REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of MEG Energy Corp. (the “Corporation”) are the responsibility of Management. The consolidated financial statements have been presented and prepared within acceptable limits of materiality by Management in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and include certain estimates that reflect Management’s best judgments.

The Corporation maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation’s assets are properly accounted for and adequately safeguarded. Management’s evaluation concluded that the Corporation’s internal controls over financial reporting were effective as of December 31, 2019.

The Corporation’s Board of Directors has approved the consolidated financial statements. The Board of Directors fulfills its responsibility regarding the consolidated financial statements mainly through its Audit Committee, which is made up of four independent directors. The Audit Committee has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets with Management and the independent auditors at least on a quarterly basis to review and approve interim consolidated financial statements and management’s discussion and analysis prior to their release as well as annually to review the annual consolidated financial statements and management’s discussion and analysis and recommend their approval to the Board of Directors.

PricewaterhouseCoopers LLP, an independent firm of auditors, has been engaged, as approved by a vote of the shareholders at the Corporation’s most recent Annual General Meeting, to audit and provide their independent audit opinion on the Corporation’s consolidated financial statements as at and for the year ended December 31, 2019. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

/s/ Derek Evans

/s/ Eric L. Toews

Derek Evans
President and Chief Executive Officer

Eric L. Toews, CPA, CA
Chief Financial Officer

March 4, 2020

Independent auditor's report

To the Shareholders of MEG Energy Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MEG Energy Corp. and its subsidiary (together, the Corporation) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jason Grodziski.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Calgary, Alberta
March 4, 2020

Consolidated Balance Sheet
(Expressed in millions of Canadian dollars)

As at December 31	Note		2019		2018
Assets					
Current assets					
Cash and cash equivalents	22	**$**	**206**	$	318
Trade receivables and other	5		**382**		218
Inventories	6		**93**		97
Commodity risk management	24		**—**		123
			681		756
Non-current assets					
Property, plant and equipment	3, 7		**6,206**		6,646
Exploration and evaluation assets	8		**490**		550
Other assets	3, 9		**227**		221
Deferred income tax asset	3, 12		**262**		237
Total assets		**$**	**7,866**	$	8,410
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**379**	$	343
Interest payable			**74**		84
Current portion of long-term debt	10		**—**		17
Current portion of provisions and other liabilities	11		**28**		17
Commodity risk management	24		**77**		6
			558		467
Non-current liabilities					
Long-term debt	10		**3,123**		3,740
Provisions and other liabilities	3, 11		**332**		294
Commodity risk management	24		**—**		24
Total liabilities			**4,013**		4,525
Shareholders’ equity					
Share capital	13		**5,443**		5,427
Contributed surplus			**182**		170
Deficit	3		**(1,801)**		(1,751)
Accumulated other comprehensive income			**29**		39
Total shareholders’ equity			**3,853**		3,885
Total liabilities and shareholders’ equity		**$**	**7,866**	$	8,410

Commitments and contingencies (Note 27)

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

These Consolidated Financial Statements were approved by the Corporation's Board of Directors on March 4, 2020.

/s/ Derek Evans   */s/* Robert B. Hodgins

Derek Evans, Director   Robert B. Hodgins, Director

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

Year ended December 31	Note		2019		2018
Revenues					
Petroleum revenue, net of royalties	15	**$**	**3,858**	$	2,673
Other revenue	15		**73**		60
Total revenues			**3,931**		2,733
Expenses					
Diluent and transportation	16		**1,568**		1,561
Operating expenses			**238**		210
Purchased product			**900**		264
Third-party curtailment credits			**13**		—
Depletion and depreciation	7, 9		**710**		452
Exploration expense	8		**58**		1
General and administrative			**68**		83
Stock-based compensation	14		**31**		47
Net finance expense	18		**340**		286
Other expenses	19		**23**		33
Other income	20		**(20)**		—
Gain on asset dispositions	8, 9		**(14)**		(325)
Commodity risk management loss (gain), net	24		**282**		(22)
Foreign exchange (gain) loss, net	17		**(175)**		311
Loss before income taxes			**(91)**		(168)
Income tax expense (recovery)	12		**(29)**		(49)
Net loss			**(62)**		(119)
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment			**(10)**		16
Comprehensive loss		**$**	**(72)**	$	(103)
Net loss per common share					
Basic	23	**$**	**(0.21)**	$	(0.40)
Diluted	23	**$**	**(0.21)**	$	(0.40)

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

Consolidated Statement of Changes in Shareholders' Equity
(Expressed in millions of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at December 31, 2018		**$ 5,427**	**$ 170**	**$ (1,751)**	**$ 39**	**$ 3,885**
IFRS 16 opening deficit adjustment	3	**—**	**—**	**12**	**—**	**12**
Stock-based compensation		**—**	**26**	**—**	**—**	**26**
Stock options exercised		**2**	**—**	**—**	**—**	**2**
RSUs vested and released		**14**	**(14)**	**—**	**—**	**—**
Comprehensive income (loss)		**—**	**—**	**(62)**	**(10)**	**(72)**
Balance as at December 31, 2019		**$ 5,443**	**$ 182**	**$ (1,801)**	**$ 29**	**$ 3,853**
Balance as at December 31, 2017		$ 5,404	$ 167	$ (1,629)	$ 23	$ 3,965
IFRS 9 opening deficit adjustment		—	—	(5)	—	(5)
Stock-based compensation		—	25	—	—	25
Stock options exercised		2	(1)	—	—	1
RSUs vested and released		21	(21)	2	—	2
Comprehensive income (loss)		—	—	(119)	16	(103)
Balance as at December 31, 2018		$ 5,427	$ 170	$ (1,751)	$ 39	$ 3,885

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

Consolidated Statement of Cash Flow
(Expressed in millions of Canadian dollars)

Year ended December 31	Note	2019	2018
Cash provided by (used in):			
Operating activities			
Net loss		**$ (62)**	$ (119)
Adjustments for:			
Deferred income tax expense (recovery)	12	**(29)**	(50)
Depletion and depreciation	7, 9	**710**	452
Exploration expense	8	**58**	1
Stock-based compensation	14	**24**	21
Unrealized net (gain) loss on foreign exchange	17	**(172)**	341
Unrealized loss (gain) on commodity risk management	24	**169**	(161)
Amortization of debt discount and debt issue costs	10	**15**	15
Gain on asset dispositions	8, 9	**(14)**	(325)
Debt extinguishment expense	18	**46**	—
Other		**6**	12
Decommissioning expenditures	11	**(2)**	(5)
Payments on onerous contracts	11	**—**	(19)
Net change in other liabilities		**(8)**	5
Funds flow from operating activities		**741**	169
Net change in non-cash working capital items	22	**(110)**	111
Net cash provided by (used in) operating activities		**631**	280
Investing activities			
Capital expenditures:			
Property, plant and equipment	7	**(197)**	(622)
Exploration and evaluation	8	**(1)**	(1)
Net proceeds on dispositions	8, 9	**18**	1,509
Other		**(1)**	(9)
Net change in non-cash working capital items	22	**(30)**	(26)
Net cash provided by (used in) investing activities		**(211)**	851
Financing activities			
Issue of shares, net of issue costs		**1**	1
Repayment of long-term debt	22	**(297)**	(1,285)
Repurchase of senior secured second lien notes	22	**(204)**	—
Premium paid on repurchase of senior secured second lien notes	18	**(4)**	—
Refinancing costs		**(1)**	—
Payments on leased liabilities	11	**(19)**	—
Receipts on leased assets	22	**1**	—
Net cash provided by (used in) financing activities		**(523)**	(1,284)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**(9)**	7
Change in cash and cash equivalents		**(112)**	(146)
Cash and cash equivalents, beginning of period		**318**	464
Cash and cash equivalents, end of period		**$ 206**	$ 318

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

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 750 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the significant accounting policies disclosed in Note 3. Certain prior year amounts have been reclassified to conform to the current year presentation. These audited consolidated financial statements were approved by the Corporation’s Board of Directors on March 4, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements of the Corporation comprise the Corporation and its wholly-owned subsidiary, MEG Energy (U.S.) Inc. Earnings and expenses of its subsidiary are included in the consolidated balance sheet and consolidated statement of earnings (loss) and comprehensive income (loss). All intercompany transactions, balances, income and expenses are eliminated on consolidation.

b. Foreign currency translation

i. Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Corporation operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars ($ or C$), which is the Corporation's functional currency.

ii. Transactions and balances

Foreign currency transactions are translated into Canadian dollars at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at rates of exchange in effect at the end of the period. Foreign currency differences arising on translation are recognized in earnings or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the foreign subsidiary are translated into Canadian dollars at rates of exchange in effect at the end of the period. Revenue and expense items are translated at the average exchange rates prevailing at the dates of the transactions. Exchange differences arising, if any, are recognized in other comprehensive income (loss).

c. Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. A financial asset or liability is measured initially at fair value plus, for an item not measured at Fair Value Through Profit or Loss, transaction costs that are directly attributable to its acquisition or issuance.

Derivative financial instruments are recognized at fair value. Transaction costs are expensed in the consolidated statement of earnings (loss) and comprehensive income (loss). Gains and losses arising from changes in fair value are recognized in net earnings (loss) in the period in which they arise.

Financial assets and liabilities at Fair Value Through Profit or Loss are classified as current except where an unconditional right to defer payment beyond 12 months exists. Derivative financial instruments are included on the balance sheet as either an asset or liability and are classified as current or non-current based on the contractual terms specific to the instrument.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments are included in fair value through profit or loss unless they are designated for hedge accounting. The Corporation may periodically use derivative financial instruments to manage commodity price, foreign currency and interest rate exposures. The Corporation’s commodity risk management contracts have been classified as fair value through profit or loss.

i. Financial assets

At initial recognition, a financial asset is classified as measured at: amortized cost, fair value through profit or loss or fair value through other comprehensive income depending on the business model and contractual cash flows of the instrument.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A substantial modification to the terms of an existing financial asset results in the derecognition of the financial asset and the recognition of a new financial asset at fair value. In the event that the modification to the terms of an existing financial asset do not result in a substantial difference in the contractual cash flows the gross carrying amount of the financial asset is recalculated and the difference resulting from the adjustment in the gross carrying amount is recognized in earnings or loss.

ii. Financial liabilities

Financial liabilities are measured at amortized cost or fair value through profit or loss. Financial liabilities at amortized cost include accounts payable and accrued liabilities and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in earnings or loss. Where a financial liability is modified in a way that does not constitute an extinguishment (generally when there is a change of less than 10% in the present value of cash flows discounted at the original effective interest rate), the modified cash flows are discounted at the liability's original effective interest rate. Transaction costs paid to third parties in a modification are amortized over the remaining term of the modified debt.

d. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments such as bankers’ acceptances, commercial paper, money market deposits or similar instruments, with a maturity of 90 days or less.

e. Trade receivables and other

Trade receivables are recorded based on the Corporation's revenue recognition policy as described in Note 3(p). Any impairments are determined based on the Corporation's impairment policy as described in Note 3(k)(i).

f. Inventories

Inventories consist of crude oil products and materials and supplies. Inventory is valued at the lower of cost and net realizable value. The cost of bitumen blend inventory is determined on a weighted average cost basis and the cost of diluent inventory is based on purchase price. Costs include direct and indirect expenditures incurred in the normal course of business in bringing an item or product to its existing condition and location. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the inventory is still on hand but the circumstances which caused the write-down no longer exist.

g. Exploration and evaluation assets

Exploration and evaluation ("E&E") expenditures, including the costs of acquiring licenses, technical studies, seismic, exploration drilling and evaluation and directly attributable general and administrative costs, including related borrowing costs, are initially capitalized as exploration and evaluation assets. Costs incurred prior to obtaining a legal right or license to explore are expensed in the period in which they are incurred.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. Upon determination of proved or probable reserves, E&E assets attributable to those reserves are tested for impairment upon reclassification to property, plant and equipment. If it is determined that an E&E asset is not technically feasible or commercially viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and the Corporation decides to discontinue the exploration and evaluation activity, the unrecoverable costs are charged to expense.

An E&E asset is derecognized upon disposal and any gains or losses from disposition are recognized in net earnings or loss.

h. Property, plant and equipment

Property, plant and equipment ("PP&E") is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Assets under construction are not subject to depletion and depreciation. When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components).

i. Crude oil

Crude oil assets consist of field production assets, major facilities and equipment, and planned major inspections, overhaul and turnaround activities. Included in the costs of these assets are the acquisition, construction, development and production of crude oil sands properties and reserves, including directly attributable overhead and administrative costs, related borrowing costs and estimates of decommissioning liability costs.

Field production assets are depleted using the unit-of-production method based on estimated proved reserves. Costs subject to depletion include estimated future development costs required to develop and produce the proved reserves. These estimates are reviewed by independent reserve engineers at least annually.

Major facilities and equipment are depreciated on a unit-of-production basis over the estimated total productive capacity of the facilities.

Costs of planned major inspections, overhaul and turnaround activities that maintain PP&E and benefit future years of operations are capitalized and depreciated on a straight-line basis over the period to the next turnaround. Recurring planned maintenance activities performed on shorter intervals are expensed. Replacements of equipment are capitalized when it is probable that future economic benefits will flow to the Corporation.

ii. Transportation and storage

Transportation and storage assets consist primarily of land and a pipeline associated with the Bruderheim Terminal. The net carrying values of transportation and storage assets are depreciated on a straight-line basis over their estimated useful lives, except for land which is not depreciated.

iii. Right-of-use ("ROU") assets

Right-of-use assets consist primarily of corporate office leases and transportation and storage leases. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

iv. Corporate assets

Corporate assets consist primarily of office equipment, computer hardware and leasehold improvements. Depreciation of office equipment is provided over the useful life of the assets on the declining balance basis at 25% per year. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

v. Asset dispositions

Property, plant and equipment assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and is recognized in net earnings or loss, unless the disposition is part of a sale and leaseback. The amount of consideration to be included in the gain or loss arising from derecognition is determined by the transaction contract.

Dispositions of property, plant and equipment occur on the date the acquiror obtains control of the asset.

i. Intangible assets

Intangible assets acquired by the Corporation which have a finite useful life are carried at cost less accumulated depreciation. Subsequent expenditures are capitalized only to the extent that they increase the future economic benefits embodied in the asset to which they relate. The Corporation incurs costs associated with research and development. Expenditures during the research phase are expensed. Expenditures during the development phase are capitalized only if certain criteria, including technical feasibility and the intent to develop and use the technology, are met. If these criteria are not met, the costs are expensed as incurred. The cost associated with purchasing or creating software which is not an integral component of the related computer hardware is included within intangible assets. The net carrying value of software is amortized over the estimated useful life of the asset on the declining balance basis at 25% per year.

j. Leases

Policy Applicable From January 1, 2019

The Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

As Lessee

Leases are recognized as a lease liability and a corresponding ROU asset at the date on which the leased asset is available for use by the Corporation. Liabilities and assets arising from a lease are initially measured on a present value basis. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Corporation's estimated incremental borrowing rate when the rate implicit in the lease is not readily available. The corresponding ROU assets are measured at the amount equal to the lease liability.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation.

The ROU asset, initially measured at an amount equal to the corresponding lease liability, is depreciated on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses.

Upon adoption of IFRS 16, the Corporation recognized an increase to depletion and depreciation expense on ROU assets, an increase to net finance expense on lease liabilities, a reduction to general and administrative expense and a reduction to transportation expense. Accounting treatment of existing sale and leasebacks resulting in a finance lease under IAS 17 remained unchanged.

Lease payments are allocated between the lease liability and finance costs. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows from financing activities. The interest portion of the lease payments is classified as cash flows from operating activities.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of earnings (loss) on a straight-line basis over the lease term.

As Lessor

Accounting requirements for lessors is substantially unchanged and a lessor will continue to classify leases as either finance leases or operating leases, and disclosure requirements are enhanced. As an intermediate lessor, the Corporation accounts for its interest in head leases and subleases separately. Upon adoption of IFRS 16, the Corporation reassessed subleases previously classified as operating leases under IAS 17 to determine whether

each sublease should be classified as an operating lease or a finance lease. Operating leases that were reclassified to finance leases were accounted for as a new finance lease entered into on January 1, 2019.

Policy Applicable Before January 1, 2019

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases within PP&E. At the commencement of the lease term, the Corporation recognizes the finance lease as an asset and a corresponding liability on the consolidated balance sheet at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The Corporation's estimated incremental borrowing rate is used to calculate the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the finance lease liability. Finance charges are charged directly against income through Net Finance Expense. The finance lease liability is accreted over the life of the lease and reduced by actual lease payments.

All other leases are operating leases, which are recognized as an expense as incurred over the lease term. When lease inducements are received to enter into operating leases, such inducements are recognized as a deferred liability. The aggregate benefit of inducements is recognized as a reduction of the related lease expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income by the Corporation as a seller-lessee. Instead, the excess is deferred and amortized over the lease term. If a sale and leaseback results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately.

k. Impairments

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

Loss allowances are measured at an amount equal to the lifetime expected credit losses on the asset. Expected credit losses are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls for financial assets that are not credit-impaired at the reporting date and as the difference between the gross carrying amount and the present value of estimated future cash flows for financial assets that are credit-impaired at the reporting date. Loss allowances for expected credit losses for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the asset.

ii. Non-financial assets

PP&E and E&E assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets that are not yet available for use are tested for impairment annually. E&E assets are assessed for impairment immediately prior to being reclassified to PP&E.

For the purpose of impairment testing, PP&E assets are grouped into cash-generating units ("CGU"). A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. E&E assets are allocated to related CGU's for impairment testing.

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is estimated as the discounted present value of the expected future cash flows to be derived from the continuing use of the asset or CGU. In determining fair value less costs of disposal, recent market

transactions are taken into account if available. In the absence of such transaction, an appropriate valuation model is used. An impairment loss is recognized in earnings or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

l. Provisions

i. General

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the estimated future cash flows. Subsequent to the initial measurement, provisions are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as any changes in the discount rate.

ii. Decommissioning provision

The Corporation's activities give rise to dismantling, decommissioning and restoration activities. A provision is made for the estimated cost of decommissioning and restoration activities and capitalized in the relevant asset category.

Increases in the decommissioning provision due to the passage of time are recognized in net finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the decommissioning provision.

iii. Emissions obligations

When required, emission liabilities are recorded at the estimated cost required to settle the obligation. Emission compliance costs are expensed when incurred. Emission allowances granted to or internally generated by the Corporation are recognized as intangible assets at a nominal amount.

m. Deferred income taxes

The Corporation follows the liability method of accounting for income taxes. Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income taxes are recognized in net earnings except to the extent that they relate to items recognized directly in shareholders’ equity, in which case the income taxes are recognized in shareholders’ equity.

n. Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of shareholders' equity, net of any related income tax.

o. Share based payments

The Corporation's share-based compensation plans include equity-settled awards and cash-settled awards. Compensation expense is recorded as stock based compensation expense or capitalized when the cost directly relates to exploration or development activities.

i. Equity-settled

The Corporation's Stock Option Plan and Treasury-Settled Restricted Share Unit Plan (the "Treasury-Settled RSU Plan") allows for the granting of equity-settled stock options, restricted share units ("RSUs") and performance share units ("PSUs") to directors, officers, employees and consultants. The grant date fair value of stock options, RSUs and PSUs is recognized as stock-based compensation expense, with a corresponding increase in contributed surplus, over the vesting period of the options, RSUs and PSUs. Each tranche in an award is considered a separate grant with its own vesting period and grant date fair value. Fair value is determined using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options, RSUs and PSUs that vest.

The Corporation's Treasury-Settled RSU Plan allows the holder of an RSU or PSU to receive a cash payment or its equivalent in fully-paid common shares, at the Corporation's discretion, equal to the fair market value of the Corporation's common shares calculated at the date of such payment. The Corporation does not intend to make cash payments under the Treasury-Settled RSU Plan and, as such, the RSUs and PSUs are accounted for within shareholders' equity. On exercise of stock options, the cash consideration received by the Corporation is credited to share capital and the associated amount in contributed surplus is reclassified to share capital.

ii. Cash-settled

The Corporation's Cash-Settled Restricted Share Unit Plan (the "Cash-Settled RSU Plan") allows for the granting of cash-settled RSUs and PSUs to directors, officers, employees and consultants. 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. The fair value is recognized as stock-based compensation over the vesting period. Fluctuations in the fair value are recognized within stock-based compensation in the period in which they occur.

The Corporation's Cash-Settled RSU Plan allows the holder of an RSU or PSU to receive a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment.

The Corporation grants cash-settled deferred share units ("DSUs") to directors of the Corporation. A DSU represents the right for the holder to receive a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment or, at the election of the Corporation, its equivalent in fully-paid common shares purchased through a broker. DSUs are accounted for as liability instruments and are measured at fair value based on the market price of the Corporation's common shares. The fair value of a DSU is recognized as stock-based compensation expense on the grant date and future fluctuations in the fair value are recognized as stock-based compensation expense in the period in which they occur.

p. Revenue recognition

The Corporation earns revenue primarily from the sale of crude oil, with other revenue earned from excess power generation, and from transportation fees charged to third parties.

i. Petroleum revenue and royalties

The Corporation sells proprietary and purchased crude oil under contracts of varying terms of up to one year to customers at prevailing market prices, whereby delivery takes place throughout the contract period. In most cases, consideration is due when title has transferred and is generally collected in the month following the month of delivery.

The Corporation evaluates its arrangements with third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

Revenues associated with the sales of proprietary and purchased crude oil owned by the Corporation are recognized at a point in time when control of goods have transferred, which is generally when title passes from the Corporation to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognized at the time of production.

Revenue is allocated to each performance obligation on the basis of its standalone selling price and measured at the transaction price, which is the fair value of the consideration and represents amounts receivable for goods or services provided in the normal course of business. The price is allocated to each unit in the series as each unit is substantially the same and depicts the same pattern of transfer to the customer.

ii. Other revenue

Revenue from power generated in excess of the Corporation's internal requirements is recognized upon delivery from the plant gate, at which point, control is transferred to the customer on the power grid. Revenues are earned at prevailing market prices for each megawatt hour produced. Fees charged to customers for the use of pipelines and facilities are recognized in the period when the products are delivered and the services are provided.

q. Net earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) for the period attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to stock options, RSUs and PSUs is computed using the treasury stock method. The Corporation's potentially dilutive instruments comprise stock options, and equity-settled RSUs and PSUs granted to directors, officers, employees and consultants.

r. New accounting standards

The Corporation has adopted the following standards effective January 1, 2019:

i. IFRS 16 Leases

The IASB issued IFRS 16, *Leases* ("IFRS 16"), which replaces IAS 17 *Leases*, and is effective for annual periods beginning on or after January 1, 2019. IFRS 16, a single recognition and measurement model applicable to lessees, requires recognition of lease assets and lease liabilities on the balance sheet. The standard eliminates

the classification of leases as either operating leases or finance leases for lessees, essentially treating all leases as finance leases. Short-term leases and leases for low-value assets are exempt from recognition and will continue to be treated as operating leases. The accounting requirements for lessors is substantially unchanged and a lessor will continue to classify leases as either finance leases or operating leases.

The Corporation adopted IFRS 16 *Leases,* effective January 1, 2019, using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period comparative financial information as the cumulative effect is recognized as an adjustment to the opening deficit on the transition date and the standard is applied prospectively. Therefore, the comparative information in the Corporation's condensed Consolidated balance sheet, Consolidated statement of earnings (loss) and comprehensive income, Consolidated statement of changes in shareholders' equity, and Consolidated statement of cash flow have not been restated.

On adoption of IFRS 16, the Corporation elected to use the following practical expedients permitted by the standard:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Accounted for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Used hindsight when determining the lease term where the contract contained options to extend or terminate the lease;
- Excluded initial direct costs from the measurement of the right-of-use ("ROU") asset as at January 1, 2019; and
  Relied on the Corporation's previous assessment of whether leases were onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before initial application as an alternative to performing an impairment review on the ROU assets. ROU assets have been adjusted by the amount of the onerous contracts provision recognized in the consolidated financial statements as at December 31, 2018.

The impacts of the adoption of IFRS 16, as at January 1, 2019, are as follows:

		IFRS 16 Opening Balance Sheet Adjustments			
	Reported balance as at Dec 31, 2018	Finance Sublease Receivables[a]	Transportation Leases[b]	Office Leases[b]	Restated balance as at January 1, 2019
Assets					
Property, plant and equipment	$ 6,646		$ 17	$ 41	$ 6,704
Other assets	221	$ 19			240
Deferred income tax asset	237	(5)		1	233
Liabilities					
Provisions and other liabilities	(294)		(17)	(44)	(355)
Shareholders' Equity					
Deficit	1,751	(14)		2	1,739
	$ 8,561	**$ —**	**$ —**	**$ —**	**$ 8,561**

a. On adoption, the Corporation has recognized finance sublease receivables in relation to certain sublease arrangements that were previously recognized on the consolidated balance sheet as at December 31, 2018 within the onerous contracts provision.

b. On adoption, the Corporation has recognized lease liabilities in relation to lease arrangements measured at the present value of the remaining lease payments as at December 31, 2018, and discounted using the Corporation's estimated incremental borrowing rate as of January 1, 2019. The associated ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, on January 1, 2019.

Reconciliation of Commitments to Lease Liabilities

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Corporation's lease liabilities as at January 1, 2019:

		Reconciliation
Commitments as at December 31, 2018	$	9,026
Less:		
Agreements that do not contain a lease		(8,842)
Non-lease components		(64)
Short-term and immaterial leases		(12)
Impact of discounting		(25)
		83
Add:		
Finance lease liabilities under IAS 17		131
Provisions previously recognized under IAS 37		77
Lease liabilities as at January 1, 2019	**$**	**291**

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The timely preparation of the consolidated financial statements requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ materially from estimated amounts as future confirming events occur. Significant judgments, estimates and assumptions made by management in the preparation of these consolidated financial statements are outlined below.

a. Property, plant and equipment

Field production assets within PP&E are depleted using the unit-of-production method based on estimates of proved bitumen reserves and future costs required to develop those reserves. There are a number of inherent uncertainties associated with estimating reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs, and related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material.

Amounts recorded for depreciation of major facilities and equipment and transportation and storage assets are based on management's best estimate of their useful lives and the facilities' productive capacity. Accordingly, those amounts are subject to measurement uncertainty.

In addition, management is required to make estimates and assumptions and use judgment regarding the timing of when major development projects are ready for their planned use, which also determines when these assets are subject to depletion and depreciation.

b. Exploration and evaluation assets

The application of the Corporation's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined and when technical feasibility and commercial viability have been reached. Estimates and assumptions may change as new information becomes available.

c. Bitumen reserves

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, estimated future prices, expected future rates of production and the cost and timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Corporation expects that over time its reserves estimates will be revised either upward or downward based on updated information such as the results of future drilling, testing and production. Reserves estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion and depreciation and for determining potential asset impairment. For example, a revision to the proved reserves estimates would result in a higher or lower depletion and depreciation charge to net earnings. Downward revisions to reserves estimates may also result in an impairment of PP&E carrying amounts.

d. Decommissioning provision

Decommissioning costs are incurred when certain of the Corporation's tangible long-lived assets are retired. Assumptions are made to estimate the future liability based on current economic factors. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and reclamation. The impact to net earnings over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, management exercises judgment to determine the appropriate discount rate at the end of each reporting period. This discount rate, which is a credit-adjusted risk-free rate, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

e. Impairments

CGU's are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGU's requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures, and the way in which management monitors the Corporation's operations.

The recoverable amounts of CGU's and individual assets have been determined as the higher of the CGU's or the asset's fair value less costs of disposal and its value in use. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves and discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU's.

f. Stock-based compensation

The fair values of equity-settled and cash-settled share-based compensation plans are estimated using the Black-Scholes options pricing model. These estimates are based on the Corporation's share price and on several assumptions, including the risk-free interest rate, the future forfeiture rate, the expected volatility of the Corporation's share price and the future attainment of performance criteria. Accordingly, these estimates are subject to measurement uncertainty.

g. Deferred income taxes

Tax regulations and legislation and the interpretations thereof in which the Corporation operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. The periods in which timing differences reverse are impacted by future earnings and capital expenditures. Rates are also affected by changes to tax legislation.

The Corporation also makes interpretations and judgments on the application of tax laws for which the eventual tax determination may be uncertain. To the extent that interpretations change, there may be a significant impact on the consolidated financial statements.

h. Derivative financial instruments

The estimated fair values of financial assets and liabilities are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Corporation may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these derivatives are determined using 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 quoted forward commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

i. Leases

The Corporation applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further judgment and estimation in various areas specific to the arrangement.

When a lease contract contains an option to extend or terminate a lease, the Corporation must use their best estimate to determine the appropriate lease term. Management must consider all facts and circumstances to determine if there is an economic benefit to exercise an extension option or to not exercise a termination option. The lease term must be reassessed if a significant event or change in circumstance occurs.

Lease liabilities recognized have been estimated using a discount rate equal to the Corporation's estimated incremental borrowing rate. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

5. TRADE RECEIVABLES AND OTHER

As at December 31	2019	2018
Trade receivables	**$ 359**	$ 200
Deposits and advances	**18**	10
Current portion of deferred financing costs	**3**	8
Current portion of sublease receivable	**2**	—
	$ 382	$ 218

6. INVENTORIES

As at December 31	2019	2018
Bitumen blend	$ 73	$ 74
Diluent	13	17
Material and supplies	7	6
	$ 93	$ 97

During the year ended December 31, 2019, a total of $1.2 billion (2018 - $1.3 billion) in inventory product costs were charged to earnings through diluent and transportation expense.

7. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Cost					
Balance as at December 31, 2017	$ 8,298	$ 1,618	$ —	$ 76	$ 9,992
Additions	619	5	196	1	821
Transfers to other assets (Note 9)	—	(67)	—	—	(67)
Dispositions	—	(1,397)	—	—	(1,397)
Change in decommissioning liabilities	(37)	—	—	—	(37)
Balance as at December 31, 2018	$ 8,880	$ 159	$ 196	$ 77	$ 9,312
IFRS 16 opening balance sheet adjustment	—	—	58	—	58
Additions	199	—	13	1	213
Dispositions	(3)	—	(4)	—	(7)
Change in decommissioning liabilities	1	—	—	—	1
Balance as at December 31, 2019	**$ 9,077**	**$ 159**	**$ 263**	**$ 78**	**$ 9,577**
Accumulated depletion and depreciation					
Balance as at December 31, 2017	$ 2,184	$ 141	$ —	$ 33	$ 2,358
Depletion and depreciation	426	17	5	6	454
Dispositions	—	(146)	—	—	(146)
Balance as at December 31, 2018	$ 2,610	$ 12	$ 5	$ 39	$ 2,666
Depletion and depreciation	592	90	20	6	708
Dispositions	(3)	—	—	—	(3)
Balance as at December 31, 2019	**$ 3,199**	**$ 102**	**$ 25**	**$ 45**	**$ 3,371**
Carrying amounts					
Balance as at December 31, 2018	$ 6,270	$ 147	$ 191	$ 38	$ 6,646
Balance as at December 31, 2019	**$ 5,878**	**$ 57**	**$ 238**	**$ 33**	**$ 6,206**

On adoption of IFRS 16, the Corporation recognized right-of-use assets of $58 million in relation to corporate office lease arrangements and transportation and storage lease arrangements measured at the present value of the remaining lease payments as at December 31, 2018, and discounted using the Corporation's estimated incremental borrowing rate as of January 1, 2019. These right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019.

During the second quarter of 2019, accelerated depreciation totaling $237 million was recognized on equipment, materials and engineering costs associated with greenfield expansion projects at Christina Lake which will not be pursued in the foreseeable future plus a partial upgrading technology project.

As at December 31, 2019, property, plant and equipment was assessed for impairment and no impairment was recognized. Included in the cost of property, plant and equipment is $229 million of assets under construction as at December 31, 2019 (December 31, 2018 – $291 million).

8. EXPLORATION AND EVALUATION ASSETS

Cost		
Balance as at December 31, 2017	$	549
Additions		3
Exploration expense		(1)
Change in decommissioning liabilities		(1)
Balance as at December 31, 2018	$	550
Additions		1
Exploration expense		(58)
Dispositions		(3)
Balance as at December 31, 2019	**$**	**490**

Exploration and evaluation assets consist of exploration projects which are pending the determination of proved or probable reserves. An assessment of existing assets was completed during the second quarter of 2019. The Corporation decided not to continue exploration and evaluation activities in its Duncan area growth properties and has included associated land lease and evaluation costs totaling $58 million as exploration expense as at December 31, 2019. During the year ended December 31, 2019, the Corporation sold lands with a carrying value of $3 million for proceeds of $5 million.

As at December 31, 2019, exploration and evaluation assets were assessed for impairment and no impairment was recognized.

9. OTHER ASSETS

As at		**December 31, 2019**		**December 31, 2018**
Non-current pipeline linefill[(a)]	**$**	**190**	$	194
Finance sublease receivables[(b)]		**18**		—
Intangible assets[(c)]		**9**		11
Deferred financing costs		**7**		15
Prepaid transportation costs[(d)]		**9**		9
		233		229
Less current portion		**(6)**		(8)
	$	**227**	$	221

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 2020 and 2048. As a result of the sale of the Corporation's 50% interest in Access Pipeline and its 100% interest in the Stonefell Terminal in the first quarter of 2018, $67 million of the associated pipeline linefill was transferred from property, plant and equipment to other assets. As at December 31, 2019, no impairment has been recognized on these assets.

b. On adoption of IFRS 16, the Corporation recognized finance sublease receivables in relation to certain sublease arrangements that were previously recognized on the consolidated balance sheet as at December 31, 2018 within the onerous contracts provision. The IFRS 16 opening balance sheet adjustment related to finance sublease receivables was $19 million as at January 1, 2019.

c. As at December 31, 2019, intangible assets consist of $9 million invested in software that is not an integral component of the related computer hardware (December 31, 2018 – $11 million). Depreciation of $2 million was recognized for the year ended December 31, 2019 (December 31, 2018 – $3 million). During the year ended December 31, 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.

d. 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.

10. LONG-TERM DEBT

As at December 31	2019	2018
Senior secured term loan (December 31, 2019 – nil; December 31, 2018 – US$225 million)[(a)]	**$ —**	$ 307
6.375% senior unsecured notes (US$800 million; due 2023)[(b)]	**1,037**	1,092
7.0% senior unsecured notes (US$1 billion; due 2024)[(c)]	**1,297**	1,365
6.5% senior secured second lien notes (December 31, 2019 - US$596 million; December 31, 2018 – US$750 million; due 2025)[(d)]	**773**	1,023
	3,107	3,787
Debt redemption premium[(e)]	**29**	—
Less unamortized deferred debt discount and debt issue costs	**(13)**	(29)
Less unamortized financial derivative liability discount	**—**	(1)
	3,123	3,757
Less current portion of senior secured term loan	**—**	(17)
	$ 3,123	$ 3,740

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.2965 (December 31, 2018 – US$1 = C$1.3646).

a. On March 27, 2018, subsequent to the sale of the Corporation's 50% interest in the Access Pipeline and its 100% interest in the Stonefell terminal, a majority of the net cash proceeds were used to repay approximately $1.2 billion of the senior secured term loan. The repayment of debt reduced the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount.

   On July 30, 2019, the Corporation repaid the outstanding senior secured term loan balance of $289 million (US $219 million).

   Concurrent with the senior secured term loan repayment, the Corporation amended and restated its revolving credit facility and the EDC Facility and extended the maturity date of each facility by 2.75 years to July 30, 2024. The maturity dates of the revolving credit facility and the EDC Facility include a feature that will 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 Corporation reduced the total available credit under the two facilities from US$1.8 billion to C$1.3 billion. The C$1.3 billion facility is now comprised of C$800 million under the revolving credit facility and C$500 million

under the EDC Facility. As at December 31, 2019, the Corporation had not drawn on its revolving credit facility and had C$99 million of unutilized capacity under the EDC Facility.

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 drawn in excess of $400 million, under the revolving credit facility 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 revolving credit facility, EDC facility and senior secured second lien notes are secured by substantially all the assets of the Corporation.

b. Effective July 19, 2012, the Corporation issued US$800 million in aggregate principal amount of 6.375% senior unsecured notes, with a maturity date of January 30, 2023. Interest is paid semi-annually on January 30 and July 30. No principal payments are required until January 30, 2023.

c. Effective October 1, 2013, the Corporation issued US$800 million in aggregate principal amount of 7.0% senior unsecured notes, with a maturity date of March 31, 2024. On November 6, 2013 an additional US$200 million of 7.0% senior unsecured notes were issued under the same indenture. Interest is paid semi-annually on March 31 and September 30. No principal payments are required until March 31, 2024. The Corporation has deferred the associated debt issue costs of $13 million and is amortizing these costs over the life of the notes utilizing the effective interest method.

d. Effective January 27, 2017, the Corporation issued US$750 million in aggregate principal amount of 6.5% senior secured second lien notes, with a maturity date of January 15, 2025. Interest is paid semi-annually in January and July. No principal payments are required until January 15, 2025. The Corporation has deferred the associated debt issue costs of $18 million and is amortizing these costs over the life of the notes utilizing the effective interest method.

During the year ended December 31, 2019, the Corporation repurchased and extinguished a portion of its 6.5% senior secured second lien notes totaling $204 million (US$154 million) in aggregate principal amount.

e. Subsequent to December 31, 2019 and consistent with the Corporation's strategic focus on maintaining long term financial liquidity while pursuing ongoing debt repayment, the Corporation successfully closed a private offering of US$1.2 billion in aggregate principal amount of 7.125% senior unsecured notes due February 2027. The net proceeds of the offering, together with cash on hand, were used to:

- Fully redeem US$800 million in aggregate principal amount of 6.375% senior unsecured notes due January 2023 at a redemption price of 101.063%;
- Partially redeem US$400 million of the US$1.0 billion aggregate principal amount of 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, the Corporation redeemed US$100 million 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.

Each of the redemptions described above include prepayment options whereby the Corporation is required to make an estimate at each reporting date of the likelihood of the prepayment option being exercised. Given the January 31, 2020 closing date, prepayment options were recognized at December 31, 2019 under IAS 10 Events After the Reporting Period, as an adjusting subsequent event. For the year ended December 31, 2019, the Corporation recognized a cumulative debt redemption premium of $29 million.

11. PROVISIONS AND OTHER LIABILITIES

As at December 31		2019		2018
Lease liabilities[a]	**$**	**281**	$	131
Decommissioning provision[b]		**71**		65
Onerous contracts provision[c]		**—**		78
Deferred lease inducements[d]		**—**		21
Other liabilities		**8**		16
Provisions and other liabilities		**360**		311
Less current portion		**(28)**		(17)
Non-current portion	**$**	**332**	$	294

a. Lease liabilities:

As at December 31		2019		2018
Balance, beginning of year	**$**	**131**	$	—
IFRS 16 opening balance sheet adjustment		**160**		—
Additions		**13**		130
Modifications		**(4)**		—
Payments		**(45)**		(12)
Interest expense		**26**		13
Balance, end of period		**281**		131
Less current portion		**(22)**		—
Non-current portion	**$**	**259**	$	131

On adoption of IFRS 16, the Corporation recognized lease liabilities of $160 million in relation to corporate office space and marketing storage arrangements measured at the present value of the remaining lease payments as at January 1, 2019, and discounted using the Corporation’s estimated incremental borrowing rate of 6.0% for assets over a similar term with similar security, determined in accordance with IFRS 16. The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019.

The Corporation's minimum lease payments are as follows:

As at December 31		2019
Within one year	**$**	**48**
Later than one year but not later than five years		**140**
Later than five years		**529**
Minimum lease payments		**717**
Amounts representing finance charges		**(436)**
Net minimum lease payments	**$**	**281**

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 December 31, 2019, the present value of these arrangements is $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 December 31	**2019**	**2018**
Balance, beginning of year	**$ 65**	$ 103
Changes in estimated life and estimated future cash flows	**(2)**	(5)
Changes in discount rates	**2**	(39)
Liabilities incurred and disposed, net	**1**	5
Liabilities settled	**(2)**	(5)
Accretion	**7**	6
Balance, end of period	**71**	65
Less current portion	**(5)**	(3)
Non-current portion	**$ 67**	$ 62

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 $827 million (December 31, 2018 – $719 million). The Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 13.7% (December 31, 2018 – 14.1%) and an inflation rate of 2.1% (December 31, 2018 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2018 - periods up to the year 2067).

c. Onerous contracts provision:

On adoption of IFRS 16, the Corporation elected to use the practical expedient and rely on its previous assessment of whether leases were onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* immediately before initial application, as an alternative to performing an impairment review. As a result, the Corporation recognized a right-of-use asset of $78 million on January 1, 2019 equivalent to the amount of the onerous contracts provision recognized in the consolidated financial statements as at December 31, 2018.

d. Deferred office building lease inducements:

On adoption of IFRS 16, the Corporation recognized an opening balance sheet adjustment of $19 million related to deferred office building lease inducements.

12. INCOME TAX

Year ended December 31		2019		2018
Loss before income taxes	**$**	**(91)**	$	(168)
Statutory income tax rate		**26.5%**		27.0%
Expected income tax expense (recovery)		**(24)**		(45)
Add (deduct) the tax effect of:				
Stock-based compensation		**6**		6
Non-taxable loss (gain) on foreign exchange		**(24)**		46
Taxable capital loss (gain) not recognized		**(23)**		46
Non-taxable loss (gain) on sale of assets		**—**		(49)
Taxable loss (gain) sheltered by losses		**—**		(49)
Tax benefit of vested RSUs		**(3)**		(4)
Alberta tax rate reduction		**33**		—
Other		**6**		—
Income tax expense (recovery)	**$**	**(29)**	$	(49)
Current income tax expense (recovery)		**—**	$	1
Deferred income tax expense (recovery)		**(29)**		(50)
Income tax expense (recovery)	**$**	**(29)**	$	(49)

On June 28, 2019, the Government of Alberta enacted legislation which will reduce the corporate tax rate from 12% to 8% by January 1, 2022. A one-time deferred income tax expense of $33 million related to the Alberta tax rate reduction was recognized during the year ended December 31, 2019.

As at December 31, 2019, the Corporation has recognized a deferred tax asset of $262 million (December 31, 2018 - $237 million). Future taxable income is expected to be sufficient to realize the deferred tax asset. 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.

The deferred tax assets (liabilities) consist of the following:

As at December 31		2019		2018
Deferred tax assets:				
Deferred tax assets to be recovered after more than 12 months	**$**	**1,273**	$	1,420
Deferred tax assets to be recovered within 12 months		**33**		12
	$	**1,306**	$	1,432
Deferred tax liabilities:				
Deferred tax liabilities to be recovered after more than 12 months	**$**	**(1,013)**	$	(1,216)
Deferred tax liabilities to be recovered within 12 months		**(31)**		(27)
	$	**(1,044)**	$	(1,243)
Deferred tax assets (liabilities), net	**$**	**262**	$	237

The net movement within the deferred tax assets (liabilities) is as follows:

	2019	2018
Balance as at January 1	$ 237	$ 183
Credited (charged) to earnings	29	50
Credited (charged) to equity	(4)	4
Balance as at December 31	$ 262	$ 237

The movements in deferred income tax assets and liabilities during the years are as follows:

Deferred tax assets	Tax losses	Commodity risk management	Decommissioning provision	Right-of-use assets	Other	Total
Balance as at December 31, 2017	$ 1,331	$ 18	$ 28	$ —	$ 57	$ 1,434
Credited (charged) to earnings	38	(18)	(10)	35	(3)	42
Credited (charged) to equity	2	—	—	—	2	4
Balance as at December 31, 2018	1,371	—	18	35	56	1,480
Credited (charged) to earnings	(205)	18	(1)	13	(6)	(181)
Credited (charged) to equity	—	—	—	12	(5)	7
Balance as at December 31, 2019	**$ 1,166**	**$ 18**	**$ 17**	**$ 60**	**$ 45**	**$ 1,306**

Deferred tax liabilities	Property, plant and equipment	Commodity risk management	Other	Total
Balance as at December 31, 2017	$ (1,250)	$ —	$ (1)	$ (1,251)
Credited (charged) to earnings	32	(25)	1	8
Balance as at December 31, 2018	(1,218)	(25)	—	(1,243)
Credited (charged) to earnings	185	25	—	210
Credited (charged) to equity	(11)	—	—	(11)
Balance as at December 31, 2019	**$ (1,044)**	**$ —**	**$ —**	**$ (1,044)**

As at December 31, 2019, the Corporation had approximately $7.3 billion in available tax pools (December 31, 2018 - $7.7 billion). Included in the tax pools are $5.1 billion of non-capital loss carry forward balances expiring as follows:

	2026	2027	2028	2029	2030	Thereafter	Total
Non-capital loss carry forward balances	$ 200	$ 200	$ 300	$ 500	$ 200	$ 3,700	$ 5,100

In addition, as at December 31, 2019, the Corporation had an additional $101 million (December 31, 2018 - $73 million) of capital investment in incomplete projects which will serve to increase available tax pools upon completion of the projects. As at December 31, 2019, the Corporation had not recognized the tax benefit related to $343 million of realized and unrealized taxable capital foreign exchange losses (December 31, 2018 - $435 million).

13. 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:

	2019		2018	
	Number of shares (thousands)	**Amount**	**Number of shares (thousands)**	**Amount**
Balance, beginning of year	**296,841**	**$ 5,427**	294,104	$ 5,404
Issued upon exercise of stock options	**266**	**2**	212	2
Issued upon vesting and release of RSUs and PSUs	**2,401**	**14**	2,525	21
Balance, end of period	**299,508**	**$ 5,443**	296,841	$ 5,427

14. STOCK-BASED COMPENSATION

The Corporation has a number of stock-based compensation plans which include stock options, restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). Further detail on each of these plans is outlined below.

a. Cash-settled plans

i. Restricted share units and performance share units:

RSUs granted under the Cash-Settled RSU plan generally vest annually in thirds over a three-year period. PSUs granted under the Cash-Settled RSU plan generally vest on the third anniversary of the grant date, provided that the Corporation satisfies certain performance criteria identified by the Corporation's Board of Directors which are set and measured annually to establish a performance multiplier from zero to two. The stock-based compensation expense for PSUs is determined based on an estimate of the final number of PSU awards that eventually vest based on the performance multiplier and the performance criteria.

Cash-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	**2019**	**2018**
Outstanding, beginning of year	**4,263**	5,310
Granted	**2,285**	467
Vested and released	**(2,808)**	(1,397)
Forfeited	**(486)**	(117)
Outstanding, end of year	**3,254**	4,263

ii. Deferred share units outstanding:

The Deferred Share Unit Plan allows for the granting of DSUs to directors of the Corporation. A DSU represents the right for the holder to receive a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment or, at the election of the Corporation, its equivalent in fully-paid common shares purchased through a broker. DSUs vest immediately when granted and are redeemed on the earlier of (a) December 15 of the first calendar year starting after the date the holder ceases to be a member of the Corporation, and (b) the fifth business day following the date on which the holder delivers a redemption notice. As at December 31, 2019, there were 734,347 DSUs outstanding (December 31, 2018 – 342,775 DSUs outstanding).

As at December 31, 2019, the Corporation recognized a liability of $25 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2018 – $30 million). The current portion of $21 million is included within accounts payable and accrued liabilities and $4 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards.

b. Equity-settled plans

i. Stock options outstanding:

The Corporation's Stock Option Plan allows for the granting of stock options to directors, officers, employees and consultants of the Corporation. Stock options granted are generally fully exercisable after three years and expire seven years after the grant date.

Year ended December 31	2019		2018	
	Stock options (thousands)	Weighted average exercise price	Stock options (thousands)	Weighted average exercise price
Outstanding, beginning of year	**8,517**	**$ 21.27**	8,896	$ 23.81
Granted	**683**	**4.57**	798	9.03
Exercised	**(266)**	**5.20**	(212)	5.77
Forfeited	**(1,198)**	**21.60**	(439)	22.64
Expired	**(975)**	**35.69**	(526)	50.70
Outstanding, end of year	**6,761**	**$ 18.08**	8,517	$ 21.27

As at December 31, 2019	Outstanding			Vested		
Range of exercise prices	Options (thousands)	Weighted average exercise price	Weighted average remaining life (in years)	Options (thousands)	Weighted average exercise price	Weighted average remaining life (in years)
$4.53 - $10.00	2,853	$ 6.00	4.90	1,372	$ 6.02	4.03
$10.01 - $30.00	1,880	18.58	2.44	1,880	18.58	2.44
$30.01 - $38.68	2,028	34.60	0.98	2,028	34.60	0.98
	6,761	**$ 18.08**	**3.04**	**5,280**	**$ 21.47**	**2.29**

The fair value of each option granted during the years ended December 31, 2019 and 2018 was estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Year ended December 31		2019		2018
Risk-free rate		**1.33%**		2.17%
Expected lives		**5 years**		5 years
Volatility[(i)]		**69%**		62%
Annual dividend per share		**nil**		nil
Weighted average strike price	**$**	**5.03**	$	8.96
Fair value of options granted	**$**	**2.89**	$	4.82

(i) Expected volatility is determined by the average price volatility of the Corporation's common shares over the past five years.

ii. Restricted share units and performance share units:

RSUs granted under the equity-settled Restricted Share Unit Plan generally vest annually in thirds over a three-year period. PSUs granted under the equity-settled Restricted Share Unit Plan generally vest on the third anniversary of the grant date, provided that the Corporation satisfies certain performance criteria identified by the Corporation's Board of Directors which are set and measured annually to establish a performance multiplier from zero to two.

Equity-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	2019	2018
Outstanding, beginning of year	**6,534**	6,308
Granted	**3,342**	3,273
Vested and released	**(2,401)**	(2,532)
Forfeited	**(1,082)**	(515)
Outstanding, end of year	**6,393**	6,534

c. Stock-based compensation

Year ended December 31		2019		2018
Cash-settled expense[(i)]	**$**	**7**	$	26
Equity-settled expense		**24**		21
Stock-based compensation	**$**	**31**	$	47

(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.

The value of cash-settled share-based units decreased for the year ended December 31, 2019 compared to the same period of 2018 due to the decrease in the Corporation's share price and a reduction in the number of share-based units resulting from reduced staffing levels. The decrease in total stock-based compensation was partially offset by a one-time charge of $10 million related to the accelerated expense of units for retirement eligible employees which was recorded during the second quarter of 2019.

15. REVENUES

Year ended December 31	2019	2018
Sales from:		
Production	$ **2,996**	$ 2,503
Purchased products[(i)]	**907**	208
Petroleum revenue	$ **3,903**	$ 2,711
Royalties	**(45)**	(38)
Petroleum revenue, net of royalties	$ **3,858**	$ 2,673
Power revenue	$ **60**	$ 48
Transportation revenue	**13**	12
Other revenue	$ **73**	$ 60
	$ **3,931**	$ 2,733

(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:

	Year ended December 31					
	2019			2018		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	$ **1,820**	$ **261**	$ **2,081**	$ 1,435	$ 96	$ 1,531
United States	**1,176**	**646**	**1,822**	1,068	112	1,180
	$ **2,996**	$ **907**	$ **3,903**	$ 2,503	$ 208	$ 2,711

Other revenue recognized during the years ended December 31, 2019 and 2018 is attributed to Canada.

b. Revenue-related assets

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

As at	December 31, 2019	December 31, 2018
Petroleum revenue	$ **342**	$ 122
Other revenue	**9**	4
Total revenue-related assets	$ **351**	$ 126

Revenue-related receivables are typically settled within 30 days. As at December 31, 2019 and December 31, 2018, there was no material expected credit loss required against revenue-related receivables.

16. DILUENT AND TRANSPORTATION

Year ended December 31	2019	2018
Diluent expense	**$ 1,185**	$ 1,281
Transportation and storage[a]	**383**	280
Diluent and transportation	**$ 1,568**	$ 1,561

a. On March 22, 2018, the Corporation successfully completed the sale of its 50% interest in the Access Pipeline. Transportation expense includes incremental expenses associated with the related Transportation Services Agreement.

17. FOREIGN EXCHANGE (GAIN) LOSS, NET

Year ended December 31	2019	2018
Unrealized foreign exchange loss (gain) on:		
Long-term debt	**$ (180)**	$ 346
US$ denominated cash and cash equivalents	**8**	(5)
Unrealized net loss (gain) on foreign exchange	**(172)**	341
Realized loss (gain) on foreign exchange	**(3)**	5
Realized loss (gain) on foreign exchange derivatives[a]	**—**	(35)
Foreign exchange loss (gain), net	**$ (175)**	$ 311
C$ equivalent of 1 US$		
Beginning of period	**1.3646**	1.2518
End of period	**1.2965**	1.3646

a. On February 8, 2018, the Corporation entered into forward currency contracts to manage the foreign exchange risk on expected Canadian dollar denominated asset sale proceeds designated for U.S. dollar denominated long-term debt repayment. The forward currency contracts were settled on March 22, 2018, resulting in a realized gain of $35 million.

18. NET FINANCE EXPENSE

Year ended December 31	2019	2018
Interest expense on long-term debt	**$ 267**	$ 287
Interest expense on lease liabilities[a]	**26**	13
Interest income	**(5)**	(8)
Net interest expense	**288**	292
Debt extinguishment expense[b] [c]	**46**	—
Accretion on provisions	**7**	8
Unrealized (gain) loss on derivative financial liabilities	**(1)**	3
Realized (gain) loss on interest rate swaps[d]	**—**	(17)
Net finance expense	**$ 340**	$ 286

a. On adoption of IFRS 16, the Corporation recognized lease liabilities of $160 million in relation to corporate office space and marketing storage arrangements. These lease liabilities will be accreted through net finance expense

over the life of each lease arrangement using the Corporation's estimated incremental borrowing rate of 6.0%, which is the rate determined for assets over a similar term with similar security, and is in accordance with IFRS 16.

b. Throughout the second half of 2019, the Corporation repurchased and extinguished $204 million (US$154 million) aggregate principal amount of its senior secured second lien notes. Included in debt extinguishment expense is a $4 million premium paid on the repurchase of the senior secured second lien notes and related unamortized deferred debt issue costs of $3 million.

c. Subsequent to December 31, 2019 and consistent with the Corporation's strategic focus on maintaining long term financial liquidity while pursuing ongoing debt repayment, the Corporation successfully closed a private offering of US$1.2 billion in aggregate principal amount of 7.125% senior unsecured notes due February 2027. The net proceeds of the offering, together with cash on hand, were used to:

   - Fully redeem US$800 million in aggregate principal amount of 6.375% senior unsecured notes due January 2023 at a redemption price of 101.063%;
   - Partially redeem US$400 million of the US$1.0 billion aggregate principal amount of 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, the Corporation redeemed US$100 million 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.

   Each of the redemptions described above include prepayment options whereby the Corporation is required to make an estimate at each reporting date of the likelihood of the prepayment option being exercised. Given the January 31, 2020 closing date, prepayment options were recognized at December 31, 2019 under IAS 10 Events After the Reporting Period, as an adjusting subsequent event. For the year ended December 31, 2019, debt extinguishment expense included a cumulative debt redemption premium of $29 million and associated unamortized deferred debt issue costs of $10 million.

d. In the third quarter of 2017, the Corporation entered into an interest rate swap contract to effectively fix the interest rate on US$650 million of its US$1.2 billion senior secured term loan at approximately 5.3%. In conjunction with the partial repayment of the senior secured term loan on March 27, 2018, the interest rate swap was terminated and a realized gain of $17 million was recognized.

19. OTHER EXPENSES

Year ended December 31		**2019**		**2018**
Severance		**11**	$	5
Research & development and other		**12**	$	6
Defense costs related to unsolicited bid[a]		**—**	$	19
Onerous contracts expense[b]		**—**		3
Other expenses	**$**	**23**	$	33

a. On October 2, 2018, Husky Energy Inc. ("Husky") issued an unsolicited Offer to Purchase and Bid Circular to acquire all of the outstanding common shares of the Corporation. On October 17, 2018, the Corporation issued a Directors' Circular recommending shareholders to reject Husky's offer. On January 17, 2019, Husky issued a press release stating that the takeover offer for the Corporation did not meet their minimum tender conditions and therefore did not extend the offer. During the fourth quarter of 2018, the Corporation incurred $19 million of costs related to Husky's offer.

b. Onerous contracts expense primarily includes changes in estimated future cash flow sublease recoveries related to the Corporation's onerous office building lease contracts.

20. OTHER INCOME

During the year ended December 31, 2019, the Corporation agreed to relieve the Alberta Petroleum Marketing Commission ("APMC") of all obligations pursuant to a Crude Oil Purchase and Sale Agreement in exchange for a payment of $20 million.

21. TRANSACTIONS WITH RELATED PARTIES

The Corporation did not enter into any significant related party transactions during the years ended December 31, 2019 and 2018, other than compensation of key management personnel. The Corporation considers directors and officers of the Corporation as key management personnel.

Year ended December 31	**2019**	**2018**
Share-based compensation	**$ 14**	$ 17
Salaries and short-term employee benefits	**9**	12
Termination benefits	**1**	4
	$ 24	$ 33

22. SUPPLEMENTAL CASH FLOW DISCLOSURES

Year ended December 31	**2019**	**2018**
Cash provided by (used in):		
Trade receivables and other	**$ (173)**	$ 80
Inventories	**3**	(5)
Accounts payable and accrued liabilities	**30**	10
	$ (140)	$ 85
Changes in non-cash working capital relating to:		
Operating	**$ (110)**	$ 111
Investing	**(30)**	(26)
	$ (140)	$ 85
Cash and cash equivalents:[a]		
Cash	**$ 206**	$ 277
Cash equivalents	**—**	41
	$ 206	$ 318
Cash interest paid	**$ 239**	$ 252

a. As at December 31, 2019, $135 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars (December 31, 2018 – $154 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$1.2965 (December 31, 2018 – US $1 = C$1.3646).

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, 2017	$ —	$ —	$ 4,684
Cash changes:			
Payments on lease liabilities	—	(12)	—
Repayment of long-term debt	—	—	(1,285)
Non-cash changes:			
Lease liabilities incurred	—	130	—
Interest expense on lease liabilities	—	13	—
Unrealized (gain) loss on foreign exchange	—	—	346
Amortization of deferred debt discount and debt issue costs	—	—	5
Other	—	—	7
Balance as at December 31, 2018	$ —	$ 131	$ 3,757
Cash changes:			
Receipts on leased assets	(1)	—	—
Payments on lease liabilities	—	(45)	—
Repayment of long-term debt	—	—	(297)
Repurchase of senior secured second lien notes	—	—	(204)
Non-cash changes:			
IFRS 16 opening balance sheet adjustment	19	160	—
Lease liabilities incurred	—	13	—
Lease liabilities modified	—	(4)	—
Interest expense on lease liabilities	—	26	—
Unrealized (gain) loss on foreign exchange	—	—	(180)
Amortization of deferred debt discount and debt issue costs	—	—	17
Debt redemption premium	—	—	29
Other	—	—	1
Balance as at December 31, 2019	**$ 18**	**$ 281**	**$ 3,123**

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

23. NET EARNINGS (LOSS) PER COMMON SHARE

Year ended December 31	**2019**	**2018**
Net loss	**$ (62)**	$ (119)
Weighted average common shares outstanding (millions)[a]	**299**	296
Dilutive effect of stock options, RSUs and PSUs (millions)[b]	**—**	—
Weighted average common shares outstanding – diluted (millions)	**299**	296
Net loss per share, basic	**$ (0.21)**	$ (0.40)
Net loss per share, diluted	**$ (0.21)**	$ (0.40)

a. Weighted average common shares outstanding for the year ended December 31, 2019 includes 381,014 PSUs not yet released (year ended December 31, 2018 - nil).

b. For the year ended December 31, 2019, there was no dilutive effect of stock options, RSUs and PSUs due to the Corporation incurring a net loss. If the Corporation had recognized net earnings for the year ended December 31, 2019, the dilutive effect of stock options, RSUs and PSUs would have been three million weighted average common shares (year ended December 31, 2018 - four million weighted average common shares).

24. 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, commodity risk management contracts, accounts payable and accrued liabilities, derivative financial liabilities included within provisions and other liabilities, and long-term debt.

a. Fair values:

The carrying value of cash and cash equivalents, trade receivables and other and accounts payable and accrued liabilities included on the consolidated balance sheet approximate the fair value 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	December 31, 2019		December 31, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Recurring measurements:				
Financial assets				
Commodity risk management contracts	$ —	$ —	$ 123	$ 123
Financial liabilities				
Long-term debt[(i)] (Note 10)	$ **3,107**	$ **3,160**	$ 3,787	$ 3,707
Derivative financial liabilities	$ —	$ —	$ 1	$ 1
Commodity risk management contracts	$ **77**	$ **77**	$ 30	$ 30

(i) Includes the current and non-current portions.

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 of commodity risk management contracts and derivative financial liabilities are 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. Commodity price risk management:

The Corporation enters into derivative financial instruments to manage commodity price risk. The use of the financial commodity 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 commodity 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 had the following financial commodity risk management contracts relating to crude oil sales and condensate purchases outstanding as at December 31, 2019:

As at December 31, 2019	Volumes (bbls/d)[(i)]	Term	Average Price (US$/bbl)[(i)]
Crude Oil Sales Contracts			
WTI[(ii)] Fixed Price	34,475	Jan 1, 2020 - Dec 31, 2020	$58.75
WTI:WCS[(iii)] Fixed Differential	17,503	Jan 1, 2020 - Dec 31, 2020	$(22.06)
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	Jan 1, 2020 - Dec 31, 2020	$(7.63)
WTI:Mont Belvieu Fixed Differential	8,250	Jan 1, 2021 - Dec 31, 2021	$(10.38)
WTI:Mont Belvieu Fixed % of WTI	7,750	Jan 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's financial commodity 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 commodity risk management positions:

As at	December 31, 2019			December 31, 2018		
	Asset	Liability	Net	Asset	Liability	Net
Gross amount	**$ —**	**$ (77)**	**$ (77)**	$ 303	$ (66)	$ 237
Amount offset	**—**	**—**	**—**	(180)	36	(144)
Net amount	**$ —**	**$ (77)**	**$ (77)**	$ 123	$ (30)	$ 93
Current portion	**$ —**	**$ (77)**	**$ (77)**	$ 123	$ (6)	$ 117
Non-current portion	**—**	**—**	**—**	—	(24)	(24)
Net amount	**$ —**	**$ (77)**	**$ (77)**	$ 123	$ (30)	$ 93

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

As at December 31	2019	2018
Fair value of contracts, beginning of year	$ 93	$ (69)
Fair value of contracts realized	112	139
Change in fair value of contracts	(282)	23
Amortized premiums on put options	—	—
Fair value of contracts, end of period	**$ (77)**	$ 93

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

Year Ended December 31	2019	2018
Realized loss (gain) on commodity risk management	$ 113	$ 139
Unrealized loss (gain) on commodity risk management	169	(161)
Commodity risk management loss (gain)	$ 282	$ (22)

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 December 31, 2019:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$1.00 per bbl applied to WTI contracts	$ (20)	$ 20
Crude oil differential price (i)	± US$1.00 per bbl applied to WTI:WCS differential contracts	$ 8	$ (8)

(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.

The Corporation entered into the following financial commodity risk management contracts relating to crude oil sales and condensate purchases subsequent to December 31, 2019. As a result, these contracts are not reflected in the Corporation's Consolidated Financial Statements:

Subsequent to December 31, 2019	Volumes (bbls/d)(i)	Term	Average Prices (US$/bbl)(i)
Crude Oil Sales Contracts			
WTI Fixed Price	9,834	Jan 1, 2020 - Oct 31, 2020	$61.01
WTI:WCS Fixed Differential	7,975	Apr 1, 2020 - Dec 31, 2020	$(15.71)
Condensate Purchase Contracts			
WTI:Mont Belvieu Fixed Differential	2,700	Jan 1, 2021 - Dec 31, 2021	$(10.34)
WTI:Mont Belvieu Fixed Differential	200	Jan 1, 2022 - Dec 31, 2022	$(11.30)

(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.

c. 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 December 31, 2019, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $377 million.

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 December 31, 2019 was $206 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 $206 million.

d. Foreign currency risk management:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the fair value or future cash flows of the Corporation's financial assets or liabilities. The Corporation has U.S. dollar denominated long-term debt as described in Note 10. As at December 31, 2019, a $0.01 change in the U.S. dollar to Canadian dollar exchange rate would have resulted in a change to the carrying value of long-term debt and a corresponding change to earnings (loss) before income tax of C$24 million (December 31, 2018 - C$28 million).

e. 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.

The future undiscounted financial obligations of the Corporation are noted below:

As at December 31, 2019		**Total**		**Less than 1 year**		**1 - 3 years**		**4 - 5 years**		**More than 5 years**
Long-term debt[(i)]	$	3,107	$	—	$	1,037	$	1,297	$	773
Interest on long-term debt	$	845		207		561		73		4
Commodity risk management contracts	$	77		77		—		—		—
Accounts payable and accrued liabilities	$	379		379		—		—		—
	$	4,408	$	663	$	1,598	$	1,370	$	777

(i) These debt maturities do not reflect the refinancing associated with the US$1.2B private offering which closed on January 31, 2020. Please refer to Note 10(e) for further details.

As at December 31, 2018		**Total**		**Less than 1 year**		**1 - 3 years**		**4 - 5 years**		**More than 5 years**
Long-term debt	$	3,787	$	17	$	34	$	1,349	$	2,388
Interest on long-term debt		1,267		249		496		427		96
Commodity risk management contracts		93		117		(24)		—		—
Derivative financial liabilities		1		—		—		1		—
Accounts payable and accrued liabilities		343		343		—		—		—
	$	5,492	$	726	$	506	$	1,776	$	2,484

25. GEOGRAPHICAL DISCLOSURE

As at December 31, 2019, the Corporation had non-current assets related to operations in the United States of $102 million (December 31, 2018 – $99 million). For the year ended December 31, 2019, petroleum revenue related to operations in the United States was $1.8 billion (year ended December 31, 2018 – $1.2 billion).

26. 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 it has sufficient capital resources to allow the Corporation to meet its liquidity requirements for the forseeable future. Debt repayment and sustaining capital expenditure activities are anticipated to be funded by the Corporation's adjusted funds flow and cash on hand.

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. The Corporation has an $800 million undrawn revolving credit facility, as well as a $500 million letter of credit facility, guaranteed by Export Development Canada, of which $99 million is undrawn.

The following table summarizes the Corporation's net debt:

As at December 31	Note		2019		2018
Non-current portion of long-term debt	10	**$**	**3,123**	$	3,740
Current portion of long-term debt	10		**—**		17
Cash and cash equivalents			**(206)**		(318)
Net debt		**$**	**2,917**	$	3,439

Net debt is an important measure used by management to analyze leverage and liquidity. Net debt decreased to $2.9 billion at December 31, 2019 from $3.4 billion at December 31, 2018. The decrease is mainly due to the senior secured term loan repayments of $297 million (US$225 million) and $204 million (US$154 million) repurchase and extinguishment of a portion of the 6.5% senior secured second lien notes during the year ended December 31, 2019.

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

Year ended December 31	Note		2019		2018
Net cash provided by (used in) operating activities		**$**	**631**	$	280
Net change in non-cash operating working capital items			**110**		(111)
Funds flow from (used in) operations			**741**		169
Adjustments:					
Other income	20		**(20)**		—
Decommissioning expenditures	11		**2**		5
Net change in other liabilities(i)			**3**		3
Realized gain on foreign exchange derivatives(ii)	17		**—**		(35)
Defense costs related to unsolicited bid(iii)	19		**—**		19
Payments on onerous contracts	11		**—**		19
Adjusted funds flow		**$**	**726**	$	180

(i) Excludes change in long-term cash-settled stock-based compensation liability.

(ii) A gain related to the settlement of forward currency contracts to manage the foreign exchange risk on Canadian dollar denominated proceeds related to the sale of assets designated for U.S. dollar denominated long-term debt repayment.

(iii) The Corporation incurred costs of $19 million in the fourth quarter of 2018 related to Husky Energy Inc.'s unsolicited bid to acquire all of the outstanding shares of the Corporation.

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.

27. 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 December 31, 2019:

	2020	2021	2022	2023	2024	Thereafter	Total
Transportation and storage[(i)]	$ 371	$ 424	$ 421	$ 455	$ 441	$ 5,956	$ 8,068
Diluent purchases	274	21	21	17	—	—	333
Other operating commitments	15	11	10	10	10	42	98
Variable office lease costs	5	5	5	5	5	33	58
Capital commitments	4	—	—	—	—	—	4
Commitments	**$ 669**	**$ 461**	**$ 457**	**$ 487**	**$ 456**	**$ 6,031**	**$ 8,561**

(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 11(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.