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

As at	Note	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	17	**$ 120**	$ 206
Trade receivables and other		**233**	382
Inventories	3	**80**	93
Risk management	19	**90**	—
		523	681
Non-current assets			
Property, plant and equipment	4	**6,078**	6,206
Exploration and evaluation assets	5	**124**	490
Other assets	6	**214**	227
Risk management	19	**24**	—
Deferred income tax asset	7	**325**	262
Total assets		**$ 7,288**	$ 7,866
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 226**	$ 379
Interest payable		**83**	74
Current portion of provisions and other liabilities	9	**31**	28
Risk management	19	**10**	77
		350	558
Non-current liabilities			
Long-term debt	8	**3,096**	3,123
Provisions and other liabilities	9	**335**	332
Risk management	19	**—**	—
Total liabilities		**3,781**	4,013
Shareholders' equity			
Share capital	10	**5,460**	5,443
Contributed surplus		**173**	182
Deficit		**(2,165)**	(1,801)
Accumulated other comprehensive income		**39**	29
Total shareholders' equity		**3,507**	3,853
Total liabilities and shareholders' equity		**$ 7,288**	$ 7,866

Commitments and contingencies (Note 21)

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 June 30		Six months ended June 30	
	Note	2020	2019	2020	2019
Revenues					
Petroleum revenue, net of royalties	12	**$ 299**	$ 1,044	**$ 941**	$ 1,940
Other revenue	12	**8**	17	**31**	40
Total revenues		**307**	1,061	**972**	1,980
Expenses					
Diluent and transportation	13	**205**	421	**585**	813
Operating expenses		**46**	54	**114**	124
Inventory impairment (realized)	3	**(29)**	—	**—**	—
Purchased product		**106**	199	**282**	394
Third-party curtailment credits		**—**	8	**(2)**	8
Depletion and depreciation	4, 6	**93**	365	**217**	480
Exploration expense	5	**—**	58	**366**	58
General and administrative		**9**	16	**25**	34
Stock-based compensation	11	**(8)**	16	**(22)**	11
Net finance expense	15	**69**	76	**139**	155
Other expenses	16	**22**	7	**30**	16
Gain on asset dispositions	6	**—**	(2)	**(6)**	(14)
Commodity risk management (gain) loss, net	19	**52**	(36)	**(482)**	194
Foreign exchange (gain) loss, net	14	**(116)**	(69)	**154**	(148)
Loss before income taxes		**(142)**	(52)	**(428)**	(145)
Income tax expense (recovery)		**(62)**	12	**(64)**	(34)
Net loss		**(80)**	(64)	**(364)**	(111)
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment		**(8)**	(4)	**10**	(8)
Comprehensive loss		**$ (88)**	$ (68)	**$ (354)**	$ (119)
Net loss per common share					
Basic	18	**$ (0.26)**	$ (0.21)	**$ (1.21)**	$ (0.37)
Diluted	18	**$ (0.26)**	$ (0.21)	**$ (1.21)**	$ (0.37)

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, 2019	**$ 5,443**	**$ 182**	**$ (1,801)**	**$ 29**	**$ 3,853**
Stock-based compensation	**—**	**8**	**—**	**—**	**8**
RSUs vested and released	**17**	**(17)**	**—**	**—**	**—**
Comprehensive income (loss)	**—**	**—**	**(364)**	**10**	**(354)**
Balance as at June 30, 2020	**$ 5,460**	**$ 173**	**$ (2,165)**	**$ 39**	**$ 3,507**
Balance as at December 31, 2018	$ 5,427	$ 170	$ (1,751)	$ 39	$ 3,885
IFRS 16 opening deficit adjustment	—	—	12	—	12
Stock-based compensation	—	17	—	—	17
RSUs vested and released	14	(14)	—	—	—
Comprehensive income (loss)	—	—	(111)	(8)	(119)
Balance as at June 30, 2019	$ 5,441	$ 173	$ (1,850)	$ 31	$ 3,795

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 June 30		Six months ended June 30	
	Note	**2020**	**2019**	**2020**	**2019**
Cash provided by (used in):					
Operating activities					
Net loss		**$ (80)**	$ (64)	**$ (364)**	$ (111)
Adjustments for:					
Deferred income tax expense (recovery)		**(61)**	12	**(63)**	(34)
Inventory impairment (realized)	3	**(29)**	—	**—**	—
Depletion and depreciation	4, 6	**93**	365	**217**	480
Exploration expense	5	**—**	58	**366**	58
Stock-based compensation	11	**(17)**	11	**(13)**	16
Unrealized net (gain) loss on foreign exchange	14	**(114)**	(67)	**153**	(145)
Unrealized net (gain) loss on commodity risk management	19	**267**	(87)	**(161)**	122
Amortization of debt discount and debt issue costs		**2**	3	**4**	9
Gain on asset dispositions	6	**—**	(2)	**(6)**	(14)
Other		**2**	2	**4**	4
Decommissioning expenditures	9	**—**	—	**(2)**	—
Net change in other liabilities		**6**	(4)	**3**	(7)
Funds flow from operating activities		**69**	227	**138**	378
Net change in non-cash working capital items	17	**48**	75	**78**	(145)
Net cash provided by (used in) operating activities		**117**	302	**216**	233
Investing activities					
Capital expenditures	4	**(20)**	(32)	**(74)**	(85)
Net proceeds on dispositions	6	**—**	5	**6**	17
Net change in non-cash working capital items	17	**(30)**	(14)	**(41)**	(57)
Net cash provided by (used in) investing activities		**(50)**	(41)	**(109)**	(125)
Financing activities					
Issue of 7.125% senior unsecured notes	8	**—**	—	**1,581**	—
Repayment and redemption of long-term debt	8	**—**	(4)	**(1,723)**	(8)
Debt redemption premium and refinancing costs	8	**(1)**	—	**(49)**	—
Receipts on leased assets	17	**1**	—	**1**	—
Payments on leased liabilities	17	**(7)**	(5)	**(13)**	(9)
Net cash provided by (used in) financing activities		**(7)**	(9)	**(203)**	(17)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**(2)**	(7)	**10**	(10)
Change in cash and cash equivalents		**58**	245	**(86)**	81
Cash and cash equivalents, beginning of period		**62**	154	**206**	318
Cash and cash equivalents, end of period		**$ 120**	$ 399	**$ 120**	**$ 399**

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 700 square miles of mineral leases in the southern Athabasca region of Alberta 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, 2019. 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, 2019. These interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2019.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit COVID-19 globally contributed to significant declines and volatility in capital and financial markets, and adversely impacted global commodity markets, most notably the dramatic decline in worldwide demand for crude oil. There are no comparable recent events that provide guidance as to the long term effect that COVID-19 may have, including global efforts to contain the spread and severity of the virus.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance is currently unknown. The continued impact on capital and financial markets on a macro-scale presents uncertainty and risk with respect to the Corporation's performance, and estimates and assumptions used in the preparation of its financial results.

Additional estimates, assumptions and judgments in response to COVID-19 have been disclosed in these interim consolidated financial statements regarding valuation assessments related to the Corporation's inventories, property, plant and equipment, exploration and evaluation assets, long-term pipeline linefill, decommissioning provision and deferred income tax asset.

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 July 27, 2020.

3. INVENTORIES

As at	June 30, 2020	December 31, 2019
Bitumen blend	**$ 66**	$ 73
Diluent	**6**	13
Material and supplies	**8**	7
	$ 80	$ 93

Inventories are measured at the lower of cost and net realizable value. In light of the significant and acute decline in commodity prices associated with the COVID–19 global pandemic, non-cash inventory impairment charges of $19 million and $10 million, respectively, were recorded at March 31, 2020 related to the estimated decline in value of the Corporation's bitumen blend and diluent volumes held in inventory at the end of the first quarter. The related inventories were sold during the three months ended June 30, 2020 and the resulting cash impact associated with the impairment charges was realized through various expenses. No inventory impairments were recognized at June 30, 2020.

4. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Cost					
Balance as at December 31, 2019	$ 9,077	$ 159	$ 263	$ 78	$ 9,577
Additions	75	1	26	—	102
Dispositions	(2)	(71)	—	—	(73)
Lease modification	—	—	(2)	—	(2)
Change in decommissioning liabilities	(6)	—	—	—	(6)
Balance as at June 30, 2020	**$ 9,144**	**$ 89**	**$ 287**	**$ 78**	**$ 9,598**
Accumulated depletion and depreciation					
Balance as at December 31, 2019	$ 3,199	$ 102	$ 25	$ 45	$ 3,371
Depletion and depreciation	202	—	12	3	217
Dispositions	(3)	(70)	—	—	(73)
Lease modification	—	—	5	—	5
Balance as at June 30, 2020	**$ 3,398**	**$ 32**	**$ 42**	**$ 48**	**$ 3,520**
Carrying amounts					
Balance as at December 31, 2019	$ 5,878	$ 57	$ 238	$ 33	$ 6,206
Balance as at June 30, 2020	**$ 5,746**	**$ 57**	**$ 245**	**$ 30**	**$ 6,078**

Included in the cost of property, plant and equipment is $244 million of assets under construction as at June 30, 2020 (December 31, 2019 – $229 million).

In light of the significant degradation and volatility in global crude oil prices, international oil supply and demand imbalances, and the uncertainty surrounding the economic impact of COVID–19, a test for impairment was performed at March 31, 2020, and no impairment charges were required. The economic conditions that were present at March 31, 2020 that required a test for impairment have improved, and therefore no indicators of impairment existed at June 30, 2020.

When completing the impairment test as at March 31, 2020, estimating the recoverable amount of the Corporation's CGU involved several assumptions and estimates which were subject to estimation uncertainty, as well as a significant degree of judgment. Significant estimates involved in the calculation included pricing assumptions, production and cost assumptions and the appropriate discount rate. The Corporation engages GLJ Petroleum Consultants Ltd. ("GLJ") to prepare an annual reserve report, which contains the pricing, production and cost assumptions that form the basis for determining the recoverable amount. The report is prepared as at December 31, 2019, and therefore adjustments were made to reflect the updated commodity pricing at the time of impairment testing. Other adjustments to the report are made as necessary to reflect the change in the economic environment. The appropriate discount rate requires a significant amount of judgment, and a sensitivity analysis was performed to ensure that a 1-2% change in the discount rate did not affect the conclusion reached that no impairment was required.

5. EXPLORATION AND EVALUATION ASSETS

Cost		
Balance as at December 31, 2019	$	490
Additions		—
Exploration expense		(366)
Dispositions		—
Balance as at June 30, 2020	**$**	**124**

The Corporation is focused on the development of its core asset Christina Lake as it continues to manage the business through an unpredictable global economic downturn arising from COVID-19. The Corporation has discontinued exploration and evaluation activities in certain non-core growth properties. Land lease and evaluation costs associated with these assets of $366 million was charged to exploration expense during the first quarter of 2020. The remaining assets were allocated to the related CGU for impairment testing and no impairment was required.

6. OTHER ASSETS

As at		June 30, 2020		December 31, 2019
Non-current pipeline linefill[(a)]	**$**	**181**	$	190
Finance sublease receivables		**17**		18
Intangible assets[(b)]		**8**		9
Deferred financing costs		**5**		7
Prepaid transportation costs[(c)]		**8**		9
		219		233
Less current portion		**(5)**		(6)
	$	**214**	$	227

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.

   In light of the significant and acute decline in commodity prices associated with the COVID–19 global pandemic, long-term pipeline linefill was tested for impairment under IAS 2 by comparing the carrying value to the net realizable value, and no impairment was recorded due to the long-term nature of the transportation contracts. The uncertainty surrounding the duration and depth of unprecedented low commodity prices, combined with significant volatility in commodity prices increases the estimation uncertainty associated with the net realizable value at June 30, 2020, and actual results could differ from the estimates.

b. As at June 30, 2020, intangible assets consist of $8 million invested in software that is not an integral component of the related computer hardware (December 31, 2019 – $9 million). Depreciation of $1 million was recognized for the six months ended June 30, 2020 (December 31, 2019 – $2 million). At the beginning of 2020, the Corporation sold patents that were recorded at a nominal amount, and recognized a gain on asset disposition of $6 million. During the comparative six month period in 2019, the Corporation sold internally generated emission performance credits that were recorded at a nominal amount, and recognized a gain on asset dispositions of $12 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. DEFERRED INCOME TAX ASSET

As at June 30, 2020, the Corporation recognized a deferred tax asset of $325 million (December 31, 2019 - $262 million). The deferred tax asset is reviewed at each balance sheet date to assess whether it is probable that the related tax benefit will be realized. As at June 30, 2020, the Corporation estimates that future taxable income is expected to be sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty and actual results could differ from estimates.

8. LONG-TERM DEBT

As at	June 30, 2020	December 31, 2019
Second Lien:		
6.5% senior secured second lien notes (June 30, 2020 - US$496 million; December 31, 2019 - US$596 million; due 2025)	**$ 675**	$ 773
Unsecured:		
7.0% senior unsecured notes (June 30, 2020 - US$600 million; December 31, 2019 - US$1 billion; due 2024)	**817**	1,297
7.125% senior unsecured notes (June 30, 2020 - US$1.2 billion; December 31, 2019 - US$nil; due 2027)	**1,634**	—
6.375% senior unsecured notes (June 30, 2020 - US$nil; December 31, 2019 - US$800 million; due 2023)	**—**	1,037
	3,126	3,107
Less:		
Debt redemption premium	**—**	29
Unamortized deferred debt discount and debt issue costs	**(30)**	(13)
	$ 3,096	$ 3,123

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.3616 (December 31, 2019 – US$1 = C$1.2965).

During the first quarter of 2020, the Corporation successfully closed a private offering of $1.6 billion (US$1.2 billion) in aggregate principal amount of 7.125% senior unsecured notes due February 2027. On February 18, 2020, the net proceeds of the offering, together with cash on hand, were used to:

- Fully redeem $1 billion (US$800 million) of the 6.375% senior unsecured notes due January 2023 at a redemption price of 101.063%;
- Partially redeem $530 million (US$400 million) of the US$1.0 billion 7.00% senior unsecured notes due March 2024 at a redemption price of 102.333%; and
- Pay fees and expenses related to the offering.

Concurrent with the private offering, on February 18, 2020, the Corporation redeemed $132 million (US$100 million) in aggregate principal amount of its 6.5% senior secured second lien notes due January 2025 at a redemption price of 104.875%. Cash on hand was used to fund this senior secured second lien notes partial redemption.

The Corporation's total credit available under two facilities is $1.3 billion, comprised of $800 million under the revolving credit facility and $500 million under a letter of credit facility, guaranteed by Export Development Canada ("EDC"). Letters of credit under the EDC facility do not consume capacity of the revolving credit facility. The revolving credit facility and the EDC Facility both have a maturity date of July 30, 2024. The maturity dates of the revolving credit facility and the EDC Facility include a feature that would cause the maturity dates to spring back to 91 days prior to the maturity date of certain material debt of the Corporation if such debt has not been repaid or refinanced prior to such date.

The revolving credit facility does not contain a financial maintenance covenant unless the Corporation is drawn under the revolving credit facility in excess of $400 million. If the facility is drawn in excess of $400 million, the Corporation is required to maintain a first lien net debt to last twelve months earnings before interest, tax, depreciation and amortization ratio of 3.50 or less. The financial maintenance covenant, if triggered, will be tested quarterly. Issued letters of credit are not included in the calculation of the ratio.

The revolving credit facility, EDC facility and senior secured second lien notes are secured by substantially all the assets of the Corporation.

As at June 30, 2020, the Corporation had $785 million of unutilized capacity under the $800 million revolving credit facility and the Corporation had $63 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 six months ended June 30, 2020.

9. PROVISIONS AND OTHER LIABILITIES

As at	June 30, 2020	December 31, 2019
Lease liabilities[a]	$ 288	$ 281
Decommissioning provision[b]	67	71
Other liabilities	11	8
Provisions and other liabilities	366	360
Less current portion	(31)	(28)
Non-current portion	$ 335	$ 332

a. Lease liabilities:

As at	June 30, 2020	December 31, 2019
Balance, beginning of period	$ 281	$ 131
IFRS 16 opening balance sheet adjustment	—	160
Additions	13	13
Modifications	2	(4)
Payments	(21)	(45)
Interest expense	13	26
Balance, end of period	288	281
Less current portion	(25)	(22)
Non-current portion	$ 263	$ 259

The Corporation's minimum lease payments are as follows:

As at		June 30, 2020
Within one year	$	50
Later than one year but not later than five years		150
Later than five years		513
Minimum lease payments		713
Amounts representing finance charges		(425)
Net minimum lease payments	$	288

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 June 30, 2020, the present value of these arrangements is $3 million (December 31, 2019 - $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		June 30, 2020		December 31, 2019
Balance, beginning of period	$	71	$	65
Changes in estimated life and estimated future cash flows		3		(2)
Changes in discount rates		(9)		2
Liabilities incurred and disposed, net		—		1
Liabilities settled		(2)		(2)
Accretion		4		7
Balance, end of period		67		71
Less current portion		(6)		(6)
Non-current portion	$	61	$	65

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 $810 million (December 31, 2019 – $827 million). Due to the significant decline in global crude oil prices and increased levels of market volatility, the Corporation’s estimated weighted average credit-adjusted risk free rate increased 1.5% during the six months ended June 30, 2020. As at June 30, 2020, the Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 15.2% (December 31, 2019 – 13.7%) and an inflation rate of 2.1% (December 31, 2019 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2019 - periods up to the year 2066).

10. 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:

	Six months ended June 30, 2020		Year ended December 31, 2019	
	Number of shares (thousands)	**Amount**	**Number of shares (thousands)**	**Amount**
Balance, beginning of year	**299,508**	**$ 5,443**	296,841	$ 5,427
Issued upon exercise of stock options	**39**	**—**	266	2
Issued upon vesting and release of RSUs and PSUs	**3,098**	**17**	2,401	14
Balance, end of period	**302,645**	**$ 5,460**	299,508	$ 5,443

11. STOCK-BASED COMPENSATION

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Cash-settled expense (recovery)[(i)]	**$ 9**	$ 5	**$ (9)**	$ (5)
Equity-settled expense	**2**	11	**7**	16
Equity price risk management gain[(ii)]	**(19)**	—	**(20)**	—
Stock-based compensation	**$ (8)**	$ 16	**$ (22)**	$ 11

(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 in 2021, 2022 and 2023 granted under the Corporation's stock-based compensation plans. Amounts are unrealized until vesting of the related units occurs. See note 19(d) for further details.

A $9 million cash-settled recovery was recognized during the six months ended June 30, 2020 due to the decrease in the Corporation's share price, and associated decrease in value of cash-settled RSUs PSUs and DSUs compared to December 31, 2019 which translates to a reduced liability (or recovery) held by the Corporation at June 30, 2020. As at June 30, 2020, the Corporation recognized a liability of $12 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2019 – $25 million). The current portion of $5 million is included within accounts payable and accrued liabilities and $7 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards.

12. REVENUES

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Sales from:				
Production	$ 181	$ 863	$ 650	$ 1,559
Purchased product[(i)]	118	199	297	402
Petroleum revenue	$ 299	$ 1,062	$ 947	$ 1,961
Royalties	—	(18)	(6)	(21)
Petroleum revenue, net of royalties	$ 299	$ 1,044	$ 941	$ 1,940
Power revenue	$ 6	$ 14	$ 26	$ 34
Transportation revenue	2	3	5	6
Other revenue	$ 8	$ 17	$ 31	$ 40
Total revenues	$ 307	$ 1,061	$ 972	$ 1,980

(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 June 30					
	2020			2019		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	$ 84	$ 3	$ 87	$ 518	$ 25	$ 543
United States	97	115	212	345	174	519
	$ 181	$ 118	$ 299	$ 863	$ 199	$ 1,062

	Six months ended June 30					
	2020			2019		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	$ 392	$ 34	$ 426	$ 949	$ 170	$ 1,119
United States	258	263	521	610	232	842
	$ 650	$ 297	$ 947	$ 1,559	$ 402	$ 1,961

Other revenue recognized during the three and six months ended June 30, 2020 and 2019 is attributed to Canada.

b. Revenue-related assets

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

As at	June 30, 2020	December 31, 2019
Petroleum revenue	$ 168	$ 122
Other revenue	1	4
Total revenue-related assets	$ 169	$ 126

Revenue-related receivables are typically settled within 30 days. As at June 30, 2020 and December 31, 2019, there was no material expected credit loss required against revenue-related receivables.

13. DILUENT AND TRANSPORTATION

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Diluent expense	$ 128	$ 325	$ 428	$ 622
Transportation and storage	77	96	157	191
Diluent and transportation	$ 205	$ 421	$ 585	$ 813

14. FOREIGN EXCHANGE (GAIN) LOSS, NET

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Unrealized foreign exchange (gain) loss on:				
Long-term debt	$ (116)	$ (74)	$ 162	$ (154)
US$ denominated cash and cash equivalents	2	7	(9)	9
Unrealized net (gain) loss on foreign exchange	(114)	(67)	153	(145)
Realized (gain) loss on foreign exchange	(2)	(2)	1	(3)
Foreign exchange (gain) loss, net	$ (116)	$ (69)	$ 154	$ (148)
C$ equivalent of 1 US$				
Beginning of period	1.4120	1.3360	1.2965	1.3646
End of period	1.3616	1.3091	1.3616	1.3091

15. NET FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest expense on long-term debt	$ 60	$ 69	$ 124	$ 141
Interest expense on lease liabilities	7	7	13	13
Interest income	—	(2)	(2)	(3)
Net interest expense	67	74	135	151
Accretion on provisions	2	1	4	4
Unrealized loss on derivative financial liabilities	—	1	—	—
Net finance expense	$ 69	$ 76	$ 139	$ 155

16. OTHER EXPENSES

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Contract cancellation[(i)]	**$ 20**	—	**$ 26**	—
Severance and restructuring	**2**	5	**4**	12
Research and development	**—**	2	**—**	4
Other expenses	**$ 22**	$ 7	**$ 30**	$ 16

(i) Costs incurred to mitigate rail sales contract exposure.

17. SUPPLEMENTAL CASH FLOW DISCLOSURES

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Cash provided by (used in):				
Trade receivables and other	**$ (7)**	$ 49	**$ 157**	$ (184)
Inventories[(a)]	**(7)**	8	**27**	(1)
Accounts payable and accrued liabilities	**(21)**	(51)	**(156)**	(14)
Interest payable	**53**	55	**9**	(3)
	$ 18	$ 61	**$ 37**	$ (202)
Changes in non-cash working capital relating to:				
Operating	**$ 48**	$ 75	**$ 78**	$ (145)
Investing	**(30)**	(14)	**(41)**	(57)
	$ 18	$ 61	**$ 37**	$ (202)
Cash and cash equivalents:[(b)]				
Cash	**$ 120**	$ 138	**$ 120**	$ 138
Cash equivalents	**—**	261	**—**	261
	$ 120	$ 399	**$ 120**	$ 399
Cash interest paid	**—**	$ 5	**$ 105**	$ 122

a. Excludes a non-cash inventory impairment of $29 million recognized as at March 31, 2020 as a result of the difference between cost and net realizable value resulting from the significant decline in crude oil prices at the end of the first quarter. As inventory sold in the subsequent month, the impact was recognized through funds flow from operating activities for matching purposes.

b. As at June 30, 2020, $90 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars (June 30, 2019 – $328 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$1.3616 (June 30, 2019 – US$1 = C$1.3091).

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, 2019	$ 18	$ 281	$ 3,123
Cash changes:			
Receipts on leased assets	(1)	—	—
Payments on leased liabilities	—	(13)	—
Issue of 7.125% senior unsecured notes	—	—	1,581
Repayment and redemption of long-term debt	—	—	(1,723)
Debt redemption premium and refinancing costs	—	—	(49)
Non-cash changes:			
Lease liabilities settled		(8)	
Lease liabilities incurred	—	13	—
Lease liabilities modified	—	2	—
Interest expense on lease liabilities	—	13	—
Unrealized (gain) loss on foreign exchange	—	—	162
Amortization of deferred debt discount and debt issue costs	—	—	2
Balance as at June 30, 2020	$ 17	$ 288	$ 3,096

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

18. NET LOSS PER COMMON SHARE

	Three months ended June 30		Six months ended June 30	
	2020	2019	**2020**	2019
Net loss	**$ (80)**	$ (64)	**$ (364)**	$ (111)
Weighted average common shares outstanding (millions)[a]	**303**	298	**302**	297
Dilutive effect of stock options, RSUs and PSUs (millions)[b]	**—**	—	**—**	—
Weighted average common shares outstanding – diluted (millions)	**303**	298	**302**	297
Net loss per share, basic	**$ (0.26)**	$ (0.21)	**$ (1.21)**	$ (0.37)
Net loss per share, diluted	**$ (0.26)**	$ (0.21)	**$ (1.21)**	$ (0.37)

a. Weighted average common shares outstanding for the three months ended June 30, 2020 includes 571,529 PSUs vested but not yet released (three months ended June 30, 2019 - 381,014 PSUs).

b. For the three and six months ended June 30, 2020, 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 and six months ended June 30, 2020, the dilutive effect of stock options, RSUs and PSUs would have been 3.6 million weighted average common shares (three and six months ended June 30, 2019 - 2.8 million and 3.1 million weighted average common shares, respectively).

19. 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, risk management contracts, 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	June 30, 2020		December 31, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Recurring measurements:				
Financial assets				
Risk management contracts	**$ 114**	**$ 114**	—	—
Financial liabilities				
Long-term debt (Note 8)	**$ 3,126**	**$ 2,716**	$ 3,107	$ 3,160
Risk management contracts	**$ 10**	**$ 10**	$ 77	$ 77

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 values were determined based on estimates as at June 30, 2020 and are 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 WTI and light-heavy differential swaps, and if entered into options, plus 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	June 30, 2020			December 31, 2019		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Gross amount	**$ 157**	**$ (10)**	**$ 147**	$ —	$ (77)	$ (77)
Amount offset	**(43)**	**—**	**(43)**	—	—	—
Net amount	**$ 114**	**$ (10)**	**$ 104**	$ —	$ (77)	$ (77)
Current portion	**$ 90**	**$ (10)**	**$ 80**	$ —	$ (77)	$ (77)
Non-current portion	**24**	**—**	**24**	—	—	—
Net amount	**$ 114**	**$ (10)**	**$ 104**	$ —	$ (77)	$ (77)

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 June 30:

As at June 30	2020	2019
Fair value of contracts, beginning of year	$ (77)	$ 93
Fair value of contracts realized	321	72
Change in fair value of contracts	(140)	(194)
Fair value of contracts, end of period	**$ 104**	$ (29)

c. Commodity risk management:

The Corporation had the following financial commodity risk management contracts relating to crude oil sales and condensate purchases outstanding as at June 30, 2020:

As at June 30, 2020	Volumes (bbls/d)(i)	Term	Average Price (US$/bbl)(i)
Crude Oil Sales Contracts			
WTI(ii) Fixed Price	47,042	Jul 1, 2020 - Dec 31, 2020	$47.70
WTI:WCS(iii) Fixed Differential	24,500	Jul 1, 2020 - Dec 31, 2020	$(20.46)
WTI:WCS (USGC) Fixed Differential	1,000	Aug 1, 2020 - Aug 31, 2020	$(3.95)
Enhanced Fixed Price with Sold Put Option			
WTI Fixed Price/Sold Put Option Strike Price	20,685	Jul 1, 2020 - Dec 31, 2020	$59.22 / $52.00
Condensate Purchase Contracts			
WTI:Mont Belvieu Fixed Differential	7,250	Jul 1, 2020 - Dec 31, 2020	$(7.63)
WTI:Mont Belvieu Fixed Differential	10,950	Jan 1, 2021 - Dec 31, 2021	$(10.37)
WTI:Mont Belvieu Fixed Differential	200	Jan 1, 2022 - Dec 31, 2022	$(11.30)
WTI:Mont Belvieu Fixed % of WTI	7,750	Jul 1, 2020 - Dec 31, 2020	93.1 %

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

(ii) *West Texas Intermediate ("WTI") crude oil*

(iii) *Western Canadian Select ("WCS") crude oil blend*

The Corporation entered into the following financial commodity risk management contracts relating to crude oil sales and condensate purchases subsequent to June 30, 2020. As a result, these contracts are not reflected in the Corporation's Consolidated Financial Statements:

Subsequent to June 30, 2020	Volumes (bbls/d)(i)	Term	Average Prices (US$/bbl)(i)
Crude Oil Sales (Purchase) Contracts			
WTI Fixed Price	25,250	Aug 1, 2020 - Aug 31, 2020	$40.57
WTI Fixed Price	6,370	Oct 1, 2020 - Dec 31, 2020	$41.45

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

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

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Realized loss (gain) on commodity risk management	**$ (215)**	$ 51	**$ (321)**	$ 72
Unrealized loss (gain) on commodity risk management	**267**	(87)	**(161)**	122
Commodity risk management (gain) loss, net	**$ 52**	$ (36)	**$ (482)**	$ 194

The following table summarizes the sensitivity of the earnings (loss) before income tax impact of fluctuating commodity prices on the Corporation's open financial commodity risk management positions in place as at June 30, 2020:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$5.00 per bbl applied to WTI contracts	**$ (63)**	**$ 60**
Crude oil differential price (i)	± US$5.00 per bbl applied to WTI:WCS differential contracts	**$ 31**	**$ (31)**

(i) As the WCS differential is expressed as a discount to WTI, an increase in the differential results in a lower WCS price and a decrease in the differential results in a higher WCS price.

d. Equity price risk management:

The Corporation enters 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. Net cash provided by (used in) operating activities is impacted when these stock-based compensation units are ultimately settled. The Corporation enters into these equity price risk management contracts to manage its exposure on approximately 9 million cash-settled RSUs and PSUs vesting between 2021 and 2023.

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 June 30, 2020, the Corporation’s estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $228 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 24 of the Corporation’s 2019 annual consolidated financial statements.

The Corporation’s cash balances are used to fund the development of its properties. As a result, the primary objectives of the investment portfolio are low risk capital preservation and high liquidity. 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 June 30, 2020 was $120 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 $120 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 the uncertainty associated with COVID–19 is supported by the Corporation's financial framework including a strong commodity risk management program securing cash flow through 2020 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.

The Corporation's earliest maturing long-term debt is approximately four years out, represented by US$600 million of senior unsecured notes due March 2024. 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.

20. 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 31, 2020, the Corporation closed the refinancing and extension of the maturity profile of its debt portfolio. Following completion of the associated transactions, MEG's first debt maturity was extended to 2024. As at June 30, 2020, the Corporation had $785 million of unutilized capacity under the $800 million revolving credit facility and had $63 million of unutilized capacity under the $500 million letter of credit facility. A letter of credit of $15 million was issued under its revolving credit facility during the six months ended June 30, 2020.

The following table summarizes the Corporation's net debt:

As at	Note	June 30, 2020	December 31, 2019
Long-term debt	8	**$ 3,096**	$ 3,123
Cash and cash equivalents		**(120)**	(206)
Net debt		**$ 2,976**	$ 2,917

Net debt is an important measure used by management to analyze leverage and liquidity. During the six months ended June 30, 2020, net debt increased by $59 million due to the weakening of the Canadian dollar relative to the US dollar and decrease in cash and cash equivalents over the period, partially offset by the redemption of its 6.5% senior secured second lien notes.

On January 31, 2020 the Corporation successfully closed a private offering of $1.6 billion (US$1.2 billion) in aggregate principal amount of 7.125% senior unsecured notes due February 2027. On February 18, 2020, the net proceeds of the offering, together with cash on hand, were used to:

- Fully redeem $1 billion (US$800 million) of the 6.375% senior unsecured notes due January 2023 at a redemption price of 101.063%;
- Partially redeem $530 million (US$400 million) of the US$1.0 billion 7.00% senior unsecured notes due March 2024 at a redemption price of 102.333%; and
- Pay fees and expenses related to the offering.

Concurrent with the private offering, on February 18, 2020, the Corporation redeemed $132 million (US$100 million) in aggregate principal amount of its 6.5% senior secured second lien notes due January 2025 at a redemption price of 104.875%. Cash on hand was used to fund this senior secured second lien notes partial redemption.

The following table summarizes the Corporation's funds flow from (used in) operations and adjusted funds flow:

		Three months ended June 30		Six months ended June 30	
	Note	2020	2019	2020	2019
Net cash provided by (used in) operating activities		**$ 117**	$ 302	**$ 216**	$ 233
Net change in non-cash operating working capital items		**(48)**	(75)	**(78)**	145
Funds flow from (used in) operations		**69**	227	**138**	378
Adjustments:					
Contract cancellation[(i)]	16	**20**	—	**26**	—
Decommissioning expenditures	9	**—**	—	**2**	—
Adjusted funds flow		**$ 89**	$ 227	**$ 166**	$ 378

(i) Costs incurred to mitigate rail sales contract exposure. Contract cancellation costs or recoveries are excluded from adjusted funds flow as they are not considered part of ordinary continuing operating results.

Management utilizes funds flow from (used in) operations and adjusted funds flow as a measure to analyze operating performance and cash flow generating ability. Funds flow from (used in) operations and adjusted funds flow impacts the level and extent of debt repayment, funding for capital expenditures and returning capital to shareholders. By excluding changes in non-cash working capital, non-recurring items and decommissioning expenditures from cash flows, the funds flow from (used in) operations 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. Funds flow from (used in) operations and adjusted funds flow are not intended to represent net cash provided by (used in) operating activities.

Net debt, funds flow from (used in) operations and adjusted funds flow are not standardized measures and may not be comparable with the calculation of similar measures by other companies.

21. 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 June 30, 2020:

	2020	2021	2022	2023	2024	Thereafter	Total
Transportation and storage[i]	$ 215	$ 436	$ 425	$ 467	$ 452	$ 6,046	$ 8,041
Diluent purchases	70	22	22	18	—	—	132
Other operating commitments	8	15	14	13	11	45	106
Variable office lease costs	2	4	4	4	5	30	49
Capital commitments	1	—	—	—	—	—	1
Commitments	**$ 296**	**$ 477**	**$ 465**	**$ 502**	**$ 468**	**$ 6,121**	**$ 8,329**

(i) This represents transportation and storage commitments from 2020 to 2048, including the Access Pipeline TSA, and pipeline commitments which are awaiting regulatory approval and are not yet in service. Excludes finance leases recognized on the consolidated balance sheet (Note 9(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.

The Corporation is the defendant to a statement of claim originally filed in 2014 in relation to legacy issues involving a unit train transloading facility in Alberta. The claim was amended in the fourth quarter of 2017 asserting a significant increase to damages claimed. The Corporation filed a statement of defense in the first quarter of 2018. The Corporation continues to view this claim as without merit and will continue to defend against all such claims. The Corporation believes that any liabilities that might arise from this matter are unlikely to have a material effect on its financial position.