MEG Energy reports third quarter results - 2012 production goals and progress on long-term growth remain firmly on target

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CALGARY, Oct. 25, 2012 /CNW/ - MEG Energy Corp. (MEG) today reported third quarter 2012 operational and financial results. Highlights include:

- Strong operating performance confirmed annual production and exit rates will be at the high end of guidance with corresponding operating costs at the low end of guidance;
- A planned plant turnaround was successfully completed with a record four day ramp-up to full production rates;
- Steady progress continued on the RISER production-enhancement pilot, with more than 100 plant equipment tie-ins completed during the turnaround to support MEG's plans for production of 80,000 bpd by early 2015;
- Key facilities were tied-in in preparation for completion of the Christina Lake Phase 2B project - the project is scheduled for start-up in the second half of 2013 and remains on budget;
- Regulatory applications were submitted to develop the multi-phase, 120,000 bpd Surmont project;
- A US$800 million offering of senior unsecured notes to fund MEG's ongoing growth was completed.

"We're very pleased with our results over this past quarter," said Bill McCaffrey, MEG President and Chief Executive Officer. "We saw the immediate benefit of some of our best-ever monthly operating results in July and August, with production and operating costs in record territory. We've also made strides in laying the groundwork for long-term growth with Christina Lake Phase 3 and Surmont. But, just as importantly, we put some key pieces in place for our nearer-term growth with the RISER initiative and Christina Lake Phase 2B."

During MEG's Christina Lake plant turnaround in September, key equipment was tied-in to support both the next planned phase of expansion, as well as new production from existing facilities.

Financial and Operational Results

Cash flow from operations for the third quarter of 2012 was $24.4 million ($0.12 per share, diluted) compared to $25.5 million ($0.13 per share, diluted) in the third quarter of 2011. Cash flow from operations for the nine months ended September 30, 2012 was $156.4 million ($0.79 per share, diluted) compared to $183.0 million ($0.93 per share, diluted) for the same period in 2011. Cash flow from operations was positively impacted by higher production and lower operating costs, offset primarily by lower bitumen sales prices.

Net earnings were $47.5 million ($0.24 per share, diluted) for the third quarter of 2012 compared to a net loss of $115.2 million ($0.60 per share, diluted) in the third quarter of 2011. Operating earnings, which are adjusted for items that are not indicative of operating performance, were recorded as a loss of $12.9 million ($0.07 per share, diluted) for the third quarter of 2012 compared to a third quarter 2011 loss of $5.9 million ($0.03 per share, diluted). Operating earnings were impacted by lower bitumen prices, offset by higher production and lower operating costs.

Excluding the plant turnaround month in September, MEG recorded two months of its strongest production volumes to date, with July and August results continuing a four month run of production in excess of 30,000 bpd - 20% above nominal design capacity.

Over the full third quarter, total production increased 14% to 23,941 barrels bpd compared to 20,945 bpd in the third quarter of 2011. Both comparative periods were impacted by planned plant turnarounds. Over the first nine months of 2012, production averaged 27,592 bpd, an increase of 8% from volumes of 25,450 bpd in the same period in 2011.

"With strong production levels to-date and a successful turnaround behind us, we expect to be near the top end of our annual production guidance of 26,000 to 28,000 barrels per day," said McCaffrey. "Production exit rates are also expected to be at the high end of our guidance of 29,000 to 31,000 bpd."

Non-energy operating costs decreased to $15.23 per barrel in the third quarter of 2012 from $17.20 per barrel in the same period of 2011. Non-energy operating costs in both comparative quarters were impacted by plant turnarounds. On a year-to-date basis, non-energy operating costs decreased to $10.11 per barrel for the first nine months of 2012 from $11.03 per barrel in the first nine months of 2011.

"With the benefit of high production volumes and plant efficiency improvements, non-energy operating costs also remain on track to finish the year at the low end of our guidance of $10 to $12 per barrel," said McCaffrey. "We expect to continue to be among the lowest cost producers in the industry."

Net operating costs, which include natural gas consumption costs and revenues from electricity sales, declined 13% to $10.40 per barrel year-to-date from the 2011 average of $11.95 per barrel over the same period.

"Our efforts to drive down operating costs have helped to significantly mitigate the effects of the wide differentials earlier in the year," said McCaffrey. "As new infrastructure comes on-line to extend our market reach, MEG has positioned itself well to leverage the expected narrowing of differentials with WTI benchmarks moving closer to Brent pricing and heavy oil pricing closing the gap with WTI."

Capital and Growth Strategy

During the third quarter of 2012, MEG achieved three major milestones in its long-term growth strategy:

- Key facilities were tied-in to existing operations in preparation for completion of the Christina Lake Phase 2B project. The project, which increases total design capacity by 140%, is scheduled for start-up in the second half of 2013 and remains on budget. With its RISER initiative, which focuses on adding interphase production growth, MEG is targeting to increase the combined production levels of Phases 1, 2 and 2B by an estimated 33% to a total of 80,000 bpd by early 2015.
- Regulatory applications were submitted for the multi-phase, 120,000 bpd Surmont Project in September. Public consultation on the project, which began earlier in 2012, is ongoing.
- MEG has determined that the optimum platform for future developments, beginning with Phase 3A, will be 41,000 bpd (at an initial, conservative steam-oil ratio of 2.8). The standardized sizing will be used, where applicable, for the remainder of MEG's developments at Christina Lake, Surmont and the company's growth properties. It is expected to provide long-term benefits by optimizing engineering and supply chain management, driving tighter cost control and supporting MEG's plans to ultimately develop two or more growth phases at a time.

"With future Christina Lake and Surmont developments lying on the same geological trend, and with our plans to standardize surface facilities, our target is to continue to drive forward on future phases with the same strong well performance, high plant efficiency, and low capital and operating costs that we've seen on Phases 1 and 2," said McCaffrey.

To support the company's growth plans, MEG completed an offering of US$800 million of senior unsecured notes in July. As at September 30, 2012, MEG's capital resources included $1.6 billion of cash and short-term investments and an undrawn US$1.0 billion revolving credit facility.

Operational and Financial Highlights

The following table summarizes selected operational and financial information of the Corporation for the periods ended:

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Bitumen production - bpd	23,941	20,945	27,592	25,450
Steam to oil ratio	2.5	2.5	2.4	2.5
West Texas Intermediate (WTI) US$/bbl	92.22	89.76	96.21	95.48
Differential - WTI/Blend %	32.2%	26.7%	31.4%	25.8%
Bitumen realization - $/bbl	46.49	51.79	47.43	55.02
Net operating costs(1) - $/bbl	15.61	17.12	10.40	11.95
Cash operating netback(2) - $/bbl	27.85	29.92	34.07	38.53
Capital cash investment - $000	399,659	240,492	1,103,598	660,107
Net income (loss) - $000	47,474	(115,196)	71,309	(27,281)
Per share, diluted	0.24	(0.60)	0.36	(0.14)
Operating earnings (loss) - $000(3)	(12,883)	(5,917)	21,780	51,422
Per share, diluted(3)	(0.07)	(0.03)	0.11	0.26
Cash flow from operations - $000(3)	24,442	25,478	156,408	183,019
Per share, diluted(3)	0.12	0.13	0.79	0.93
Cash and short-term investments - $000	1,607,036	1,831,937	1,607,036	1,831,937
Long-term debt - $000	2,461,676	1,791,695	2,461,676	1,791,695

(1) Net operating costs include energy and non-energy operating costs, reduced by power sales for the period.

(2) Cash operating netbacks are calculated by deducting the related royalties and diluents, transportation, operating costs and realized gains/losses on financial derivatives from bitumen sales revenues, on a per barrel basis.

(3) Please refer to Non-IFRS Financial Measures below.

A full version of MEG's Third Quarter 2012 Report to Shareholders, including unaudited financial statements, is available on MEG's website at www.megenergy.com and at www.sedar.com.

A conference call will be held to review the third quarter results and discuss MEG's strategy at 7:30 a.m. Mountain Time (9:30 a.m. Eastern Time) Thursday, October 25, 2012. The U.S./Canada toll-free conference call number is 1 888-231-8191.

Forward-Looking Information

This news release may contain forward-looking information including but not limited to: expectations of future production, SORs, light-heavy crude oil pricing differentials, operating costs and capital investments; the anticipated capital requirements, timing for receipt of regulatory approvals, development plans, timing for completion, production capacities and performance of the future phases and expansions of the Christina Lake project, including the RISER program, the Surmont project and MEG's other properties and facilities;

and the anticipated sources of funding for operations and capital investments. All such forward-looking information is based on management's expectations and assumptions regarding future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), 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 and delays in the development of or in the production associated with MEG's projects; the securing of adequate supplies and access to markets and transportation infrastructure; the uncertainty of estimates and projections relating to production, costs and revenues; the availability of take away capacity on the electric transmission grid; health, safety and environmental risks; risks of legislative and regulatory changes to, amongst other things, tax, land use, royalty and environmental laws; changes in commodity prices and foreign exchange rates; and risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the development of MEG's projects and facilities. Although MEG believes that the assumptions supporting 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. For supplemental information regarding forward-looking information generally, see "Risk Factors" and "Regulatory Matters" within MEG's annual information form dated March 28, 2012 (the "AIF") along with MEG's other public disclosure documents. A copy of the AIF and of MEG's other public disclosure documents are available through the SEDAR website (www.sedar.com) or by contacting MEG's investor relations department.

Non-IFRS Financial Measures

This news release includes references to financial measures commonly used in the crude oil and natural gas industry, such as operating earnings, cash flow from operations and cash operating netback. These financial measures are not defined by IFRS as issued by the International Accounting Standards Board and therefore are referred to as non-IFRS measures. The non-IFRS measures used by MEG may not be comparable to similar measures presented by other companies. MEG uses these non-IFRS measures to help evaluate its performance. Management considers operating earnings and cash operating netback to be important measures as they are indicative of profitability relative to current commodity prices. Management uses cash flow from operations to measure MEG's ability to generate funds to finance capital expenditures and repay debt. These non-IFRS measures should not be considered as an alternative to or more meaningful than net income (loss) or net cash provided by operating activities, as determined in accordance with IFRS, as an indication of MEG's performance. The non-IFRS operating earnings and cash operating netback measures are reconciled to net income (loss), while cash flow from operations is reconciled to net cash provided by operating activities, as determined in accordance with IFRS, under the heading "Non-IFRS Measurements" in MEG's Management's Discussion and Analysis pertaining to the third quarter of 2012.

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."

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