Consolidated Balance Sheet
(Unaudited, expressed in millions of Canadian dollars)

As at	Note	March 31, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents	15	$ **290**	$ 361
Trade receivables and other	3	**679**	496
Inventories		**226**	157
Risk management	17	**76**	36
		1,271	1,050
Non-current assets			
Property, plant and equipment	4	**5,852**	5,878
Exploration and evaluation assets	5	**126**	126
Other assets	6	**201**	202
Risk management	17	**2**	41
Deferred income tax asset	14	**192**	296
Total assets		$ **7,644**	$ 7,593
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ **535**	$ 500
Interest payable		**29**	80
Current portion of long-term debt	7	**214**	285
Current portion of provisions and other liabilities	8	**28**	27
Risk management	17	**—**	7
		806	899
Non-current liabilities			
Long-term debt	7	**2,226**	2,477
Provisions and other liabilities	8	**434**	409
Total liabilities		**3,466**	3,785
Shareholders' equity			
Share capital	9	**5,496**	5,486
Contributed surplus		**172**	172
Deficit		**(1,513)**	(1,875)
Accumulated other comprehensive income		**23**	25
Total shareholders' equity		**4,178**	3,808
Total liabilities and shareholders' equity		$ **7,644**	$ 7,593

Commitments and contingencies (Note 19)
The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss)
(Unaudited, expressed in millions of Canadian dollars, except per share amounts)

Three Months Ended March 31	Note	2022	2021
Revenues			
Petroleum revenue, net of royalties	11	**$ 1,507**	$ 886
Other revenue	11	**24**	28
Revenues		**1,531**	914
Expenses			
Diluent expense		**517**	296
Transportation and storage expense		**118**	93
Operating expenses		**104**	66
Inventory impairment		**—**	6
Purchased product		**160**	185
Depletion and depreciation	4, 6	**124**	108
General and administrative		**14**	14
Stock-based compensation	10	**6**	2
Net finance expense	13	**55**	66
Commodity risk management (gain) loss, net	17	**(5)**	157
Foreign exchange (gain) loss, net	12	**(28)**	(43)
Earnings (loss) before income taxes		**466**	(36)
Income tax expense (recovery)	14	**104**	(19)
Net earnings (loss)		**362**	(17)
Other comprehensive income (loss), net of tax			
Items that may be reclassified to profit or loss:			
Foreign currency translation adjustment		**(2)**	(3)
Comprehensive income (loss)		**$ 360**	$ (20)
Net earnings (loss) per common share			
Basic	16	**$ 1.18**	$ (0.06)
Diluted	16	**$ 1.15**	$ (0.06)

The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

Consolidated Statement of Changes in Shareholders' Equity
(Unaudited, expressed in millions of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at December 31, 2021	**$ 5,486**	**$ 172**	**$ (1,875)**	**$ 25**	**$ 3,808**
Stock-based compensation	**—**	**3**	**—**	**—**	**3**
Stock options exercised	**10**	**(3)**	**—**	**—**	**7**
Comprehensive income (loss)	**—**	**—**	**362**	**(2)**	**360**
Balance as at March 31, 2022	**$ 5,496**	**$ 172**	**$ (1,513)**	**$ 23**	**$ 4,178**
Balance as at December 31, 2020	$ 5,460	$ 177	$ (2,158)	$ 27	$ 3,506
Stock-based compensation	—	2	—	—	2
Stock options exercised	4	(1)	—	—	3
Comprehensive income (loss)	—	—	(17)	(3)	(20)
Balance as at March 31, 2021	$ 5,464	$ 178	$ (2,175)	$ 24	$ 3,491

The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

Consolidated Statement of Cash Flow
(Unaudited, expressed in millions of Canadian dollars)

Three Months Ended March 31	Note	2022	2021
Cash provided by (used in):			
Operating activities			
Net earnings (loss)		$ **362**	$ (17)
Adjustments for:			
Deferred income tax expense (recovery)	14	**104**	(19)
Inventory impairment		**—**	6
Depletion and depreciation	4, 6	**124**	108
Stock-based compensation	10	**8**	(8)
Unrealized net (gain) loss on foreign exchange	12	**(29)**	(43)
Unrealized net (gain) loss on commodity risk management	17	**(4)**	88
Amortization of debt discount and debt issue costs		**2**	2
Other		**1**	1
Decommissioning expenditures	8	**(2)**	(2)
Onerous contracts expense (payments)		**—**	(6)
Net change in long-term incentive compensation liability		**21**	11
Funds flow from operating activities		**587**	121
Net change in non-cash working capital items	15	**(270)**	(109)
Net cash provided by (used in) operating activities		**317**	12
Investing activities			
Capital expenditures	4	**(88)**	(70)
Other		**(1)**	—
Net change in non-cash working capital items	15	**1**	21
Net cash provided by (used in) investing activities		**(88)**	(49)
Financing activities			
Issuance of senior unsecured notes		**—**	769
Repayment and redemption of long-term debt	7	**(288)**	(763)
Debt redemption premium and refinancing costs	7	**(5)**	(19)
Issue of shares, net of issue costs		**7**	2
Receipts on leased assets	15	**1**	1
Payments on leased liabilities	15	**(6)**	(7)
Net cash provided by (used in) financing activities		**(291)**	(17)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**(9)**	(6)
Change in cash and cash equivalents		**(71)**	(60)
Cash and cash equivalents, beginning of period		**361**	114
Cash and cash equivalents, end of period		$ **290**	$ 54

The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

All amounts are expressed in millions of Canadian dollars unless otherwise noted.

1. CORPORATE INFORMATION

MEG Energy Corp. (the "Corporation") was incorporated under the *Alberta Business Corporations Act* on March 9, 1999. The Corporation's shares trade on the Toronto Stock Exchange under the symbol "MEG". The Corporation owns a 100% interest in over 410 square miles of mineral leases in the southern Athabasca oil region of Alberta, Canada and is primarily engaged in sustainable *in situ* thermal oil production at its Christina Lake Project.

The corporate office is located at 600 – 3rd Avenue SW, Calgary, Alberta, Canada.

2. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements ("interim consolidated financial statements") were prepared using the same accounting policies and methods as those used in the Corporation's audited consolidated financial statements for the year ended December 31, 2021. The interim consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB"), has been omitted or condensed. The preparation of interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, have been set out in Note 4 of the Corporation's audited consolidated financial statements for the year ended December 31, 2021. These interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2021.

These interim consolidated financial statements are presented in Canadian dollars ($ or C$), which is the Corporation's functional currency and were approved by the Corporation's Audit Committee on May 2, 2022.

3. TRADE RECEIVABLES AND OTHER

As at	**March 31, 2022**	**December 31, 2021**
Trade receivables	**$ 612**	$ 479
Realized settlement on equity price risk management contracts	**46**	—
Deposits and advances	**18**	14
Current portion of sublease receivable	**3**	3
	$ 679	$ 496

4. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Cost					
Balance as at December 31, 2021	$ 9,611	$ 47	$ 286	$ 79	$ 10,023
Additions	88	—	—	—	88
Change in decommissioning liabilities	9		—	—	9
Balance as at March 31, 2022	**$ 9,708**	**$ 47**	**$ 286**	**$ 79**	**$ 10,120**
Accumulated depletion and depreciation					
Balance as at December 31, 2021	$ 3,998	$ 32	$ 61	$ 54	$ 4,145
Depletion and depreciation	117	—	5	1	123
Balance as at March 31, 2022	**$ 4,115**	**$ 32**	**$ 66**	**$ 55**	**$ 4,268**
Carrying amounts					
Balance as at December 31, 2021	$ 5,613	$ 15	$ 225	$ 25	$ 5,878
Balance as at March 31, 2022	**$ 5,593**	**$ 15**	**$ 220**	**$ 24**	**$ 5,852**

As at March 31, 2022, property, plant and equipment was assessed for indicators of impairment and none were identified.

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of $126 million in exploration projects which are pending the determination of proved or probable reserves (year ended December 31, 2021 – $126 million). These assets were assessed for impairment and no impairment has been recognized on exploration and evaluation assets.

6. OTHER ASSETS

As at	March 31, 2022	December 31, 2021
Non-current pipeline linefill[(a)]	**$ 176**	$ 177
Finance sublease receivables	**14**	15
Intangible assets[(b)]	**5**	5
Prepaid transportation costs[(c)]	**8**	8
Pathways Initiative	**1**	—
	204	205
Less current portion, included in trade receivables and other	**(3)**	(3)
	$ 201	$ 202

a. Non-current pipeline linefill on third-party owned pipelines is classified as a non-current asset as these transportation contracts expire between the years 2025 and 2048.

b. As at March 31, 2022, intangible assets consist of software that is not an integral component of the related computer hardware. Depreciation of $1 million was recognized for the three months ended March 31, 2022 (year ended December 31, 2021 – $2 million).

c. Prepaid transportation costs related to upgrading third-party transportation infrastructure have been capitalized and are being amortized to transportation expense over the 30-year term of the agreement.

7. LONG-TERM DEBT

As at	March 31, 2022	December 31, 2021
Second Lien:		
6.50% senior secured second lien notes (March 31, 2022 - US$171 million; fully redeemed April 4, 2022; December 31, 2021 - US$396 million)	**$ 214**	$ 501
Unsecured:		
7.125% senior unsecured notes (March 31, 2022 - US$1.2 billion; due 2027; December 31, 2021 - US$1.2 billion)	**1,498**	1,519
5.875% senior unsecured notes (March 31, 2022 - US$600 million; due 2029; December 31, 2021 - US$600 million)	**749**	759
	2,461	2,779
Debt redemption premium	**4**	8
Unamortized deferred debt discount and debt issue costs	**(25)**	(25)
	$ 2,440	$ 2,762
Less current portion of 6.50% senior secured second lien notes	**(214)**	(285)
	$ 2,226	$ 2,477

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.2484 (December 31, 2021 – US$1 = C$1.2656).

On January 18, 2022, the Corporation repaid US$225 million (approximately C$285 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest to, but not including, the redemption date.

On March 3, 2022 the Corporation announced that it had issued a notice to redeem the remaining outstanding balance of US$171 million (approximately C$214 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest to, but not including, the redemption date. The redemption was completed on April 4, 2022.

Both of these redemptions included prepayment options, recognized as at December 31, 2021. The Corporation is required to assess the likelihood of exercising prepayment options at each reporting date.

As at March 31, 2022, the Corporation had $794 million of unutilized capacity under the $800 million revolving credit facility and the Corporation had $108 million of unutilized capacity under the $500 million EDC Facility. A letter of credit of $15 million was issued under the revolving credit facility during the first quarter of 2020 and $6 million remains outstanding as at March 31, 2022.

8. PROVISIONS AND OTHER LIABILITIES

As at	March 31, 2022	December 31, 2021
Lease liabilities[(a)]	**$ 260**	$ 266
Decommissioning provision[(b)]	**144**	135
Long-term incentive compensation liability[(c)]	**58**	35
Provisions and other liabilities	**462**	436
Less current portion	**(28)**	(27)
Non-current portion	**$ 434**	$ 409

a. Lease liabilities:

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	**$ 266**	$ 286
Additions	**—**	8
Payments	**(12)**	(54)
Interest expense	**6**	26
Balance, end of period	**260**	266
Less current portion	**(21)**	(22)
Non-current portion	**$ 239**	$ 244

The Corporation's minimum lease payments are as follows:

As at March 31	2022
Within one year	**$ 44**
Later than one year but not later than five years	**137**
Later than five years	**462**
Minimum lease payments	**643**
Amounts representing finance charges	**(383)**
Net minimum lease payments	**$ 260**

The Corporation has short-term leases with lease terms of twelve months or less as well as low-value leases. As these lease costs are incurred they are recognized as either general and administrative expense or operating expense depending on their nature. As at March 31, 2022, the present value of these arrangements is $2 million (December 31, 2021 - $2 million), using the Corporation's estimated incremental borrowing rate.

b. Decommissioning provision:

The following table presents the decommissioning provision associated with the reclamation and abandonment of the Corporation’s property, plant and equipment and exploration and evaluation assets:

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	**$ 135**	$ 96
Changes in estimated life and estimated future cash flows	**1**	5
Changes in discount rates	**8**	29
Liabilities settled	**(2)**	(3)
Accretion	**2**	8
Balance, end of period	**144**	135
Less current portion	**(7)**	(5)
Non-current portion	**$ 137**	$ 130

The decommissioning provision represents the present value of the estimated future costs for the reclamation and abandonment of the Corporation's property, plant and equipment and exploration and evaluation assets. The total undiscounted amount of the estimated future cash flows to settle the decommissioning obligations is $787 million (December 31, 2021 – $799 million). As at March 31, 2022, the Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 8.6% (December 31, 2021 – 9.2%) and an inflation rate of 2.1% (December 31, 2021 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2021 - periods up to the year 2066).

c. Long-term incentive compensation liability:

As at March 31, 2022, the Corporation recognized a liability of $127 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2021 – $82 million). The current portion of $69 million is included within accounts payable and accrued liabilities and $58 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards (December 31, 2021 – $45 million and $37 million). The Corporation entered into equity price risk management contracts to manage its exposure on cash-settled RSUs and PSUs vesting between 2021 and 2023. Refer to Note 17 for further details.

9. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares.

Changes in issued common shares are as follows:

	Three months ended March 31, 2022			Year ended December 31, 2021		
	Number of shares (thousands)		**Amount**	**Number of shares (thousands)**		**Amount**
Balance, beginning of year	**306,865**	**$**	**5,486**	302,681	$	5,460
Issued upon exercise of stock options	**731**		**10**	939		7
Issued upon vesting and release of RSUs and PSUs	**—**		**—**	3,245		19
Balance, end of period	**307,596**	**$**	**5,496**	306,865	$	5,486

10. STOCK-BASED COMPENSATION

Three months ended March 31		**2022**		**2021**
Cash-settled expense [(i)]	**$**	**44**	$	19
Equity-settled expense		**4**		2
Equity price risk management (gain) loss[(ii)]		**(42)**		(19)
Stock-based compensation	**$**	**6**	$	2

(i) Cash-settled RSUs and PSUs are accounted for as liability instruments and are measured at fair value based on the market value of the Corporation's common shares at each period end and certain estimates including a performance multiplier for PSUs. Fluctuations in the fair value are recognized during the period in which they occur.

(ii) Relates to financial derivatives entered into to manage the Corporation's exposure to cash-settled RSUs and PSUs vesting between 2021 and 2023 granted under the Corporation's stock-based compensation plans. Amounts are unrealized until vesting of the related units occurs. See note 17(d) for further details.

A $44 million cash-settled expense was recognized during the three months ended March 31, 2022 due to the increase in the Corporation's share price, and associated increase in value of cash-settled RSUs, PSUs and DSUs compared to December 31, 2021, which translated into an increased liability at March 31, 2022, and higher expense for the three months ended March 31, 2022 compared to the prior period. As at March 31, 2022, the Corporation recognized a liability of $127 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2021 – $82 million). The current portion of $69 million is included within accounts payable and accrued liabilities and $58 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards.

11. REVENUES

Three months ended March 31		2022		2021
Sales from:				
Production	$	1,393	$	695
Purchased product[(i)]		161		198
Petroleum revenue	$	1,554	$	893
Royalties		(47)		(7)
Petroleum revenue, net of royalties	$	1,507	$	886
Power revenue	$	23	$	25
Transportation revenue		1		3
Other revenue	$	24	$	28
Revenues	$	1,531	$	914

(i) The associated third-party purchases are included in the consolidated statement of earnings (loss) and comprehensive income (loss) under the caption "Purchased product".

a. Disaggregation of revenue from contracts with customers

The Corporation recognizes revenue upon delivery of goods and services in the following geographic regions:

	Three months ended March 31					
	2022			2021		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	$ 536	$ 55	$ 591	$ 391	$ —	$ 391
United States	857	106	963	304	198	502
	$ 1,393	$ 161	$ 1,554	$ 695	$ 198	$ 893

For the three months ended March 31, 2022, other revenue of $24 million was attributed to Canada (March 31, 2021 – $28 million attributed to Canada).

b. Revenue-related assets

The Corporation has recognized the following revenue-related assets in trade receivables and other:

As at		March 31, 2022		December 31, 2021
Petroleum revenue	$	596	$	455
Other revenue		7		10
Total revenue-related assets	$	603	$	465

Revenue-related receivables are typically settled within 30 days. As at March 31, 2022 and December 31, 2021, there was no material expected credit loss required against revenue-related receivables.

12. FOREIGN EXCHANGE (GAIN) LOSS, NET

Three months ended March 31	2022	2021
Unrealized foreign exchange (gain) loss on:		
Long-term debt	**$ (31)**	$ (48)
US$ denominated cash and cash equivalents	**9**	5
Foreign currency risk management contracts	**(7)**	—
Unrealized net (gain) loss on foreign exchange	**(29)**	(43)
Realized (gain) loss on foreign exchange	**1**	—
Foreign exchange (gain) loss, net	**$ (28)**	$ (43)

C$ equivalent of 1 US$		
Beginning of period	**1.2656**	1.2755
End of period	**1.2484**	1.2572

13. NET FINANCE EXPENSE

Three months ended March 31	2022	2021
Interest expense on long-term debt	**$ 47**	$ 58
Interest expense on lease liabilities	**6**	6
Net interest expense	**53**	64
Accretion on provisions	**2**	2
Net finance expense	**$ 55**	$ 66

14. INCOME TAX EXPENSE (RECOVERY)

Three months ended March 31	2022	2021
Current income tax expense (recovery)	**$ —**	$ —
Deferred income tax expense (recovery)	**104**	(19)
Income tax expense (recovery)	**$ 104**	$ (19)

For the three months ended March 31, 2022, an income tax expense was recognized compared to an income tax recovery in the same period of 2021 due to increased earnings before income taxes and foreign exchange gains and losses on long-term debt.

15. SUPPLEMENTAL CASH FLOW DISCLOSURES

Three months ended March 31		2022		2021
Cash provided by (used in):				
Trade receivables and other	**$**	**(184)**	$	(118)
Inventories		**(69)**		(34)
Accounts payable and accrued liabilities		**35**		107
Interest payable		**(51)**		(43)
	$	**(269)**	$	(88)
Changes in non-cash working capital relating to:				
Operating	**$**	**(270)**	$	(109)
Investing		**1**		21
	$	**(269)**	$	(88)
Cash and cash equivalents:[a]				
Cash	**$**	**290**	$	54
Cash equivalents		**—**		—
	$	**290**	$	54
Cash interest paid	**$**	**94**	$	96

a. As at March 31, 2022, $270 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars (March 31, 2021 – $31 million). The U.S. dollar cash and cash equivalents balance has been translated into Canadian dollars at the period end exchange rate of US$1 = C$1.2484 (March 31, 2021 – US$1=C$1.2572).

The following table provides a reconciliation of assets and liabilities to cash flows arising from financing activities:

		Finance sublease receivables		Lease liabilities		Long-term debt
Balance as at December 31, 2021	$	15	$	266	$	2,762
Financing cash flow changes:						
Receipts on leased assets		(1)		—		—
Payments on leased liabilities		—		(6)		—
Repayment and redemption of long-term debt		—		—		(288)
Debt redemption premium and refinancing costs		—		—		(5)
Other cash and non-cash changes:						
Interest payments on lease liabilities		—		(6)		—
Interest expense on lease liabilities		—		6		—
Unrealized (gain) loss on foreign exchange		—		—		(31)
Amortization of deferred debt discount and debt issue costs		—		—		2
Balance as at March 31, 2022	**$**	**14**	**$**	**260**	**$**	**2,440**

(i) Finance sublease receivables, Lease liabilities & Long-term debt all include their respective current portion.

16. NET EARNINGS (LOSS) PER COMMON SHARE

Three months ended March 31		2022		2021
Net earnings (loss)	$	362	$	(17)
Weighted average common shares outstanding (millions)[(a)]		307		303
Dilutive effect of stock options, RSUs and PSUs (millions)[(b)]		7		—
Weighted average common shares outstanding – diluted (millions)		314		303
Net earnings (loss) per share, basic	$	1.18	$	(0.06)
Net earnings (loss) per share, diluted	$	1.15	$	(0.06)

a. Weighted average common shares outstanding for the three months ended March 31, 2022 include nil PSUs vested but not yet released (three months ended March 31, 2021 - 493,829 PSUs).

b. For the three months ended March 31, 2021, the Corporation incurred a net loss and therefore there was no dilutive effect of stock options, RSUs and PSUs. If the Corporation had recognized net earnings for the three months ended March 31, 2021, the dilutive effect of stock options, RSUs and PSUs would have been 6.1 million weighted average common shares.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments recognized on the consolidated balance sheet are comprised of cash and cash equivalents, trade receivables and other, risk management contracts, accounts payable and accrued liabilities, interest payable and long-term debt.

a. Fair values:

The carrying values of cash and cash equivalents, trade receivables and other, accounts payable and accrued liabilities and interest payable included on the consolidated balance sheet approximates the fair values of the respective assets and liabilities due to the short-term nature of those instruments.

The following fair values are based on Level 2 inputs to fair value measurement:

As at	March 31, 2022				December 31, 2021			
		Carrying amount		Fair value		Carrying amount		Fair value
Recurring measurements:								
Financial assets								
Commodity risk management contracts	$	7	$	7	$	3	$	3
Equity price risk management contracts	$	71	$	71	$	74	$	74
Financial liabilities								
Long-term debt (Note 7)	$	2,461	$	2,543	$	2,779	$	2,888
Foreign currency risk management contracts	$	—	$	—	$	7	$	7

The estimated fair value of long-term debt is derived using quoted prices in an inactive market from a third-party independent broker. The fair value was determined based on estimates as at March 31, 2022 and is expected to fluctuate given the volatility in the debt and commodity price markets.

The fair value of risk management contracts is derived using third-party valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including forward prices for commodities, interest rate yield curves and foreign exchange rates. The observable inputs may be adjusted using certain methods, which include extrapolation to the end of the term of the contract.

b. Risk management:

The Corporation's risk management assets and liabilities consist of natural gas swaps, condensate swaps and equity swaps. The use of the financial risk management contracts is governed by a Risk Management Committee that follows guidelines and limits approved by the Board of Directors. The Corporation does not use financial derivatives for speculative purposes. Financial risk management contracts are measured at fair value, with gains and losses on re-measurement included in the consolidated statement of earnings and comprehensive income in the period in which they arise.

The Corporation’s financial risk management contracts are subject to master agreements that create a legally enforceable right to offset, by counterparty, the related financial assets and financial liabilities on the Corporation’s balance sheet in all circumstances.

The following table provides a summary of the Corporation’s unrealized offsetting financial risk management positions:

As at	**March 31, 2022**			**December 31, 2021**		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Gross amount	**$ 78**	**$ —**	**$ 78**	$ 77	$ (7)	$ 70
Amount offset	**—**	**—**	**—**	—	—	—
Net amount	**$ 78**	**$ —**	**$ 78**	$ 77	$ (7)	$ 70
Current portion	**$ 76**	**$ —**	**$ 76**	$ 36	$ (7)	$ 29
Non-current portion	**2**	**—**	**2**	41	—	41
Net amount	**$ 78**	**$ —**	**$ 78**	$ 77	$ (7)	$ 70

The following table provides a reconciliation of changes in the fair value of the Corporation’s financial risk management assets and liabilities from January 1 to March 31:

As at March 31	**2022**	**2021**
Fair value of contracts, beginning of year	**$ 70**	$ (2)
Fair value of contracts realized	**(47)**	69
Change in fair value of contracts	**55**	(146)
Fair value of contracts, end of period	**$ 78**	$ (79)

c. Commodity risk management:

The Corporation had the following financial commodity risk management contracts relating to condensate and natural gas purchases outstanding as at March 31, 2022:

As at March 31, 2022			
	Volumes (bbls/d)[(i)]	**Term**	**Average Price (US$/bbl)[(i)]**
Condensate Purchase Contracts			
WTI:Mont Belvieu Fixed Differential	200	Apr 1, 2022 - Dec 31, 2022	$(11.30)
Natural Gas Purchase Contracts	**Volumes (GJ/d)[(i)]**	**Term**	**Average Price (C$/GJ)[(i)]**
AECO Fixed Price	5,000	Apr 1, 2022 - Dec 31, 2023	$2.50

(i) The volumes and prices in the above table represent averages for various contracts with differing terms and prices. The average prices for the portfolio may not have the same payment profile as the individual contracts and are provided for indicative purposes.

The Corporation did not enter into financial commodity risk management contracts between March 31, 2022 and May 2, 2022.

The following table summarizes the financial commodity risk management gains and losses:

Three months ended March 31	2022	2021
Realized loss (gain) on commodity risk management	**$ (1)**	$ 69
Unrealized loss (gain) on commodity risk management	**(4)**	88
Commodity risk management (gain) loss, net	**$ (5)**	$ 157

d. Equity price risk management:

In 2020, the Corporation entered into financial equity price risk management contracts to increase the predictability of the Corporation's cash flow by managing share price volatility. Equity price risk is the risk that changes in the Corporation's own share price impact earnings and cash flows. Earnings and funds flow from operating activities are impacted when outstanding cash-settled RSUs and PSUs, issued under the Corporation's stock-based compensation plans, are revalued each period based on the Corporation's share price and the revaluation is recognized in stock-based compensation expense. Net cash provided by (used in) operating activities is impacted when these stock-based compensation units are ultimately settled. The Corporation entered into these equity price risk management contracts in March 2020 to manage its exposure on cash-settled RSUs and PSUs vesting between April 1, 2021 and April 1, 2023.

Three months ended March 31	2022	2021
Realized equity price risk management (gain) loss	**$ (46)**	$ (8)
Unrealized equity price risk management (gain) loss	**4**	(11)
Equity price risk management (gain) loss	**$ (42)**	$ (19)

e. Credit risk management:

Credit risk arises from the potential that the Corporation may incur a loss if a counterparty fails to meet its obligations in accordance with agreed terms. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses a combination of historical and forward looking information to determine the appropriate loss allowance provisions. Credit risk exposure is mitigated through the use of credit policies governing the Corporation's credit portfolio and with credit practices that limit transactions according to each counterparty's credit quality. A substantial portion of accounts receivable are with investment grade customers in the energy industry and are subject to normal industry credit risk. The Corporation has experienced no material loss in relation to trade receivables. As at March 31, 2022, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $630 million. All amounts receivable from commodity risk management activities are due from large Canadian banks with strong investment grade credit ratings. Counterparty default risk associated with the Corporation's commodity risk management activities is also partially mitigated through credit exposure limits, frequent assessment of counterparty credit ratings and netting arrangements, as outlined in note 23 of the Corporation's 2021 annual consolidated financial statements.

The Corporation's cash balances are used to repay debt, fund sustaining capital, return capital to shareholders or fund future production growth. The cash balances are held in high interest savings accounts or are invested in high grade, liquid, short-term instruments such as bankers' acceptances, commercial paper, money market deposits or similar instruments. The cash and cash equivalents balance at March 31, 2022 was $290 million. None of the investments are past their maturity or considered impaired. The Corporation's estimated maximum exposure to credit risk related to its cash and cash equivalents is $290 million.

f. Liquidity risk management:

Liquidity risk is the risk that the Corporation will not be able to meet all of its financial obligations as they become due. Liquidity risk also includes the risk that the Corporation cannot generate sufficient cash flow from the Christina Lake Project or is unable to raise further capital in order to meet its obligations under its debt agreements. The lenders are entitled to exercise any and all remedies available under the debt agreements. The Corporation manages its liquidity risk through the active management of cash, debt and revolving credit facilities and by maintaining appropriate access to credit.

Management believes its current capital resources and its ability to manage cash flow and working capital levels will allow the Corporation to meet its current and future obligations, to make scheduled principal and interest payments, and to fund the other needs of the business for at least the next 12 months. Meeting current and future obligations through periods of volatility is supported by the Corporation's financial framework and credit risk management policies minimizing exposure related to customer receivables primarily to investment grade customers in the energy industry. However, no assurance can be given that this will be the case or that future sources of capital will not be necessary.

After the April 2022 debt redemption disclosed in Note 7, the Corporation's earliest maturing long-term debt will be approximately five years out, represented by US$1.2 billion of senior unsecured notes due February 2027. None of the Corporation’s outstanding long-term debt contain financial maintenance covenants. Additionally, the Corporation's modified covenant-lite $800 million revolving credit facility has no financial maintenance covenant unless drawn in excess of $400 million. If drawn in excess of $400 million, the Corporation is required to maintain a quarterly first lien net leverage ratio (first lien net debt to last twelve-month EBITDA) of 3.5 or less. Under the Corporation's credit facility, first lien net debt is calculated as debt under the credit facility plus other debt that is secured on a *pari passu* basis with the credit facility, less cash on hand.

18. CAPITAL MANAGEMENT

The Corporation's capital consists of cash and cash equivalents, debt and shareholders' equity. The Corporation's objective for managing capital is to prioritize balance sheet strength while maintaining flexibility to repay debt, fund sustaining capital, return capital to shareholders or fund future production growth. In the current price environment, management believes its current capital resources and its ability to manage cash flow and working capital levels will allow the Corporation to meet its current and future obligations, to make scheduled principal and interest payments, and to fund the other needs of the business for at least the next 12 months. Debt repayment and sustaining capital expenditure activities are anticipated to be funded by the Corporation's adjusted funds flow, cash-on-hand and/or other available liquidity.

On January 18, 2022, the Corporation repaid US$225 million (approximately C$285 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest to, but not including, the redemption date.

On March 3, 2022 the Corporation announced that it had issued a notice to redeem the remaining outstanding balance of US$171 million (approximately C$214 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest to, but not including, the redemption date. The redemption was completed on April 4, 2022.

Both of these redemptions included prepayment options, recognized as at December 31, 2021. The Corporation is required to assess the likelihood of exercising prepayment options at each reporting date.

After the April 2022 debt redemption disclosed in Note 7, the Corporation's earliest maturing long-term debt will be approximately five years out, represented by US$1.2 billion of senior unsecured notes due February 2027. As at March 31, 2022, the Corporation had $794 million of unutilized capacity under the $800 million revolving credit facility and had $108 million of unutilized capacity under the $500 million letter of credit facility. A letter of credit of $15 million was issued under the revolving credit facility during the first quarter of 2020 and $6 million remains outstanding as at March 31, 2022.

The following table summarizes the Corporation's net debt:

As at	Note	March 31, 2022	December 31, 2021
Long-term debt	7	**$ 2,226**	$ 2,477
Current portion of long-term debt	7	**214**	285
Cash and cash equivalents		**(290)**	(361)
Net debt - C$		**$ 2,150**	$ 2,401
Net debt - US$		**$ 1,722**	$ 1,897

Net debt is an important measure used by management to analyze leverage and liquidity.

The following table summarizes the Corporation's funds flow from operating activities, adjusted funds flow and free cash flow :

Three months ended March 31	2022	2021
Funds flow from operating activities	**$ 587**	$ 121
Adjustments:		
Payments on onerous contract	**—**	6
Adjusted funds flow	**587**	127
Capital expenditures	**(88)**	(70)
Free cash flow	**$ 499**	$ 57

Management utilizes funds flow from operating activities, adjusted funds flow and free cash flow as measures to analyze operating performance and cash flow generating ability. Funds flow from operating activities, adjusted funds flow and free cash flow impact the level and extent of debt repayment, funding for capital expenditures and returning capital to shareholders. By excluding non-recurring items from cash flows, the funds flow from operating activities and adjusted funds flow measures provide meaningful metrics for management by establishing a clear link between the Corporation's cash flows and the operating netbacks from the Christina Lake Project. Free cash flow provides a meaningful metric to assist management and investors in analyzing corporate performance as a measure of financial liquidity and the capacity of the business to repay debt and return capital to shareholders. Funds flow from operating activities, adjusted funds flow and free cash flow are not intended to represent net cash provided by (used in) operating activities.

Net debt, adjusted funds flow and free cash flow are not standardized measures and may not be comparable with the calculation of similar measures by other companies.

19. COMMITMENTS AND CONTINGENCIES

a. Commitments

The Corporation’s commitments are enforceable and legally binding obligations to make payments in the future for goods and services. These items exclude amounts recorded on the consolidated balance sheet. The Corporation had the following commitments as at March 31, 2022:

	2022	2023	2024	2025	2026	Thereafter	Total
Transportation and storage[(i)]	$ 302	$ 413	$ 440	$ 416	$ 378	$ 5,401	$ 7,350
Diluent purchases	130	28	—	—	—	—	158
Other operating commitments	12	16	14	13	13	23	91
Variable office lease costs	3	5	5	5	5	22	45
Capital commitments	21	—	—	—	—	—	21
Commitments	**$ 468**	**$ 462**	**$ 459**	**$ 434**	**$ 396**	**$ 5,446**	**$ 7,665**

(i) *This represents transportation and storage commitments from 2022 to 2048, including the Access Pipeline TSA and pipeline commitments which are awaiting regulatory approval and not yet in service. Excludes finance leases recognized on the consolidated balance sheet (Note 8(a)).*

b. Contingencies

The Corporation is involved in various legal claims associated with the normal course of operations. The Corporation believes that any liabilities that may arise pertaining to such matters would not have a material impact on its financial position.