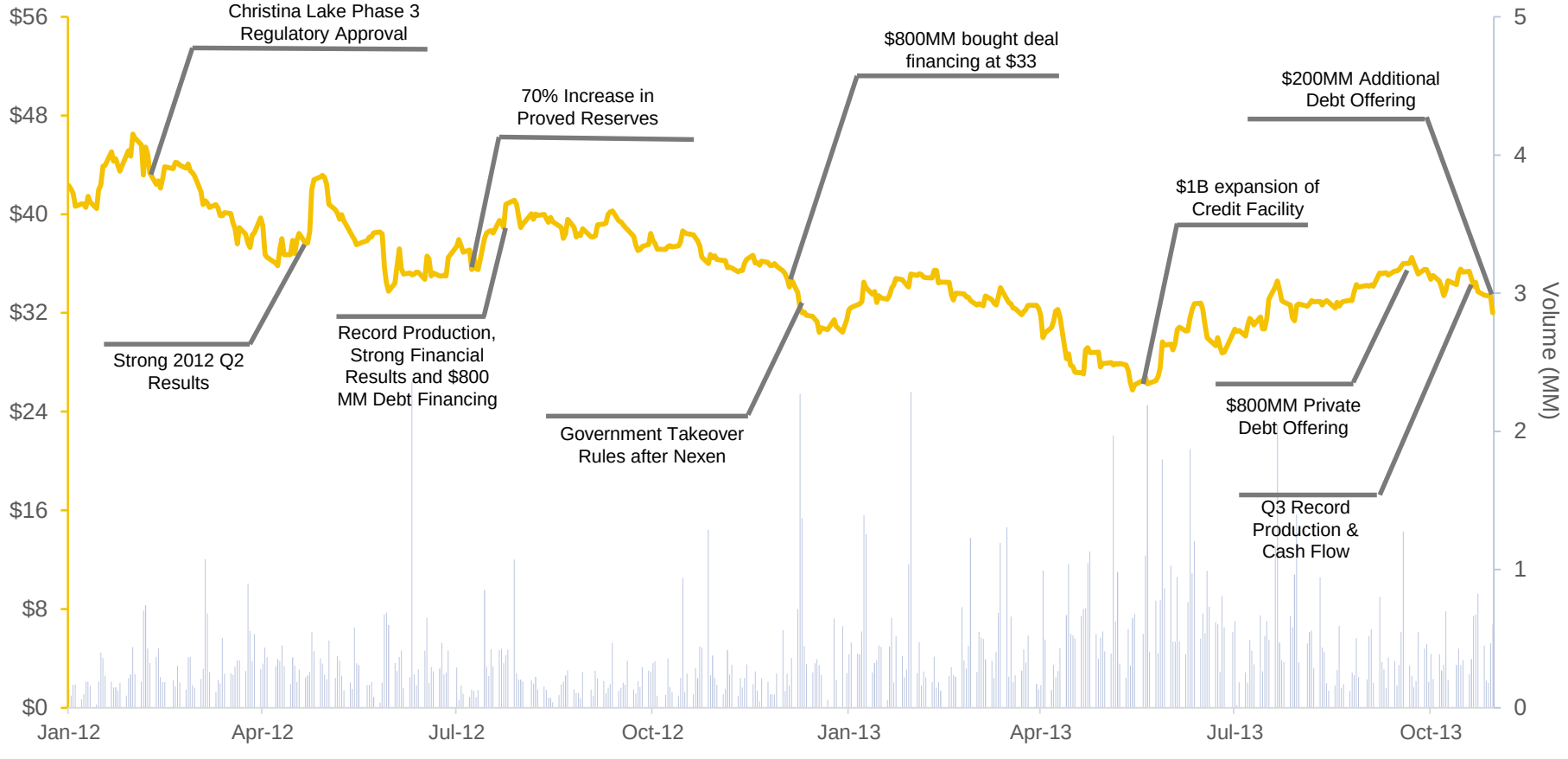


Source: Wood Mackenzie, Company Reports

Relative Trading

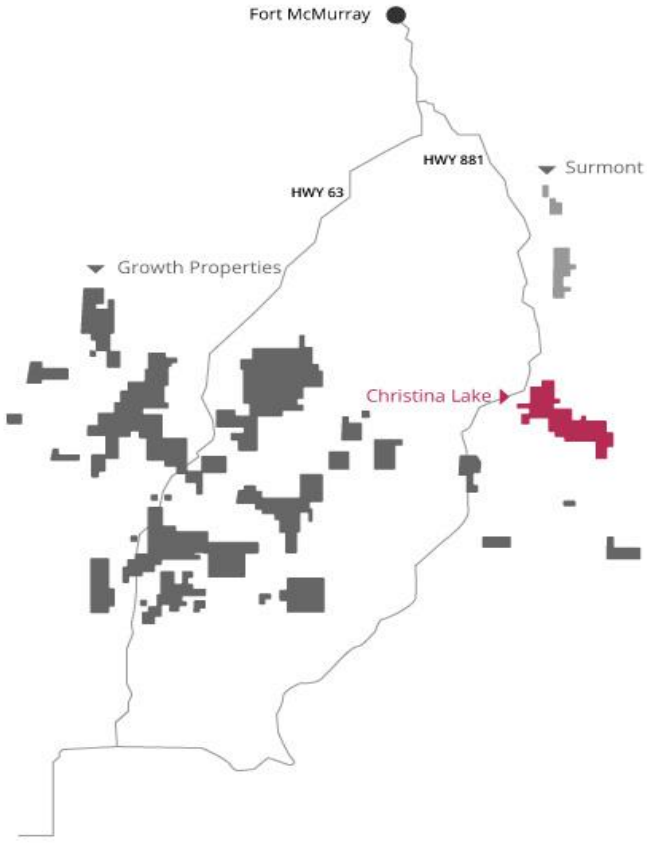


Annotated Price Graph



Christina Lake Property

Location



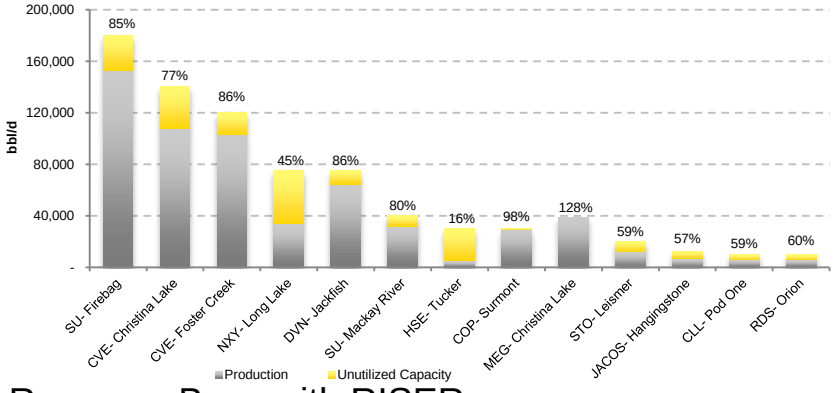
Asset Overview

- Oil sands play – SAGD
- Represents 70% of MEG Energy's NAV
- 75-85% bitumen saturation
- 51,200 acre property, dates back to 2008
- Design capacity:
  - Phase 1 – 3,000 bbl/d
  - Phase 2A – 22,000 bbl/d
  - Phase 2B – 35,000 bbl/d
  - Phase 3 – 123,000 bbl/d
- Phase 3 completion – 2020E
- Supply costs ~$50-60/bbl
- Operating costs ~$10/bbl
- Top-quartile SOR at 2.4x
- Top 5 well-rate ~ 620 bbl/d
  - Low degree of variability

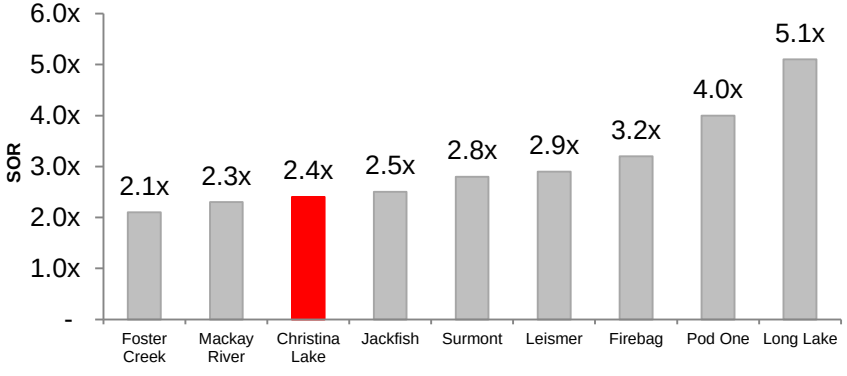
Source: AltaCorp, National, Barclays, RBC Capital Markets, Bloomberg

Christina Lake Property

In Situ Project Utilizations



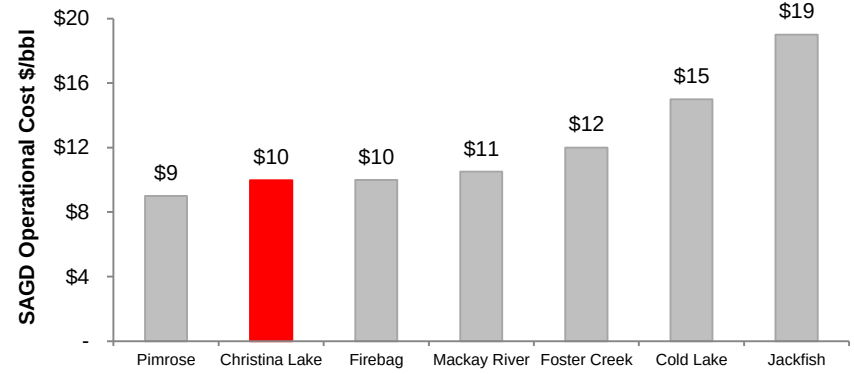
Steam Oil Ratio



Resource Base with RISER

- Proved – 1,284 mmbbl
- Probable – 849 mmbbl
- Contingent – 979 mmbbl
- 2P Reserves BTNAV10 – $14,761 MM
- Contingent Reserves BTNAV10 – $2,675 MM
- 41 producing SAGD well pairs ~800 bbl/d/well
- 4 non-producing SAGD well pairs

SAGD Operational Cost Comparison



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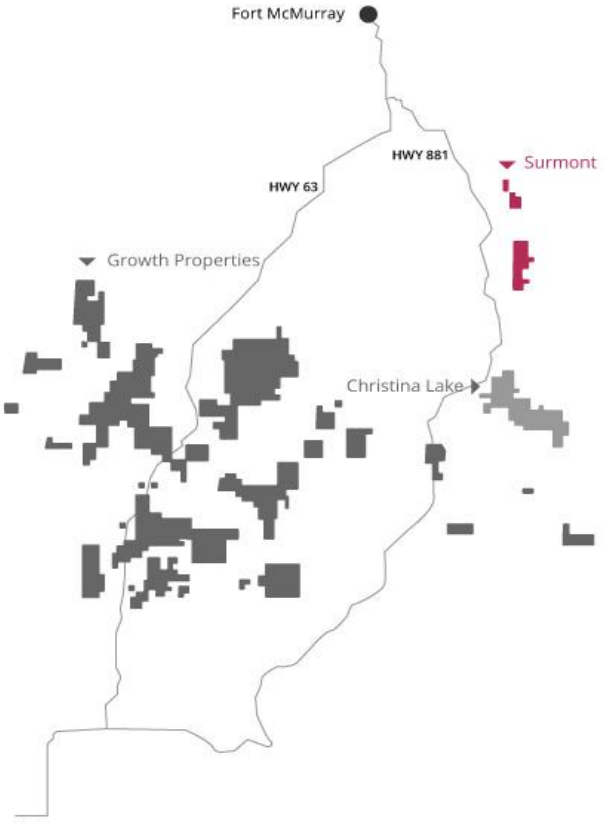
Source: AltaCorp, National, Barclays, RBC Capital Markets, Bloomberg

Surmont

Location



Asset Overview

- Oil sands play – SAGD
- 75-85% bitumen saturation
- 20,480 acres – McMurray Formation
- 25 year project life
- Regulatory approval – mid-2014E
- Will connect to Access Pipeline
- Supply costs ~$60-70/bbl
- Design capacity:
  - Phase 1 – 41,000 bbl/d 2018E
  - Phase 2 – 41,000 bbl/d 2020E
  - Phase 3 – 41,000 bbl/d 2022E
- Design SOR – 2.8x (lower with RISER)
- Resource base:
  - 2P: 639 mmbbl (with RISER)
  - Contingent: 409 mmbbl (with RISER)
  - 2P BTNAV10: $2,077MM
  - Contingent BTNAV10: $1,921MM

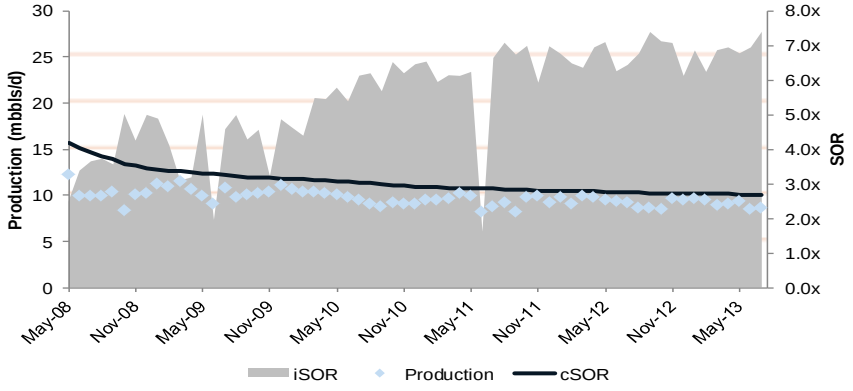
Source: AltaCorp, National, Barclays, RBC Capital Markets, Bloomberg

ConocoPhillips-Surmont Property

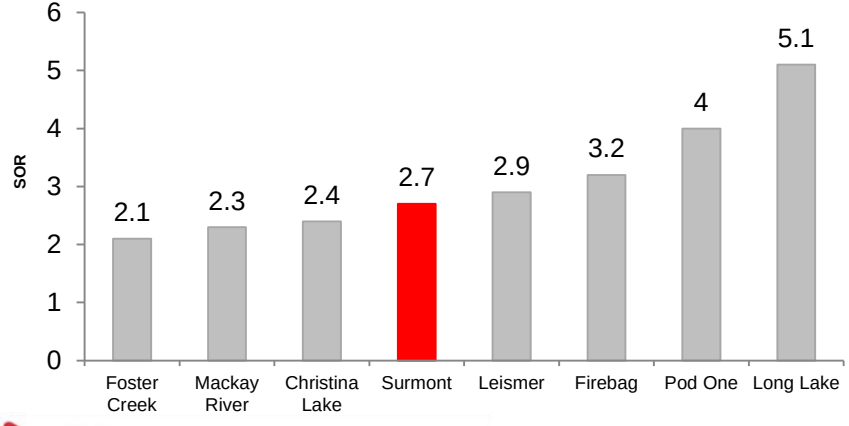
Asset Overview

- Oil sands play – SAGD
- 50/50 joint venture with Total E&P Canada
- Began producing oil in 2007
- SOR – 2.7x
- Phase 1 – 27,000 bbl/d
- Phase 2 – 109,000 bbl/d

Production Profile



SOR Comparison



ConocoPhillips vs. MEG Energy

- Both SAGD
- Adjacent location and same formation
- MEG should be able to achieve a lower SOR due to RISER
- Christina Lake lake team will develop Surmont
- MEG has the Access pipeline to lower transportation costs
- Cogeneration will maintain lower operating costs

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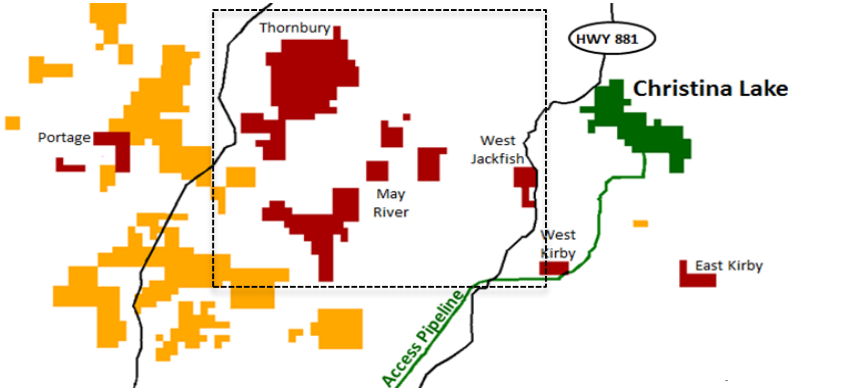
Source: AltaCorp, National, Barclays, RBC Capital Markets, Bloomberg

Growth Properties

Asset Overview

- 526,080 acres – Southern portion of the Athabasca Oil Sands Fairway (close to Christina Lake, Access Pipeline)
- 100% working interest
- Focused properties: Thornbury, May River, West Jackfish
- To date, MEG has evaluated 35% of the land
- Significant delineation work has been done at Thornbury and May River

Map



Resource Profile and Development Plan

- Contingent Resources: 2,114 mmbbls
- BTNAV10: $5,669 MM
- As of Dec. 31, 2012: 153 test wells
- 90 miles^2 3D seismic data covering focused properties
- Conducting an ongoing core-hole program
- Regulatory application is expected after core areas are developed

Valuation of Growth Properties

- Sell-side research
  - Altacorp: $1.00/bbl
  - National: $0.50/bbl
  - Macquarie: $0.75/bbl
- M&A Transactions (2007 – 2010)
  - Average contingent resource: $0.77/bbl
- Based on proximity of existing properties and supporting infrastructure, a valuation between $0.70/bbl and $0.85/bbl is justified

MEG ENERGY

III. Investment Thesis

Investment Thesis

Investor sentiment in the oil sands space is at an all time low due to fears over project financing & viability, and infrastructure constraints. MEG Energy is undervalued even though it has clearly defined growth opportunities, and will be one of the first to gain when investor sentiment improves.

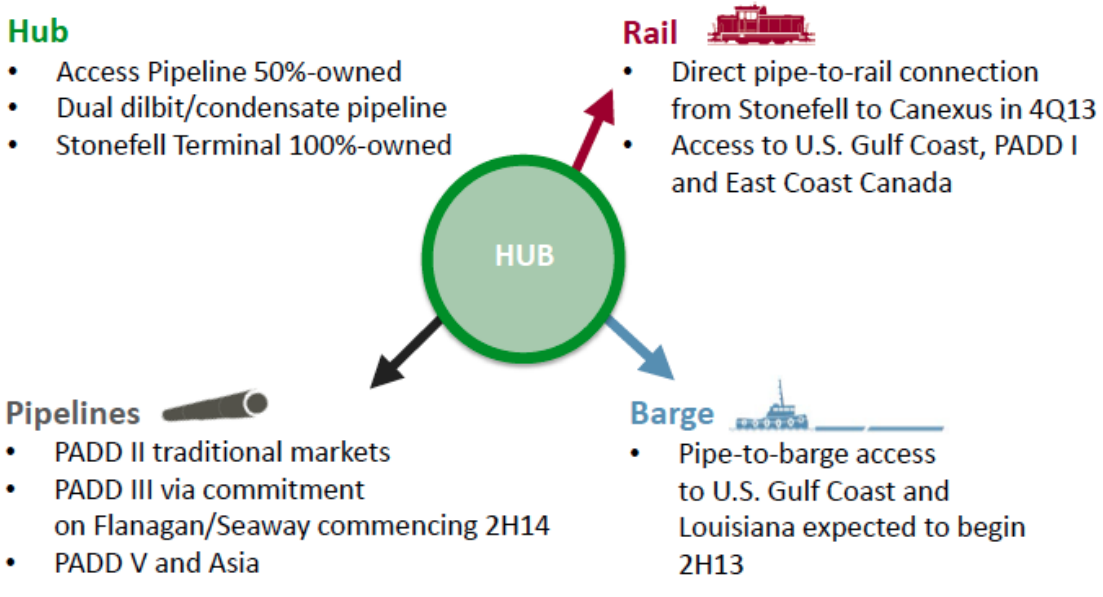
- Strong operator / assets
- Strategic marketing plan
- Ownership of key infrastructure
- Industry leading technology
- Financial flexibility

Unique Marketing Strategy

MEG ENERGY

"Hub and Spoke" Strategy: Ownership/contracted capacity of key infrastructure

- Will allow MEG to bypass pipeline congestion & discounted pricing to approach Maya heavy pricing
- Will move MEG ahead of industry pricing curve in near-term
- Flexibility to optimize margins
- No direct dependence on Keystone XL for Gulf Coast access, but approval will be a positive industry-wide catalyst



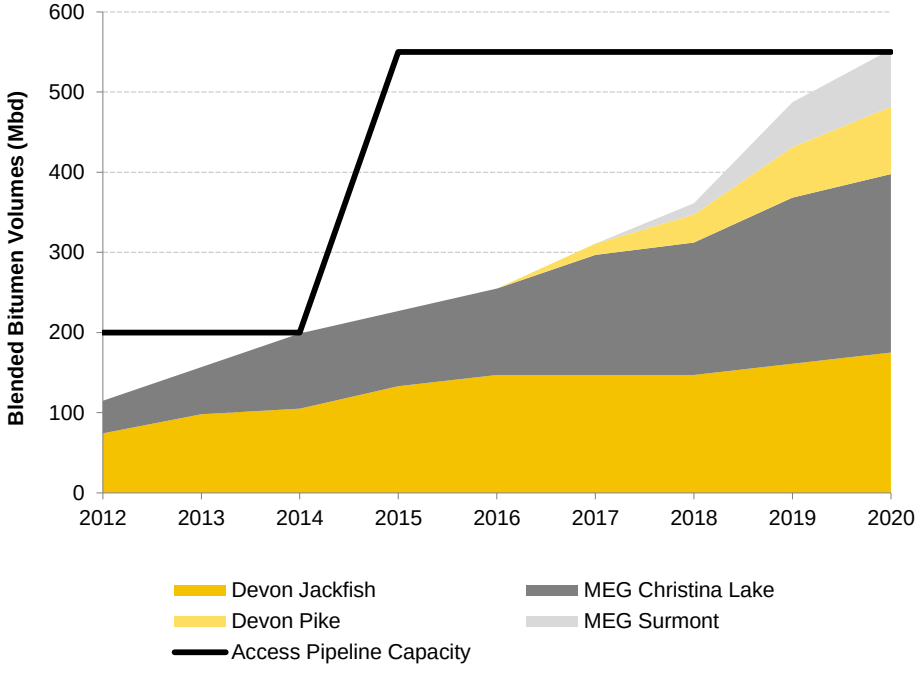
Source: MEG Investor Presentation

Access Pipeline

Access Pipeline

- Jointly owned (50%) with Devon Energy
- Parallel pipelines transport dilbit blend South to Edmonton & diluent North to oil sands projects
- Delivers dilbit to blending facility for AWB oil grade from MEG and Devon projects
- Strategic access to the key oil transportation hub in W. Canada, with export pipelines to US and West Coast markets
- 200 Mbbl/d capacity, expanding to 550 Mbbl/d in 2015
- Results in ~$2/bbl lower transportation costs than other oil sands projects which must be sent by truck or toll pipelines
- Assumption: Access Pipeline + Storage infrastructure have $500 mm value

Pipeline Capacity vs. Production Forecasts



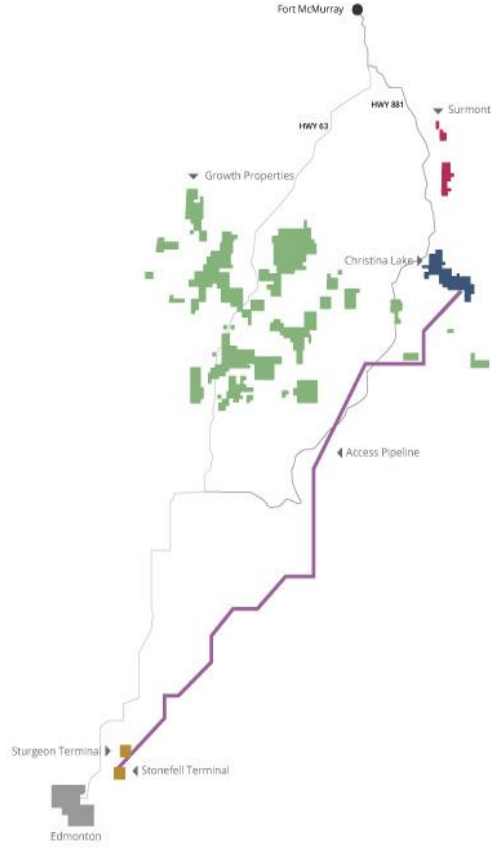
Source: DCM Research

Storage Terminals

Storage Terminals: Sturgeon and Stonefell

- 1,075 Mbbls storage capacity
- Storage capacity is strategically located at Edmonton
- Provides some insulation from short-term swings in heavy oil pricing
- Joint ownership (50%) of Sturgeon Terminal with Devon- blending facility for AWB oil grade, 175 Mbbls capacity
- Full ownership of Stonefell Terminal- 900 Mbbls capacity completed in Q3 2013
- Stonefell will act as MEG's proprietary hub for moving dilbit batches to market, with connections to:
    1. Existing export pipelines to W. Coast, Rocky Mountains, US Midwest
    2. Canexus Bruderheim rail terminal
    3. Proposed pipeline projects to W. Coast and US Gulf Coast

Access Pipeline Route and Storage Terminals



Source: MEG Company Website

Short-Term Strategy: Rail and Barge

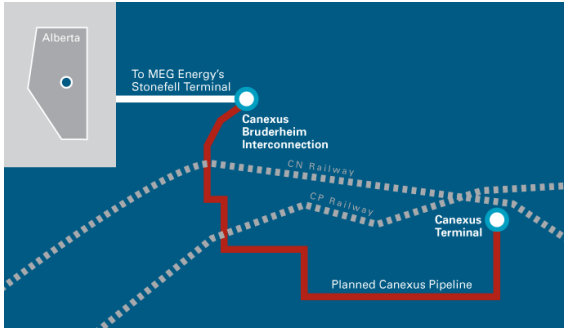
Rail Loading Capacity

- Loading capacity at Canexus Bruderheim terminal: 70 Mbbl/d in 4Q 2013, 120 Mbbl/d in 2H 2014
- Dilbit will be provided through pipeline connection to MEG's Stonefell Terminal
- Unit train loading: cheaper than predominant manifest
- Access to CN and CP rail networks
- Final destination to US inland waterway system or East Coast

Barge to Gulf Coast

- 18 barges leased
- Would offload crude from rail or pipe onto barge for shipment to refineries from Mid-Con to Gulf Coast market
- All-in cost of rail + barge from $15-$20/bbl

Associated Rail Infrastructure



US Inland Waterway System

Sources: Canexus Company Website, AltaCorp Capital

Long-Term Strategy: Flanagan South

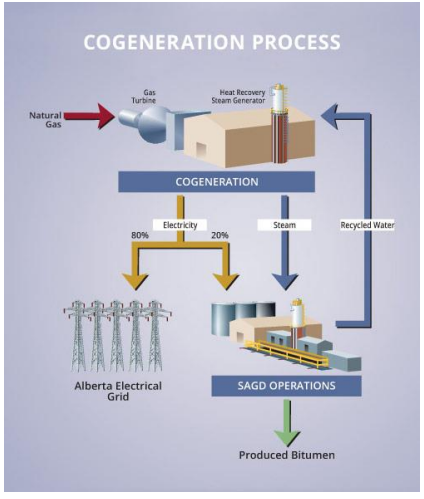
- In service 2H 2014 (585 Mbbl/d)
- Pipeline will be an extension of the current Enbridge Mainline from Chicago to Cushing
- From Cushing, barrels can then move to Gulf Coast along one of the recently completed pipelines
- Committed space is “considerable” according to management
- Long-term, main improvement in company’s oil pricing will come from this commitment- Management says total pipeline cost from Edmonton to Houston will be ~$10/bbl
- An effective $10/bbl discount is a large improvement from the $30-$40/bbl discount seen recently

Cogeneration

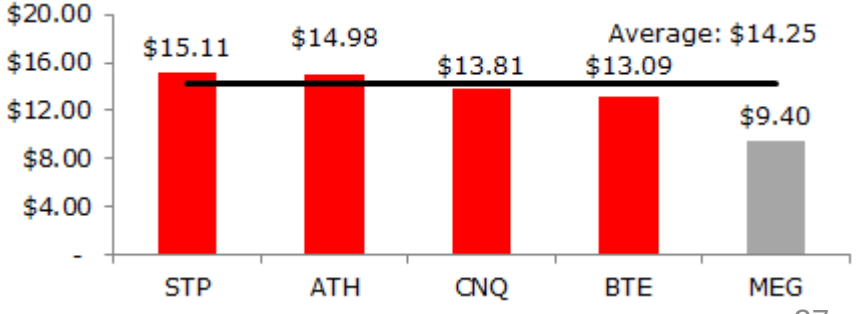
Process Description

- Cogeneration is the process of burning natural gas to simultaneously produce steam and electricity
- Steam is used in SAGD project to produce bitumen whereas the electricity is used at the plant site
- **Excess electricity is sold into the Alberta power grid resulting in effectively lower operating costs**
  - Higher “energy return on investment”
- Electricity produced at the plant site helps to ensure a steady and reliable power source reducing risk from power grid interruptions
- Management plants to add one 85 MW cogeneration facility for each successive phase at Christina Lake and Surmont
  - Scalable process to maintain low operating costs
- Provides a hedge to higher natural gas prices as electricity and natural gas prices tend to move in sync

Process Illustration



The Result: Lower Operating Costs *($/bbl)*



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The RISER Initiative: Higher Production at Lower Cost

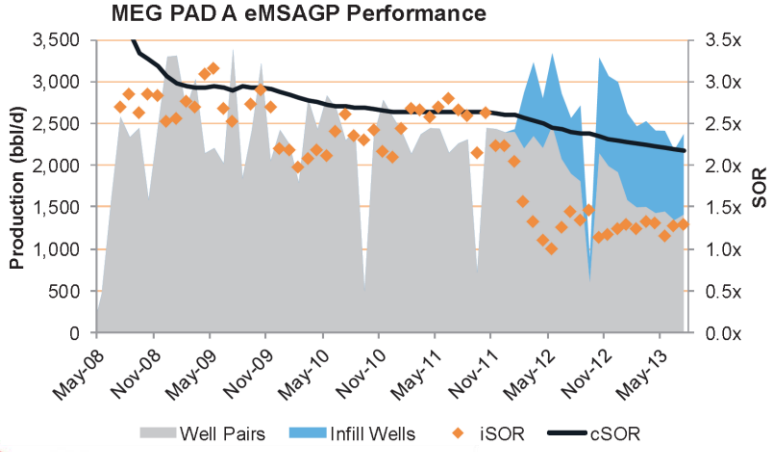
Riser: A Three Step Process

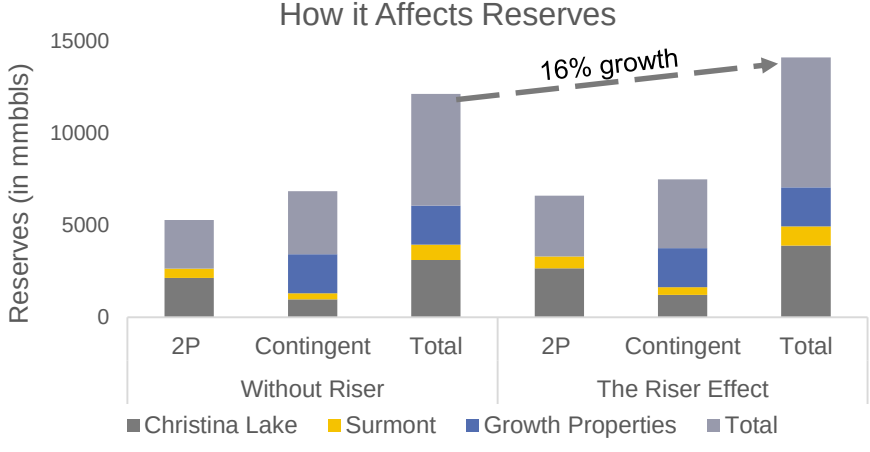
1. Use of MEG's patented eMSAGP process to maintain or even increase production volumes while decreasing steam injection rates
2. Re-deploying freed-up steam to pre-drilled well pairs
3. Modification of central processing facility to handle larger production volumes

Projected Effects

- ✓ Greater intra-phase growth due to infill wells
- ✓ Higher recovery rates and better production economics: increase in booked reserves
- ✓ Improved operational efficiency:
  - Lower SOR, resulting in lower energy costs
  - Lower emissions

Riser Results: Lower SOR and Higher Recovery Rates, In Data We Trust





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[1] Source: AltaCorp, Company Reports, geoScout

RISER: How does it Work?

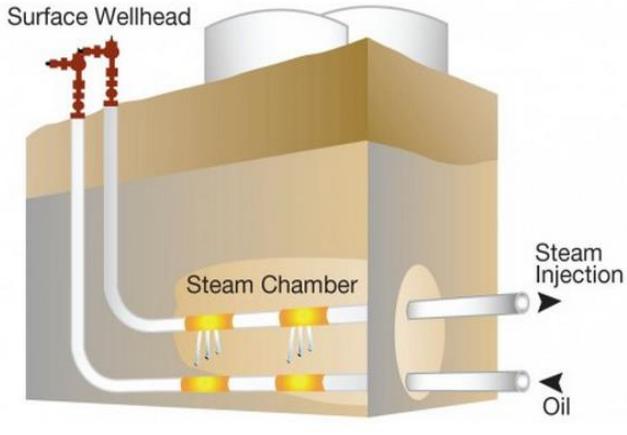
SAGD

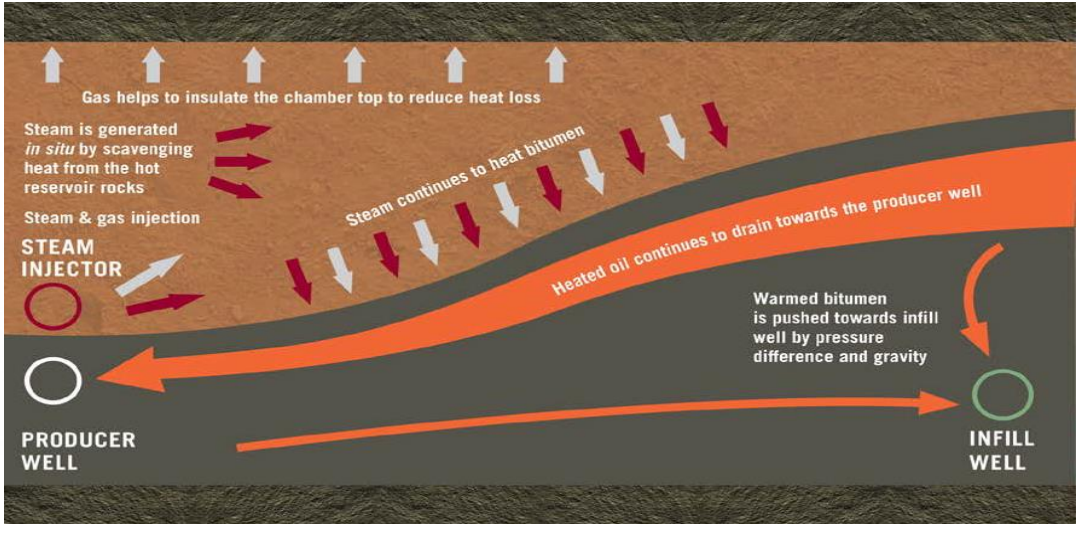
1. Steam heats the reservoir to facilitate bitumen mobility
2. Steam maintains the reservoir pressure

eMSAGP: Enhanced Modified Steam & Gas Push

Maintain heat level with lower amounts of steam by:

3. Partial substitution of steam with NCG: Insulates chamber top to reduce heat loss and further maintain reservoir pressure
4. Drill infill wells: warmed bitumen is pushed towards infill producer by pressure difference and gravity resulting in increased production and recovery rate





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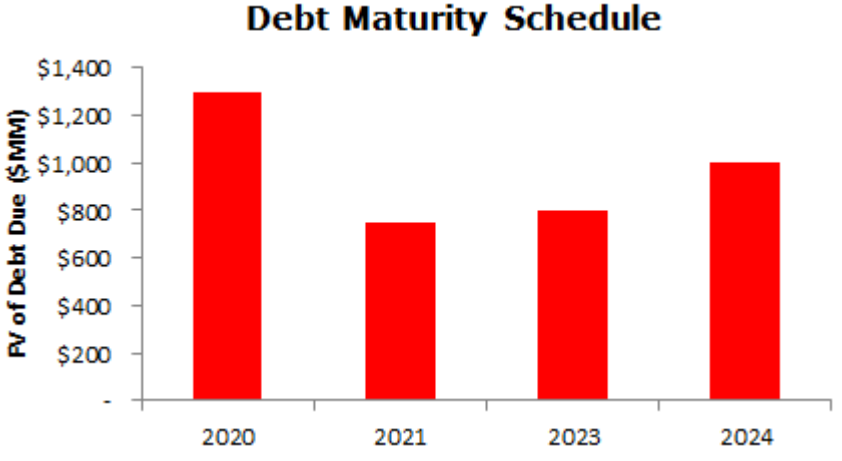
Financial Positioning

Financing History

- MEG maintains significant financial flexibility with a $2 billion undrawn credit facility
- Recent debt financings have shown MEG's ability to access capital markets
- The market has discounted the ability of many oil sands projects to obtain adequate financing
  - $800 MM senior unsecured notes due 2024 raised on October 1, 2013
  - $200 MM senior unsecured notes due 2024 priced on November 1, 2013

Debt Maturity

- Debt is termed out to periods where cash flow is substantially higher



	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Cash Position - Open	$1,642.13	$1,444.06	$571.66	-	-	-	-	$1,069.00
Free Cash Flow	($198.07)	($872.40)	($1,346.76)	($1,665.39)	($664.33)	($695.22)	$1,069.00	$1,405.41
Debt / Equity Raised	-	-	$775.09	$1,665.39	$664.33	$695.22	-	-
Cash Position Close (pre-financing)	$1,444.06	$571.66	($775.09)	($1,665.39)	($664.33)	($695.22)	$1,069.00	$2,474.41
Cash Position Close (post-financing)	$1,444.06	$571.66	$0.00	$0.00	$0.00	$0.00	$1,069.00	$2,474.41
D/CF	6.02x	3.27x	4.05x	4.80x	3.48x	3.13x	1.91x	1.66x

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MEG ENERGY

IV. Valuation

Comparables

	TEV	Market Cap	2013E P/CF	2014E P/CF	2013E D/CF	2014E D/CF	P/Eng. NAV	TEV/ Current Production	TEV/ 2014E Production	TEV/ Proved Reserves	TEV/ P+P Reserves	TEV/ 2013E DACF	TEV/ 2014E DACF	TEV/ 2015E DACF	% Liquids	Operating Netback
	($MM)	*($MM)*	*(x)*	*(x)*	*(x)*	*(x)*	*(%)*	*($/boe/d)*	*($/boe/d)*	*($/boe)*	*($/boe)*	*(x)*	*(x)*	*(x)*	*(%)*	
Athabasca	$2,891	$2,521	neg.	146.77x	neg.	13.14x	158%	$516,610	$80,319	$46.18	$7.94	69.63x	49.26x	21.73x	48%	$27.33
CNQ	$44,569	$35,521	4.70x	4.17x	1.38x	1.17x	49%	$102,138	$61,534	$8.88	$5.65	5.58x	4.99x	4.81x	70%	$34.21
South. Pacific	$749	$242	19.09x	5.32x	30.14x	9.01x	16%	$253,378	$73,909	$6.09	$2.71	15.52x	9.24x	6.07x	100%	$42.75
Baytex	$6,146	$5,397	8.72x	7.44x	4.39x	3.42x	178%	$102,114	$101,749	$42.84	$21.08	9.30x	8.01x	7.52x	89%	$42.14
Average	**$13,589**	**$10,920**	**10.84x**	**40.92x**	**11.97x**	**6.68x**	**100%**	**$243,560**	**$79,378**	**$26.00**	**$9.34**	**25.01x**	**17.87x**	**10.03x**	**77%**	**$36.61**
Median	**$4,519**	**$3,959**	**8.72x**	**6.38x**	**4.39x**	**6.21x**	**103%**	**$177,758**	**$77,114**	**$25.86**	**$6.80**	**12.41x**	**8.63x**	**6.80x**	**79%**	**$38.18**
MEG Energy	$9,678	$7,053	22.65x	9.55x	8.71x	5.10x	42%	$282,605	$155,900	$7.54	$3.66	17.39x	9.84x	8.20x	100%	$59.59

MEG Energy appears undervalued on a reserves basis compared to peers, and trades in line with comparable companies on a TEV/DACF basis, even though MEG is a better operator, and has a much higher probability of financing and completing its outlined projects.

The heavy oil / oil sands space is a difficult one to benchmark given the long lead time to production, capital intensity, and drastic production increases that depend on project success. Many of the above companies are in different stages of development.

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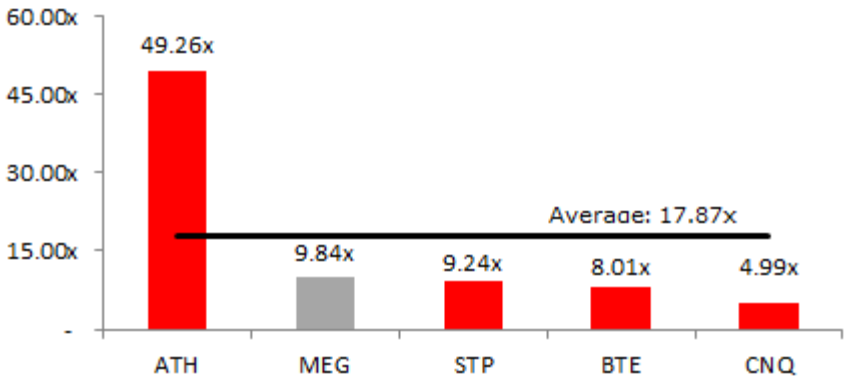
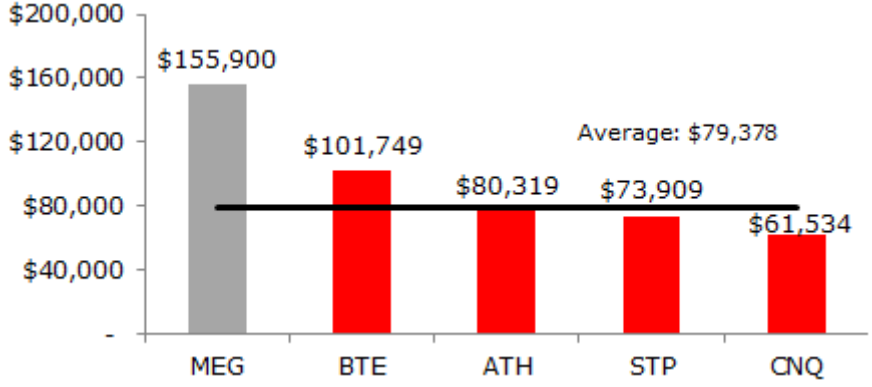
[1] Source: DCM equity research as of November 5, 2013.

Benchmarking

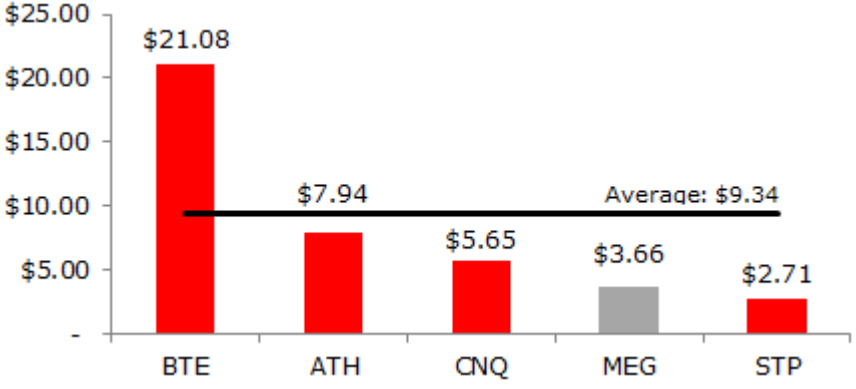
2014E TEV/DACF



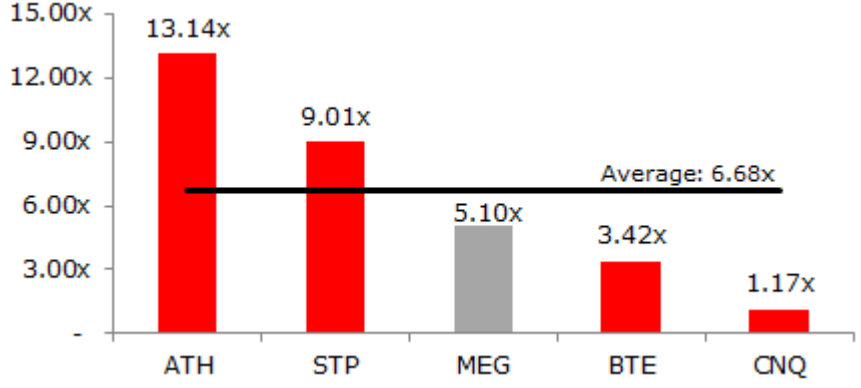
TEV/2014E Production *($/bbl/d)*



TEV/2P Reserves *($/bbl)*



2014E D/CF



DESAUTELS Capital Management Gestion de capitaux

[1] Source: DCM equity research as of October 2, 2013.

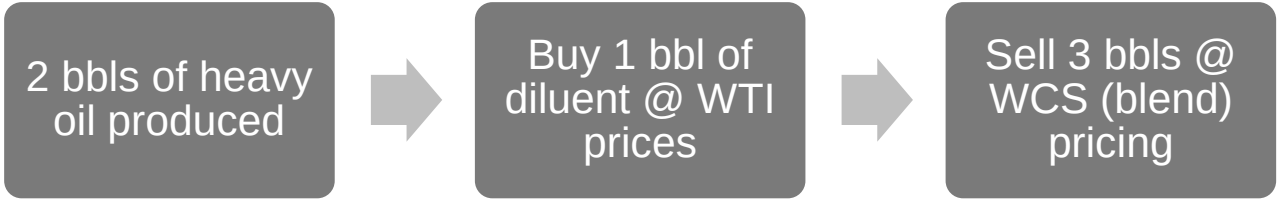
Model Assumptions

- Terminal multiple:
  - Integrated companies tend to trade from 5x – 7x DACF
  - Peers trade between 5x – 10x 2014E DACF
  - Not as sensitive to this as the terminal multiple is applied in the distant future
- Operating Costs
  - Predicted to grow at inflation, given that cogeneration facilities will be built with each new phase of production
  - In reality, on a per barrel basis, non-energy costs (fixed portion) should decrease with increasing production with occasional random spikes as phases are tied in
- Transportation Costs
  - Predicted to grow at inflation
  - Access Pipeline ownership allows for consistently low transportation costs to WCS pricing point
  - Versatile marketing strategy allows for flexibility in choosing a pricing point should the spread warrant the higher transportation costs to market
- Production
  - Conservative 24 month ramp up period to full production for each phase of construction
  - Does not take into account benefits of RISER program

Model Assumptions

- Royalties
  - Using Alberta standard sliding rates with bump up post project payout
- Depreciation
  - Assumed to be unit based – i.e. for each bbl taken out of the ground, ~$15/bbl of DD+A
  - Downside: does not capture straight line depreciation of infrastructure

- Diluent Costs



Base Case Results

MEG ENERGY

Value

All values are in millions of Canadian dollars

Producing Properties NAV	$12,045
Plus: Growth Properties	$1,057
Plus: Infrastructure Value	$500
Enterprise Value	**$13,602**
Less: Net Debt	$2,625
Equity Value	**$10,977**
Diluted Shares O/S *(MM)*	225.32
Equity Value per Share	**$48.72**
Implied Discount	*56%*

Discount Rate vs. 2C Resource Value

Value of 2C Resource ($/bbl)	Discount Rate 8%	9%	10%	11%	12%
$0.20	$65.12	$54.81	$45.90	$38.18	$31.49
$0.30	$66.05	$55.75	$46.84	$39.12	$32.43
$0.40	$66.99	$56.69	$47.78	$40.06	$33.37
$0.50	$67.93	$57.63	$48.72	$41.00	$34.30
$0.60	$68.87	$58.56	$49.65	$41.94	$35.24
$0.70	$69.81	$59.50	$50.59	$42.88	$36.18
$0.80	$70.75	$60.44	$51.53	$43.81	$37.12

Discount Rate vs. TEV/DACF

Terminal Multiple TEV/DACF	Discount Rate 8%	9%	10%	11%	12%
3.0x	$47.89	$40.45	$33.98	$28.34	$23.41
4.0x	$54.57	$46.18	$38.89	$32.56	$27.04
5.0x	$61.25	$51.90	$43.80	$36.78	$30.67
6.0x	$67.93	$57.63	$48.72	$41.00	$34.30
7.0x	$74.61	$63.35	$53.63	$45.22	$37.94
8.0x	$81.29	$69.07	$58.54	$49.44	$41.57
9.0x	$87.97	$74.80	$63.45	$53.66	$45.20

Discount Rate vs. Value of Access Pipeline

Value of Infrastructur	Discount Rate 8%	9%	10%	11%	12%
$200	$66.60	$56.29	$47.38	$39.67	$32.97
$300	$67.04	$56.74	$47.83	$40.11	$33.42
$400	$67.49	$57.18	$48.27	$40.55	$33.86
$500	$67.93	$57.63	$48.72	$41.00	$34.30
$600	$68.37	$58.07	$49.16	$41.44	$34.75
$700	$68.82	$58.51	$49.60	$41.89	$35.19
$800	$69.26	$58.96	$50.05	$42.33	$35.63

Target Price

MEG ENERGY

Bear Case

- Terminal TEV/DACF multiple of 5x
- Contingent resource value of $0.50/bbl
- Prolonged $20 spread between WTI and WCS
- No production increase from RISER

Implied Price: $22.94
(~36%)

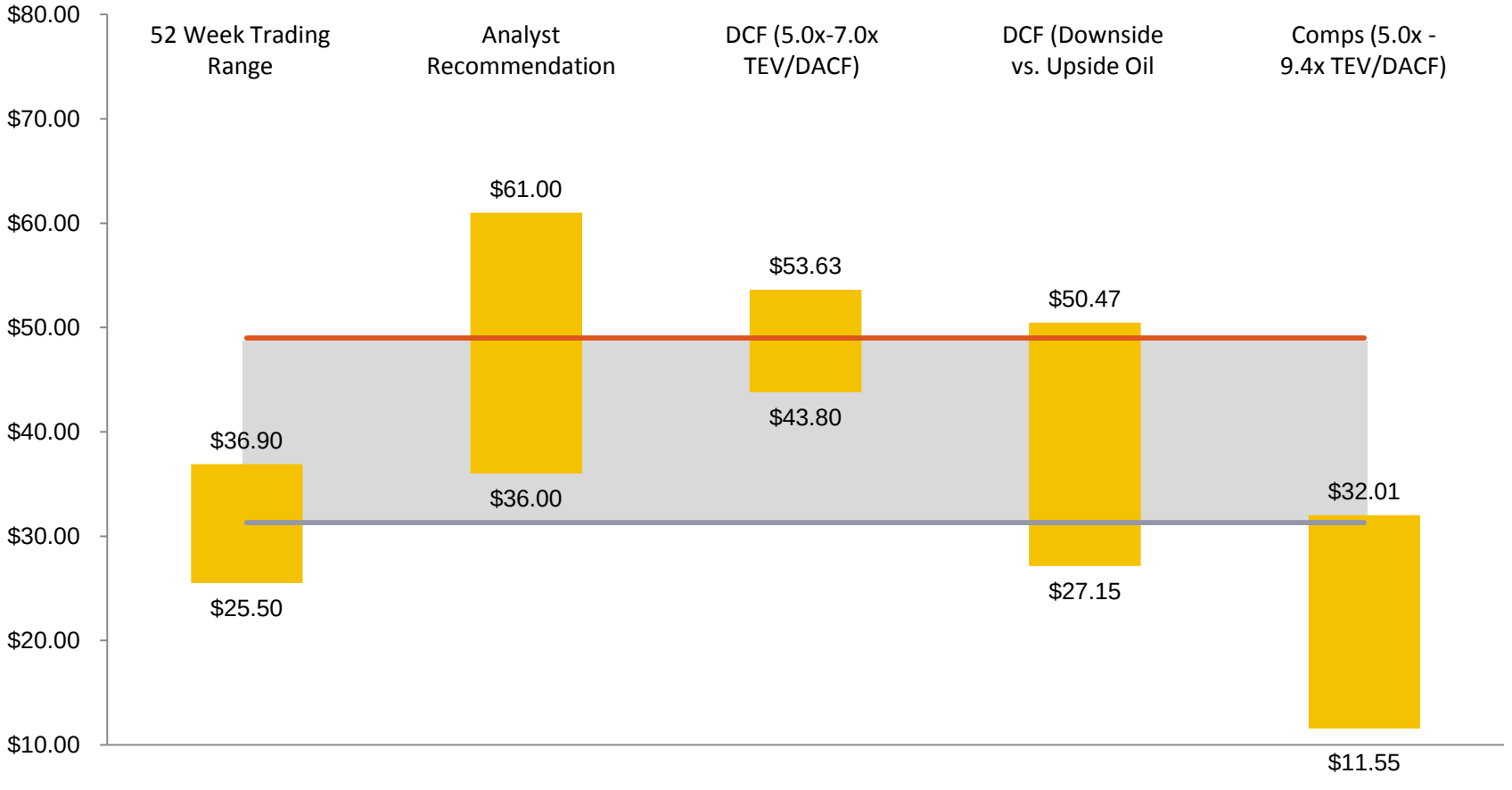
Bull Case

- Terminal TEV/DACF multiple of 7x
- Contingent resource value of $0.77/bbl based on precedents
- WTI-WCS spread tightening to $11 by 2016
- Increased production from RISER initiative
- Does not take into account upside from:
  - Pricing flexibility until differential tightens

Implied Price: $61.96
98%

DCM Price Target: $49.00

Football Field



V. Conclusion

Catalysts and Risks

Catalysts

- Approval of Keystone XL
- Successful implementation of Christina Lake 2B
- Continued success with RISER implementation
  - Observed through lower SOR
- Regulatory approval of Surmont projects
- Higher price realization through rail, pipe, and barge commitments

Risks

- Highly volatile oil prices
- Steep Canadian heavy oil discounts in the near term
- Problems tying in production
- Equity dilution to fund projects should the company not be able to access debt capital markets
- Increased natural gas prices

Recommendation

Initiate a 3 – 4% position in MEG energy

Appendices

1. Company Information

Management

Name	Position	Biography
Bill McCaffrey	President, CEO & Chairman	• Co-founded MEG Energy in 1999 • Previously spent 17 years at Amoco Canada where he acted as Manager of Business Development and Growth for the company's oil sands developments • Led a team in developing a 25,000 bbls/d thermal oil sands project that was among the first to use horizontal wells and thermal technology • Professional Engineer designation (1983), Civil Engineering degree (University of Alberta), and Executive Development Program (University of Western Ontario)
Grant Boyd	SVP, Resource Management – Growth Properties	• Previously VP, Growth and Emissions Management and VP, Resource Management • Prior to joining MEG, held various management roles with other energy companies including Husky Energy (Manager, Oil Sands Operations) • Bachelor of Science in Petroleum Engineering from the University of Alberta • Professional Engineer designation (1985)
Jamey Fitzgibbon	SVP, Resource Management – Christina Lake and Special Projects	• Joined MEG in September 2010 as VP, Special Projects and was appointed SVP – Christina Lake and Special Projects in November 2011 • Former COO of Oilsands Quest Inc., VP Resource Development for OPTI Canada • Also has an additional 14 years experience in the oil sands and heavy oil industry with Esso Resources, Elan Energy and Ranger Oil • Prior to joining OPTI in 2002, spent time as a Vice President in Investment Banking at TD • Professional Engineer designation (1988), Bachelor of Science in Chemical Engineering (Queens University), and MBA (University of Calgary)
Don Moe	VP, Supply and Marketing	• Appointed to VP, Supply and Marketing in January 2012 • Former CEO of ALTEX Energy, VP of BP Canada Energy Company, Chairman of BP Canada Energy Company, and Chairman of BP Canada Energy Marketing Corp • Over 40 years of industry experience in all areas of oil & gas drilling, production, transportation and marketing

Analyst Expectations

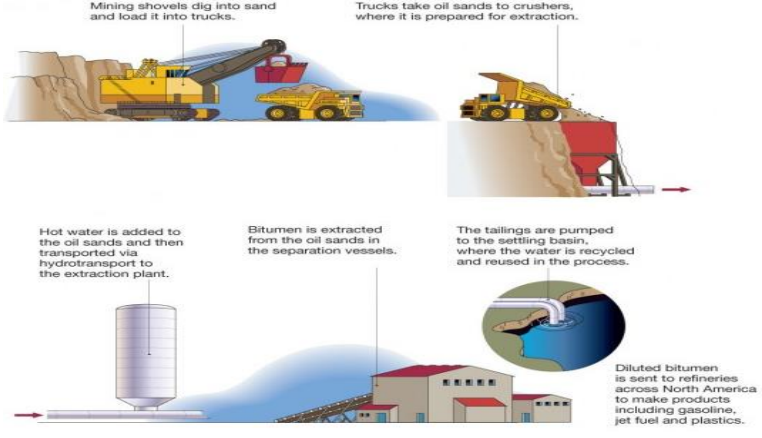
Firm	Target	Selected Commentary
CANACCORD Genuity Phil Skolnick	$44.00	• "Forget about WCS pricing. Once the Flanagan South pipeline commences operations in mid-'14, MEG's three-pronged marketing strategy of pipe, barge, and rail will give it the most flexibility out of any oil sands/heavy oil company to gain access to the highest priced markets, in our view… we estimate that every 10 Mbbl/d of production shipped down Flanagan South will add ~$20-25 million of incremental annual cash flows."
BMO Capital Markets Randy Ollenberger	$44.00	• "MEG has one of the best oil sands portfolios available in Western Canada with a demonstrated operating track record, solid management team and a clearly defined growth plan to increase production to 260,000 b/d by 2020. We believe the shares are attractively valued for long-term shareholders given the quality of the company's asset base, its execution track record and ability to create significant value as it develops its resource base."
CREDIT SUISSE Jason Frew	$51.00	• "MEG currently trades at ~0.5x our NAV of C$70 and we continue to view it as one of our top growth companies in the Canadian oil and gas sector."
J.P.Morgan Katherine Minyard	$61.00	• "… we believe MEG offers investors excellent production growth (highest in our coverage), an above-average ROCE expansion profile in the next several years, and 77% potential upside to our December 2014 price target of C$61/share. MEG's straightforward business model makes it arguably the least complex company in our coverage. Additionally, with no natural gas production, we believe MEG is well positioned to benefit from crude oil price strength unencumbered by weak natural gas prices…"
RBC Mark Friesen	$50.00	• "We believe that MEG is the go-to pure play oil sands stock. MEG has put together a portfolio of quality assets that can provide low-cost, repeatable growth, led by a strong management team, in our view… We continue to see the incremental benefits attained through the company's RISER initiative, which has provided a boost to production with Christina Lake now running at 137% of design capacity. We expect continued performance for the remainder of the year with first oil from 2B expected during Q4.
Average	**$45.57[1]**	[1] Average of 15 research analysts.

2. Macro Thesis

Oil Sands Extraction

Mining (Truck and Shovel)

- Used to develop shallow reserves (< 75m); only 20% of oil sands reserves are accessible by mining techniques (3% of total oil sands acreage)
- High recovery rates (95%)
- Higher upfront capital and operating expenditures

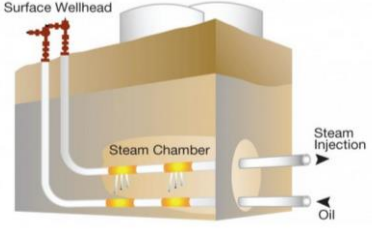


In-Situ

- Two Major Methods (CSS and SAGD) and several experimental ones (THAI & TAGD & ET-DSP)
  - By analyzing steam-oil-ratio ("SOR"), we can infer about the natural gas consumption levels and hence the costs of each project

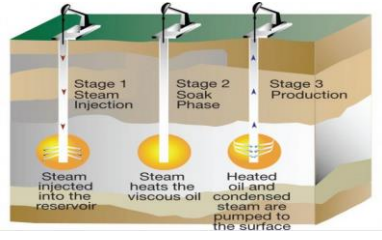
SAGD

- Shallower oil sands deposit and absence of capping formation (Athabasca)



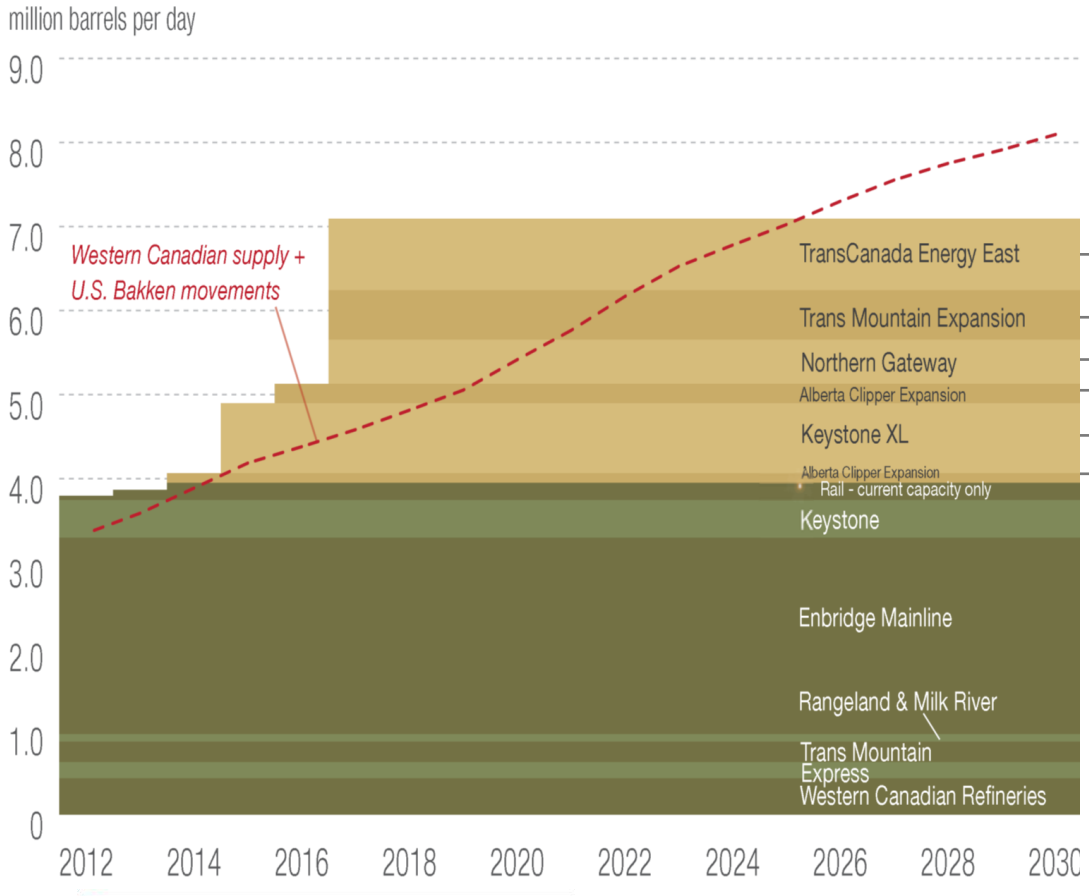
CSS

- Deeper reservoirs (Cold Lake and Peace River)



Oil Sands have long development timelines (up to 10 years) capping upside on production forecasts

WCSB Takeaway Capacity vs Supply Forecast



TransCanada Energy East (Q4 2017) — +1.1 mmb/d

- ✓ From Alberta and Saskatchewan to refineries in the east or shipped on barge from the east coast

Trans Mountain Expansion (Q4 2017) — +0.59 mmb/d

- ✓ Received approval of its tolling methodology / submitting facilities application by year end

Northern Gateway (Q4 2017) — +0.53 mmb/d

- ✓ Strong Opposition from first nations and rejection by BC government accompanied with strong support from Harper government; Government Decision Expected by Year End

Alberta Clipper Expansion (Q1 2016) — +0.23 mmb/d

Keystone XL (2016) — +0.83 mmb/d

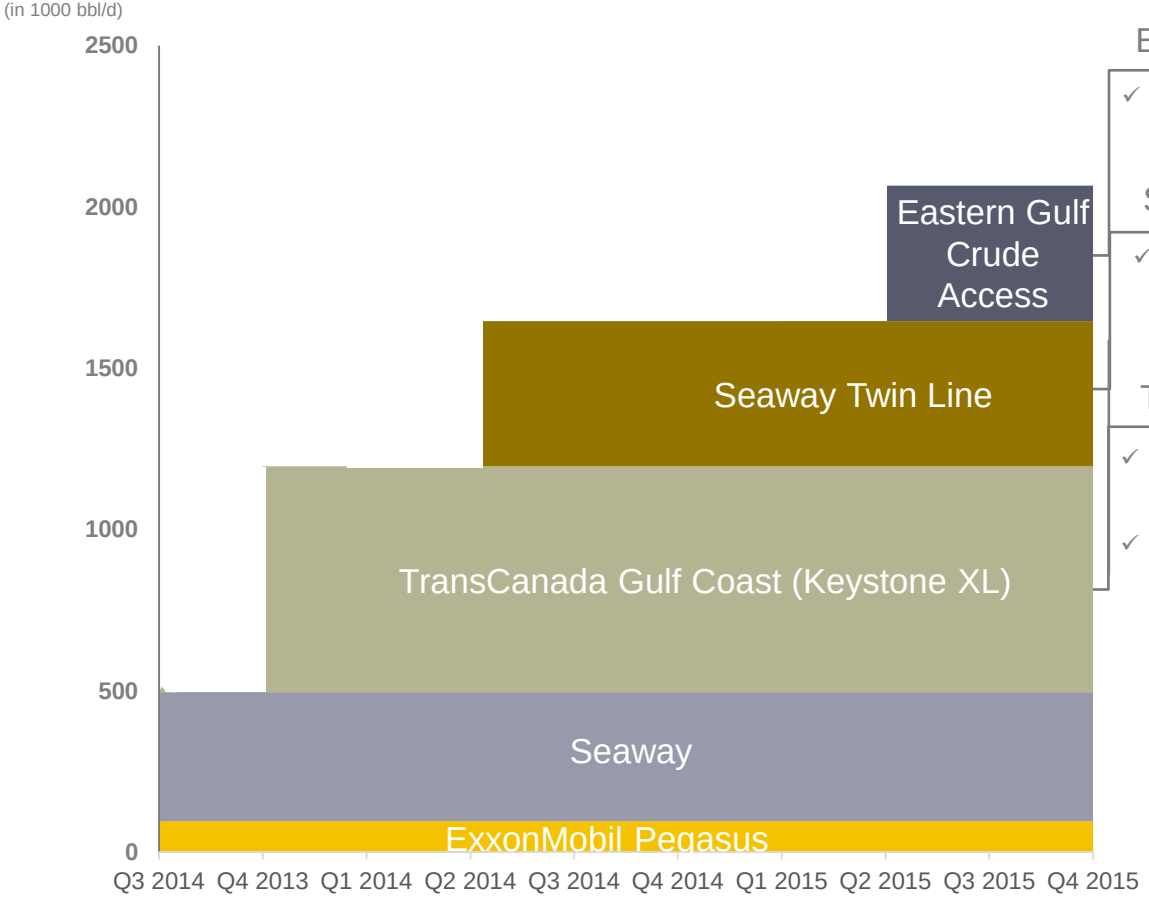
- ✓ Revised route received approval from Nebraska Governor
- ✓ EIA draft didn't raise any environmental concerns
- ✓ National interest assessment; final decision expected by early 2014 with 75% of analysts expecting approval
- ✓ Comes online in 2015 with 830,000 bbl/d of additional capacity

Alberta Clipper Expansion (Q3 2014) — +0.12 mmb/d

- ✓ Received regulatory approval
- ✓ Comes online in Q4 2013 with 120,000 bbl/d of additional capacity

Source: CAPP & DCM Equity Research

Oil Pipelines to the Gulf Coast



Eastern Gulf Crude Access (Mid 2015)

+0.42 mmb/d

- ✓ Involves the conversion of an existing 30-inch diameter pipeline

Seaway Twin Line (Q1 2014)

+0.45 mmb/d

- ✓ Enbridge and Enterprise have secured sufficient commercial support to build a new twin line along the existing Seaway Pipeline

TransCanada Gulf Coast (Q4 2013)

+0.70 mmb/d

- ✓ TransCanada announced it was proceeding with its Gulf Coast Project regardless as to whether Keystone XL receives regulatory approval
- ✓ Commenced construction in August 2012 with target in-service date in late 2013

- Current Capacity to Gulf: 496 Mbbl/d
- Proposed Capacity: 1.57-1.94 mmbbl/d
- Pipelines from Cushing to Gulf Coast are likely to carry heavy oil given the high light oil supply from Eagle Ford

Source: CAPP & DCM Equity Research

Crude by Rail: Access to Higher Priced Markets in the Absence of Pipelines

What does it take?

- Rail tracks are already in place with access to a large number of markets
- Capex required for uploading and offloading facilities
  - 1-2 years to build unit trains facilities (65 – 70 Mbbl/d)
  - A few months for start-up transloading facilities (2 – 20 Mbbl/d)
- Rail Cars: two year waiting period with backlog of 48,000 tank rail cars

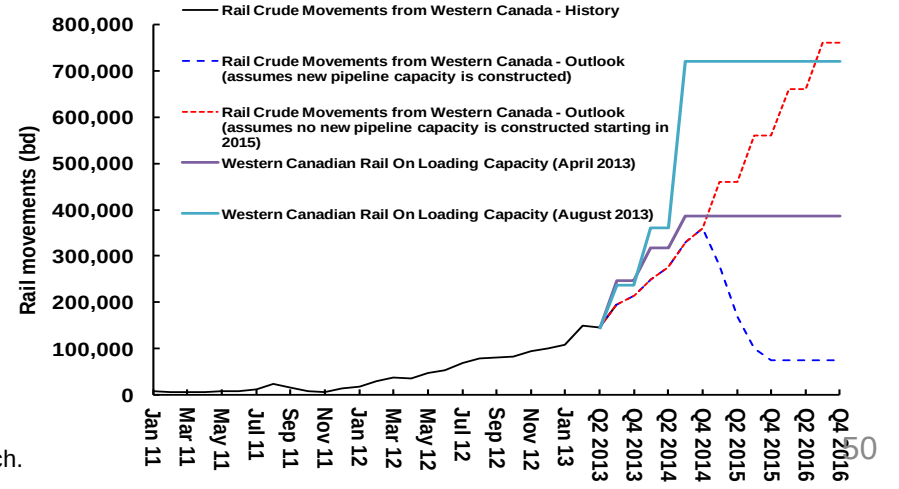
Why does it matter?

- 878 Mbbl/d of additional rail takeaway capacity from WCSB over the next 15 months[1]
- Around 70% is heavy oil
- Provides access to heavy oil "hungry" gulf coast refineries

Why Rail?

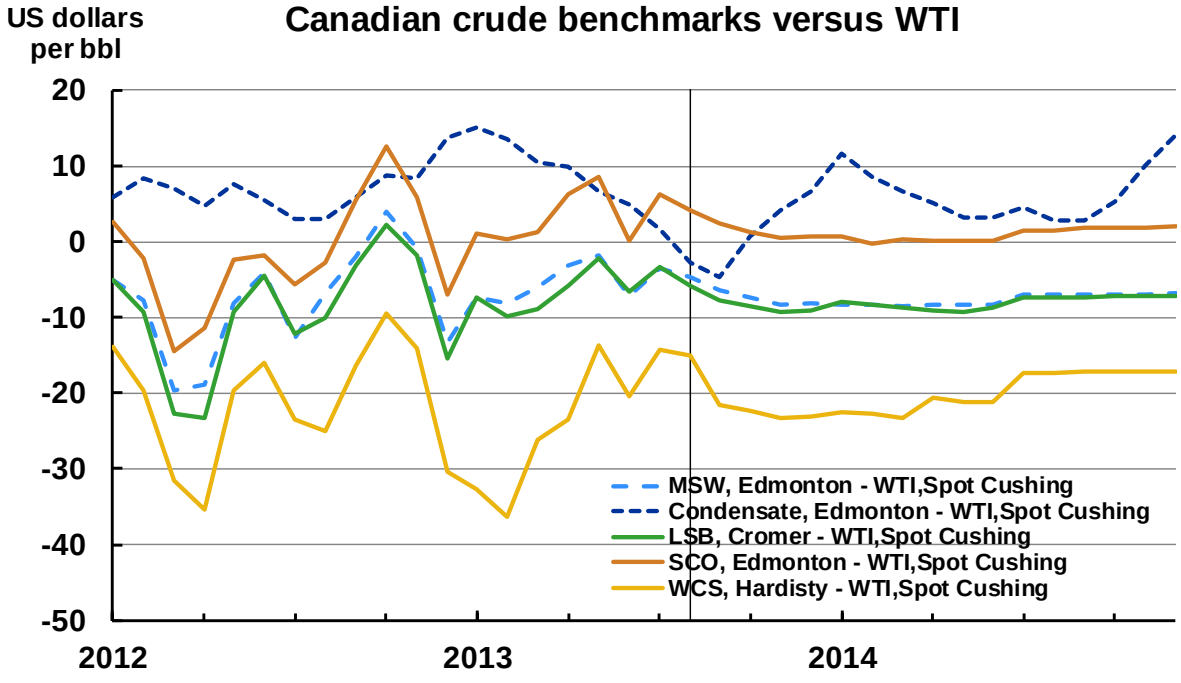
- More flexibility to reach any market with unloading facility
- Railbit required less diluent than dilbit
- No mixing of batches of oil with different quality
- Faster turnover

Recent Growth[2]



[1] Source: BMO equity research.
[2] Source: IHS CERA.

Canadian Benchmarks



- Canadian heavy benchmark is **Western Canada Select (WCS)**, blended at Hardisty, AB
- WCS is a blend of conventional heavy and oil sands production from CNRL, Cenovus, Suncor & Talisman
- Differential to WTI has been as wide as $35/bbl recently due to bottlenecks - not enough takeaway capacity for growing production
- Recent relief of steep discounts due to some production issues & increasing rail capacity

WCS price discount should remain at rail cost to Gulf Coast (~$15-$20/bbl) until a new large pipeline is in service

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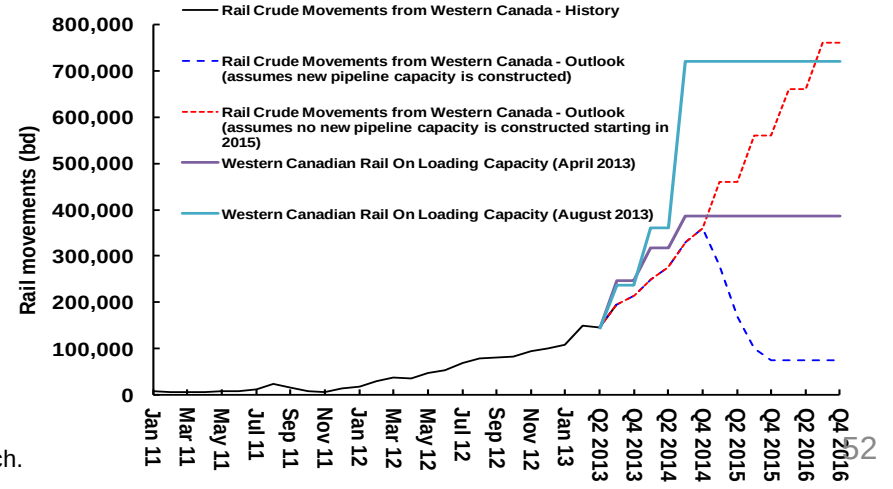


[1] Source: BMO equity research.
[2] Source: IHS CERA.

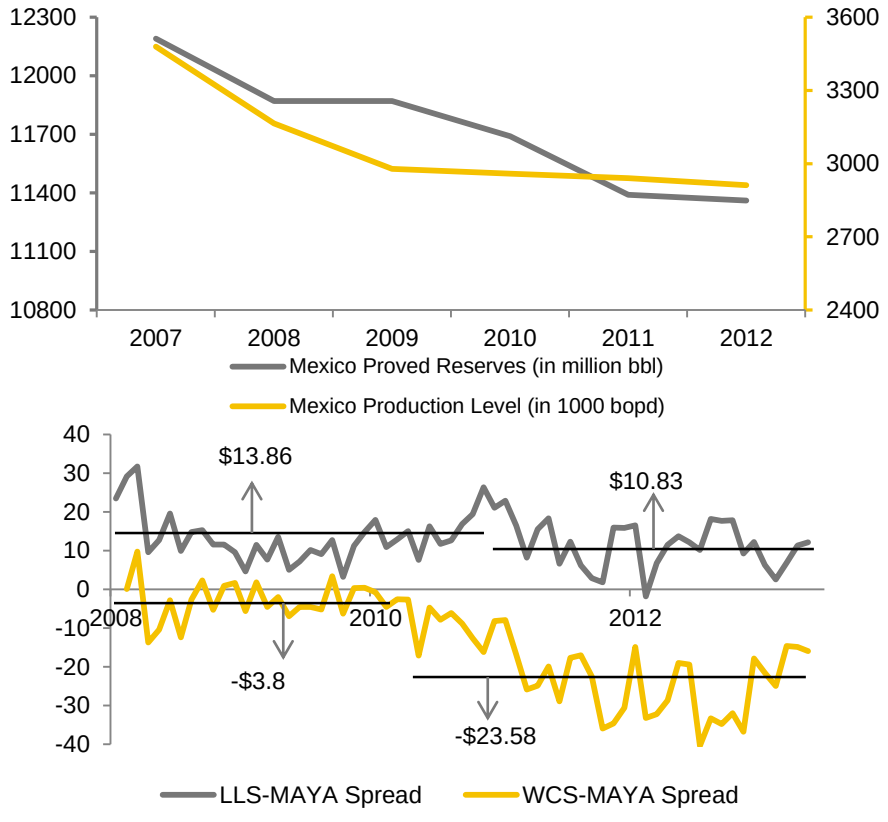
Why the Gulf Coast?

PADD III Refinery Capacity: ~9.4 mmbbl/day

- ✓ Majority of heavy oil refining capacity is located in the USGC; recent refinery capex to convert to heavy oil capacity before light oil boom was anticipated
- ✓ Historically, heavy oil was imported from offshore sources, mainly Mexico & Venezuela
- ✓ Mexico supply is in decline due to lack of capital investment
- ✓ Venezuela also lacks capital investment and has entered substantial supply commitments to China

- **LLS-MAYA average spread narrows by $3/bbl due to increase in heavy demand from refiners**
- **Lack of enough transportation capacity to the gulf coast; average WCS-MAYA spread widens by -$20**

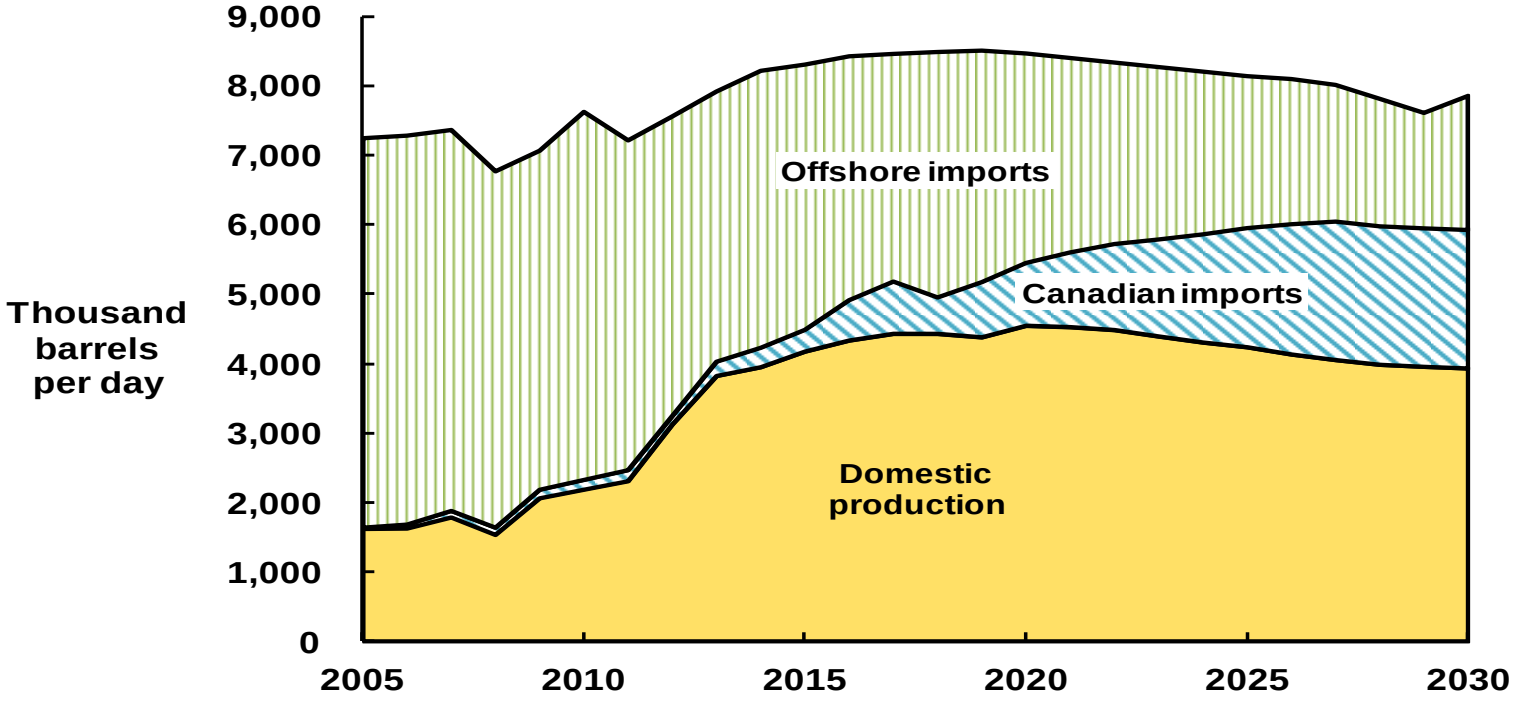
Displacing the Mexican MAYA



DESAUTELS Capital Management Gestion de capitaux

Source: DCM Equity Research.

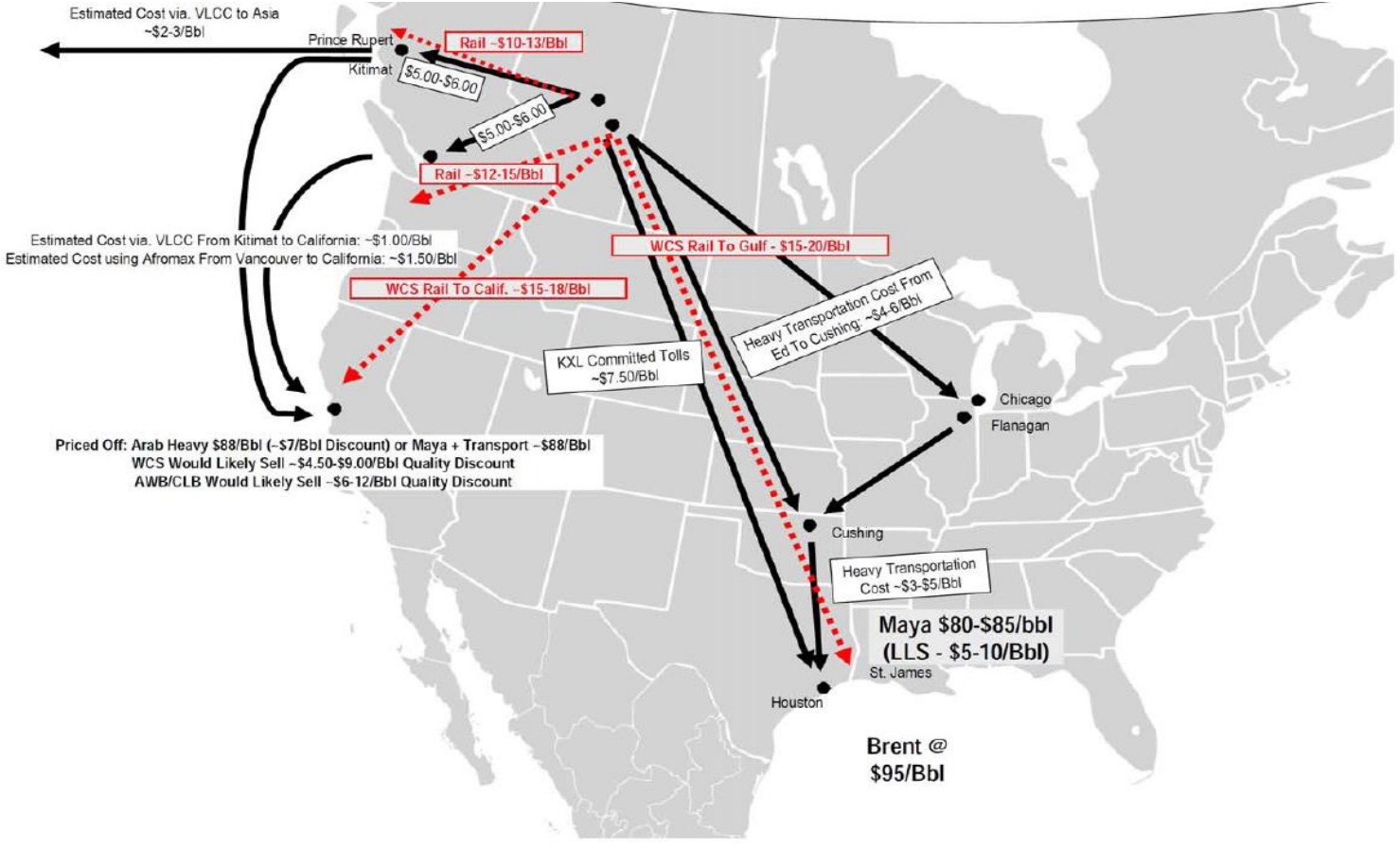
US Gulf Coast Supply Balance



Canadian heavy production forecasted to displace most offshore heavy imports into USGC

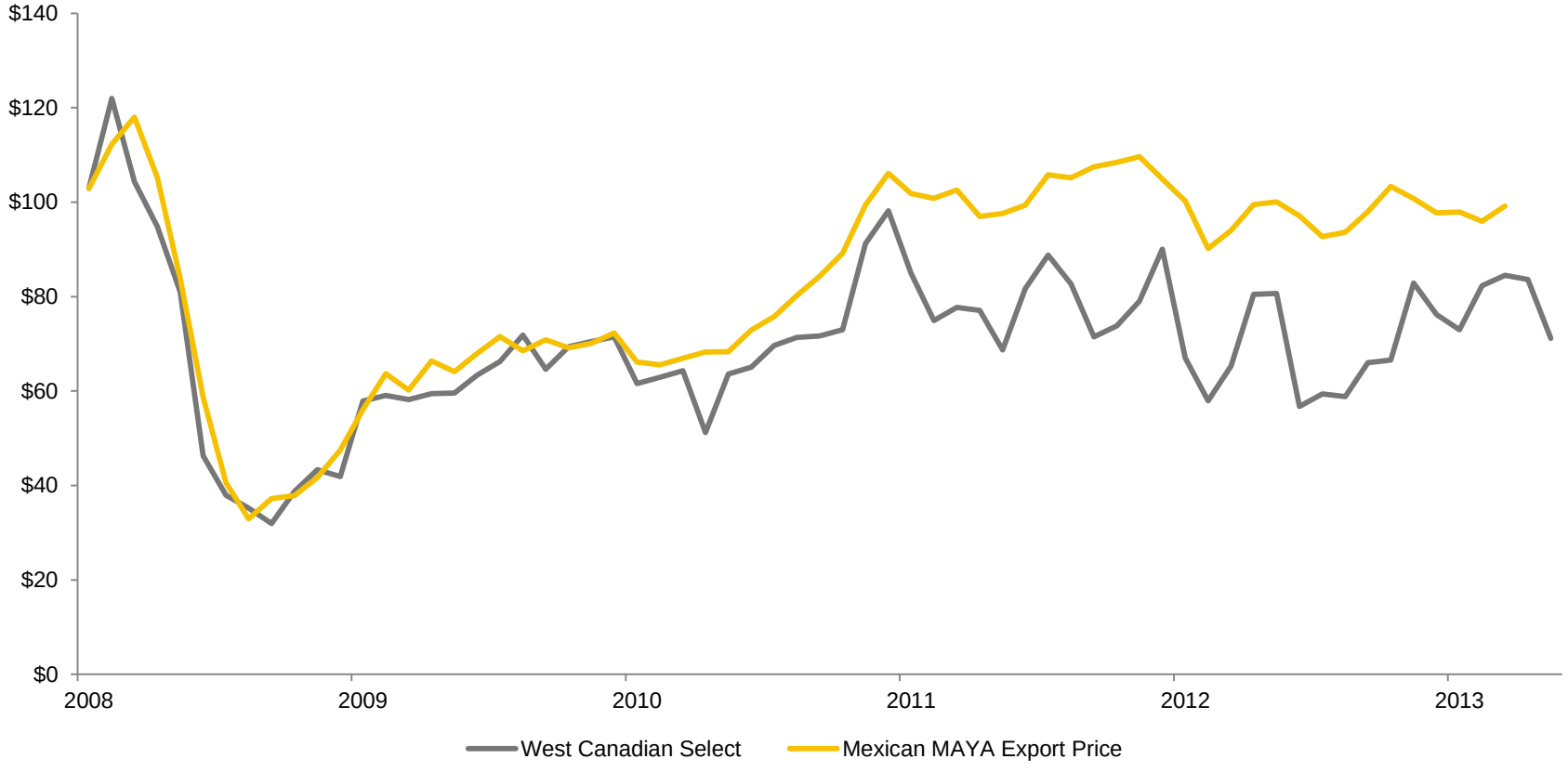
Source: IHS CERA

Transportation Costs



Source: Company reports and CIBC World Markets Inc.

WCS vs Maya

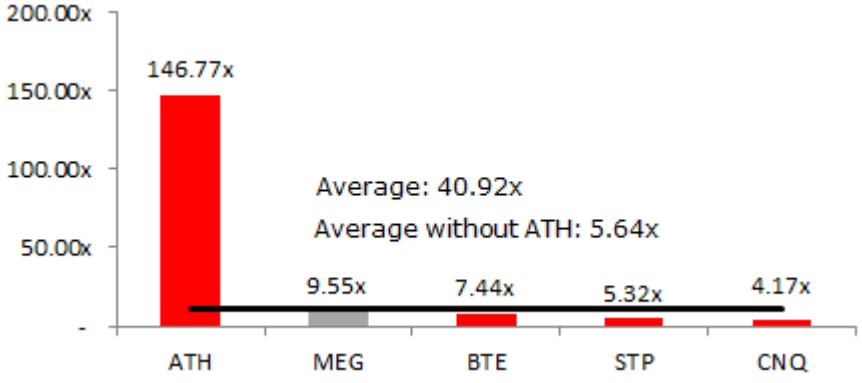


Source: Bloomberg.

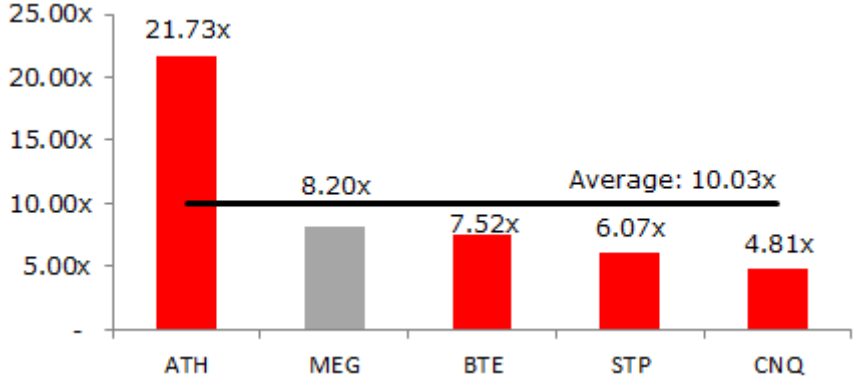
3. Valuation

Benchmarking

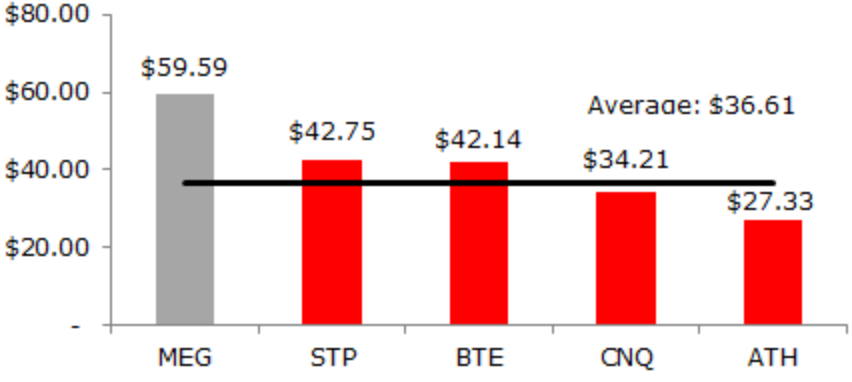
2014E P/CF



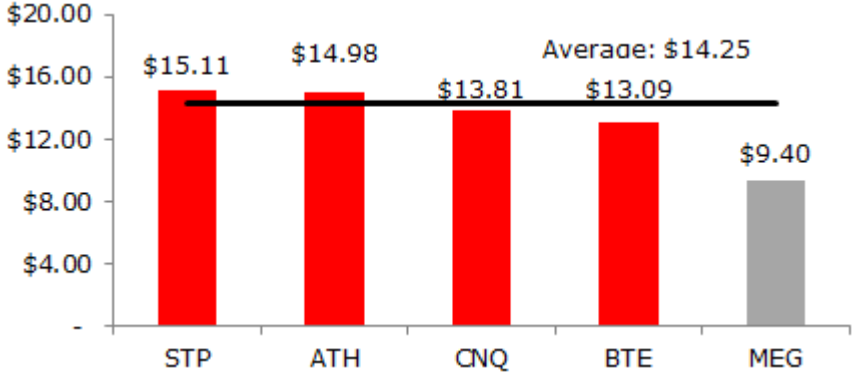
2015E TEV/DACF



Operating Netback *($/bbl)*



Operating Costs *($/bbl)*



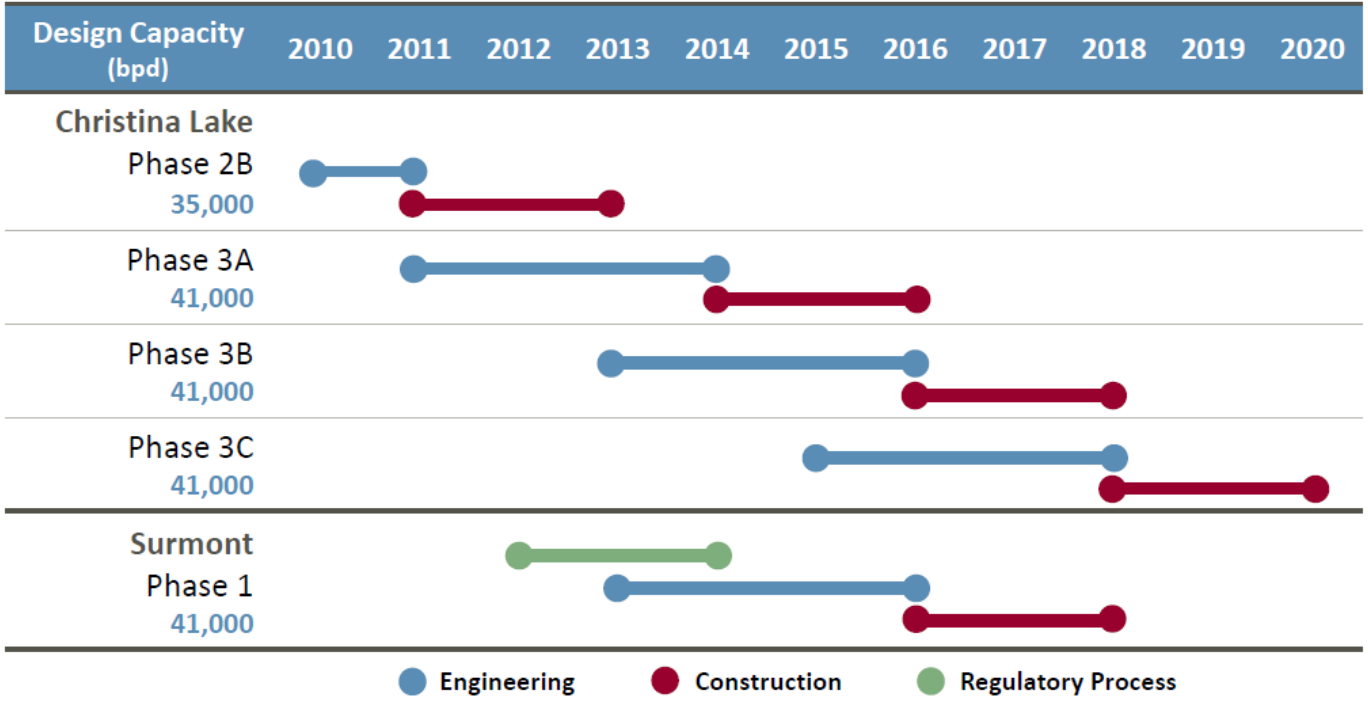
DESAUTELS Capital Management Gestion de capitaux

[1] Source: DCM equity research as of October 2, 2013.

Capital Expenditures

Christina Lake Future Development Costs	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E-2030E
Proved Future Development Costs *($MM)*	$662	$414	$428	$1,371	$304	$358	$275	$666	$4,263
P+P Future Development Costs *($MM)*	$616	$400	$424	$1,418	$1,265	$2,299	$631	$624	$8,000
Wood Mackenzie - Christina Lake *($MM)*	$948	$895	$1,124	$1,170	$841	$809	$579	$420	$2,294
Average	**$742**	**$570**	**$659**	**$1,320**	**$803**	**$1,155**	**$495**	**$570**	**$4,852**
Surmont Capex									
Phase 1 Capex	-	-	$406	$414	$423	$431	-	-	-
Phase 2 Capex	-	-	-	-	-	-	$440	$449	$924
Phase 3 Capex	-	-	-	-	-	-	-	-	$2,377
Total Surmont Capex	**-**	**-**	**$406**	**$414**	**$423**	**$431**	**$440**	**$449**	**$3,301**
Recurring Capex									
RISER	$500	$510	$520	$531	$541	$552	$563	$574	$6,415
Delineation Drilling and Seismic	$100	$116	$119	$121	$123	$126	$128	$131	$1,462
Regulatory	$5	$5	-	-	-	-	-	-	-
Other	$177	$180	$184	$188	$191	$195	$199	$203	$2,268
Total Growth	**$782**	**$811**	**$823**	**$839**	**$856**	**$873**	**$891**	**$908**	**$10,145**
Access Pipeline	$260	$188	$188						
Stonefell Terminal	$100								
Field Infrastructure	$110	$112	$114	$116	$119	$121	$123	$126	$1,405
Total Infrastructure	**$470**	**$300**	**$302**	**$116**	**$119**	**$121**	**$123**	**$126**	**$1,405**
Sustaining and Maintenance	$90	$140	$167	$209	$276	$347	$490	$574	$9,300
Other	$84	$85	$85	$85	$85	$85	$85	$85	$852
Total Recurring Capex	**$1,424**	**$1,336**	**$1,377**	**$1,250**	**$1,335**	**$1,426**	**$1,589**	**$1,693**	**$21,702**
Total Capex	**$2,166**	**$1,906**	**$2,441**	**$2,984**	**$2,561**	**$3,013**	**$2,523**	**$2,711**	**$29,856**

Capital Expenditures



- Timing and sizes of future project phases is subject to further refinement and will be dependent on a number of factors including the timing and terms of regulatory approvals, the implementation of improving technologies and capturing efficiencies associated with the standardization of project phase sizes.
- Christina Lake Phase 3 is a multi-phased project with a design capacity of approximately 150,000 bpd with targeted efficiency improvements.
- Surmont is a multi-phased project with an anticipated design capacity of approximately 120,000 bpd.
- Plans to develop the Growth Properties (see slide 5) are currently being evaluated.
- The construction schedule does not include initial procurement and site clearing activities.
- Design capacities based on 2.8x SOR prior to implementation of RISER.

Source: Company filings.

Model Outputs – Christina Lake

	Historical									2021 -
	2012	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2030E**
Days in Period	365	365	365	365	365	365	365	365	365	
Average Daily Oil Production *(bbl/d)*	28,773	40,750	67,000	67,000	77,250	108,000	118,250	149,000	159,250	
Period Production *(mbbl)*	10,502	14,874	24,455	24,455	28,196	39,420	43,161	54,385	58,126	
Period Diluent *(mbbl)*	4,756	5,595	11,005	11,005	12,688	17,739	19,423	24,473	26,157	
Total Sales *(mbbl)*	15,258	20,469	35,460	35,460	40,885	57,159	62,584	78,858	84,283	
Price *($/bbl)*	$64.78	$80.89	$75.09	$75.87	$80.87	$82.06	$82.45	$88.18	$90.18	
Less: Diluent Costs *($MM)*	($496.55)	($619.69)	($1,068.48)	($1,055.05)	($1,216.40)	($1,721.79)	($1,892.63)	($2,427.32)	($2,646.48)	
Net Revenue *($MM)*	**$491.9**	**$1,035.9**	**$1,594.3**	**$1,635.4**	**$2,089.8**	**$2,968.8**	**$3,267.1**	**$4,526.6**	**$4,954.0**	**$67,293.02**
Revenue Growth (%)		*111%*	*54%*	*3%*	*28%*	*42%*	*10%*	*39%*	*9%*	
Realized Blend Prices ($/bbl)	*$46.83*	*$69.65*	*$65.19*	*$66.87*	*$74.12*	*$75.31*	*$75.70*	*$83.23*	*$85.23*	
Costs										
Operating Costs *($/bbl)*	($9.98)	($9.67)	($9.86)	($10.06)	($10.26)	($10.46)	($10.67)	($10.89)	($11.10)	
Royalties *($/bbl)*	($2.46)	($6.16)	($4.64)	($4.57)	($9.29)	($8.26)	($7.48)	($11.00)	($11.03)	
Transportation Costs *($/bbl)*	($0.31)	($0.20)	($0.20)	($0.21)	($0.21)	($0.22)	($0.22)	($0.23)	($0.23)	
Cash Operating Netback *($MM)*	**$357.96**	**$797.61**	**$1,234.58**	**$1,272.54**	**$1,532.73**	**$2,222.15**	**$2,474.10**	**$3,323.90**	**$3,654.05**	**$44,445.44**
Cash Operating Netback ($/bbl)	*$34.08*	*$53.63*	*$50.48*	*$52.04*	*$54.36*	*$56.37*	*$57.32*	*$61.12*	*$62.86*	
Less: SG&A *($MM)*	($70.60)	($116.13)	($186.78)	($188.72)	($231.92)	($329.02)	($361.93)	($487.78)	($533.13)	
Less: DD+A *($MM)*	($144.95)	($227.35)	($373.80)	($373.80)	($430.99)	($602.55)	($659.74)	($831.30)	($888.48)	
Pre-Tax Operating Cash Flow *($MM)*	**$142.41**	**$454.12**	**$674.00**	**$710.01**	**$869.82**	**$1,290.58**	**$1,452.44**	**$2,004.82**	**$2,232.44**	**$26,651.48**
Less: Taxes	-	-	-	-	-	-	-	-	-	
Plus: DD+A *($MM)*	$144.95	$227.35	$373.80	$373.80	$430.99	$602.55	$659.74	$831.30	$888.48	
Debt Adjusted Cash Flow *($MM)*	**$287.36**	**$681.47**	**$1,047.81**	**$1,083.82**	**$1,300.81**	**$1,893.13**	**$2,112.18**	**$2,836.11**	**$3,120.92**	**$34,572.82**
Less: Specific Capex *($MM)*	($712)	($742)	($570)	($659)	($1,320)	($803)	($1,155)	($495)	($570)	
Less: Recurring Capex *($MM)*	($887)	($1,431)	($1,351)	($1,366)	($1,232)	($1,331)	($1,292)	($1,265)	($1,287)	
Free Cash Flow *($MM)*	**($1,311.16)**	**($1,491.16)**	**($872.40)**	**($940.51)**	**($1,251.02)**	**($241.67)**	**($335.20)**	**$1,076.35**	**$1,263.78**	**$16,070.08**
Remaining 2P Reserves *(mmbbl)*	2,133	2,118	2,094	2,069	2,041	2,002	1,958	1,904	1,846	
Remaining Reserve Life (years)	203	142	86	85	72	51	45	35	32	

Model Outputs - Surmont

	Historical									2021 -
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2030E
Days in Period	365	365	365	365	365	365	365	365	365	
Average Daily Oil Production *(bbl/d)*	-	-	-	-	-	-	10,250	41,000	51,250	
Period Production *(mbbl)*	-	-	-	-	-	-	3,741	14,965	18,706	
Period Diluent *(mbbl)*	-	-	-	-	-	-	1,684	6,734	8,418	
Total Sales *(mbbl)*	-	-	-	-	-	-	5,425	21,699	27,124	
Price *($/bbl)*	$64.78	$80.89	$75.09	$75.87	$80.87	$82.06	$82.45	$88.18	$90.18	
Less: Diluent Costs *($MM)*	-	-	-	-	-	-	($164.05)	($667.92)	($851.69)	
Net Revenue *($MM)*	**-**	**-**	**-**	**-**	**-**	**-**	**$283.2**	**$1,245.6**	**$1,594.3**	**$41,255.56**
Revenue Growth (%)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
Realized Blend Prices ($/bbl)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*$75.70*	*$83.23*	*$85.23*	
Costs										
Operating Costs *($/bbl)*	-	-	-	-	-	-	($10.67)	($10.89)	($11.10)	
Royalties *($/bbl)*	-	-	-	-	-	-	($7.48)	($11.00)	($11.03)	
Transportation Costs *($/bbl)*	-	-	-	-	-	-	($0.22)	($0.23)	($0.23)	
Cash Operating Netback *($MM)*	**-**	**-**	**-**	**-**	**-**	**-**	**$214.5**	**$914.6**	**$1,176.0**	**$27,103.18**
Cash Operating Netback ($/bbl)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*$57.32*	*$61.12*	*$62.86*	
Less: SG&A *($MM)*	-	-	-	-	-	-	($31.37)	($134.22)	($171.57)	
Less: DD+A *($MM)*	-	-	-	-	-	-	($57.19)	($228.75)	($285.93)	
Pre-Tax Operating Cash Flow *($MM)*	**-**	**-**	**-**	**-**	**-**	**-**	**$125.9**	**$551.7**	**$718.4**	**$16,232.15**
Less: Taxes	-	-	-	-	-	-	-	-	-	
Plus: DD+A *($MM)*	-	-	-	-	-	-	$57.19	$228.75	$285.93	
Debt Adjusted Cash Flow *($MM)*	**-**	**-**	**-**	**-**	**-**	**-**	**$183.1**	**$780.4**	**$1,004.4**	**$21,307.16**
Less: Specific Capex *($MM)*	-	-	-	($406)	($414)	($423)	($431)	($440)	($449)	
Less: Recurring Capex *($MM)*	-	-	-	-	-	-	($112)	($348)	($414)	
Free Cash Flow *($MM)*	**-**	**-**	**-**	**($406.2)**	**($414.4)**	**($422.7)**	**($360.0)**	**($7.3)**	**$141.6**	**$9,671.89**
Remaining 2P Reserves *(mmbbl)*	511	511	511	511	511	511	507	492	474	
Remaining Reserve Life (years)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	136	33	25	

Contingent Resource M&A

Development Project Precendents					
Date	**Acquirer**	**Seller**	**Project Type**	**EV ($mm)**	**$/bbl**
Nov-10	PTTEP	Statoil	In-Situ	$2,280	$1.84
Sep-10	Canadian Natural Resources	Kirby (Enerplus)	In-Situ	$405	$0.78
Jul-10	Total S.A.	Fort Hills	Mining	$510	$0.75
Mar-10	Southern Pacific Resource	Makkay & Ells	In-Situ	$33	$0.67
Mar-10	Devon Energy	Kirby (BP)	In-Situ	$650	$1.04
Nov-09	Imperial/Exxon	Lease 421	In-Situ	$250	$0.63
Aug-09	PetroChina International	MacKay River & Dover	In-Situ	$1,995	$0.65
May-08	Ivanhoe Energy	Talisman	In-Situ	$105	$0.35
Apr-08	Total S.A.	Syneco	Mining	$300	$0.46
May-07	MEG Energy	Paramount (Surmont lease)	In-Situ	$302	$0.74
Mar-07	Enerplus	Kirby Oil Sands	In-Situ	$183	$0.83
Mar-06	North America Oil Sands	Kai Kos Dehseh Proj. (Paramount)	In-Situ	$345	$0.78
Apr-05	CNOOC	MEG Energy	In-Situ	$150	$0.45
Average					**$0.77**

Source: RBC Capital Markets.