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

As at	Note	June 30, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	16	**$ 159**	$ 114
Trade receivables and other		**452**	281
Inventories		**136**	96
Risk management	18	**25**	6
		772	497
Non-current assets			
Property, plant and equipment	3	**5,893**	5,993
Exploration and evaluation assets	4	**126**	125
Other assets	5	**195**	206
Risk management	18	**31**	21
Deferred income tax asset		**384**	382
Total assets		**$ 7,401**	$ 7,224
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 375**	$ 279
Interest payable		**82**	78
Current portion of provisions and other liabilities	7	**44**	56
Risk management	18	**144**	29
		645	442
Non-current liabilities			
Long-term debt	6	**2,820**	2,912
Provisions and other liabilities	7	**372**	364
Total liabilities		**3,837**	3,718
Shareholders' equity			
Share capital	8	**5,485**	5,460
Contributed surplus		**164**	177
Deficit		**(2,107)**	(2,158)
Accumulated other comprehensive income		**22**	27
Total shareholders' equity		**3,564**	3,506
Total liabilities and shareholders' equity		**$ 7,401**	$ 7,224

Commitments and contingencies (Note 20)

Subsequent event (Note 21)

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

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

		Three months ended June 30		Six months ended June 30	
	Note	**2021**	**2020**	**2021**	**2020**
Revenues					
Petroleum revenue, net of royalties	10	**$ 986**	$ 299	**$ 1,872**	$ 941
Other revenue	10	**23**	8	**51**	31
Total revenues		**1,009**	307	**1,923**	972
Expenses					
Diluent and transportation	11	**415**	205	**804**	585
Operating expenses		**67**	46	**133**	114
Inventory impairment	5	**(1)**	(29)	**5**	—
Purchased product		**184**	106	**369**	282
Curtailment		**—**	—	**—**	(2)
Depletion and depreciation	3, 5	**108**	93	**216**	217
Exploration expense	4	**—**	—	**—**	366
General and administrative		**13**	9	**27**	25
Stock-based compensation	9	**4**	(8)	**6**	(22)
Net finance expense	13	**67**	69	**133**	139
Other expenses	14	**—**	22	**—**	30
Other income		**(4)**	—	**(4)**	(6)
Commodity risk management (gain) loss, net	18	**114**	52	**271**	(482)
Foreign exchange (gain) loss, net	12	**(41)**	(116)	**(84)**	154
Earnings (loss) before income taxes		**83**	(142)	**47**	(428)
Income tax expense (recovery)	15	**15**	(62)	**(4)**	(64)
Net earnings (loss)		**68**	(80)	**51**	(364)
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment		**(2)**	(8)	**(5)**	10
Comprehensive income (loss)		**$ 66**	$ (88)	**$ 46**	$ (354)
Net earnings (loss) per common share					
Basic	17	**$ 0.22**	$ (0.26)	**$ 0.17**	$ (1.21)
Diluted	17	**$ 0.22**	$ (0.26)	**$ 0.17**	$ (1.21)

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

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

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at December 31, 2020	**$ 5,460**	**$ 177**	**$ (2,158)**	**$ 27**	**$ 3,506**
Stock-based compensation	**—**	**8**	**—**	**—**	**8**
Stock options exercised	**6**	**(2)**	**—**	**—**	**4**
RSU vested and released	**19**	**(19)**	**—**	**—**	**—**
Comprehensive income (loss)	**—**	**—**	**51**	**(5)**	**46**
Balance as at June 30, 2021	**$ 5,485**	**$ 164**	**$ (2,107)**	**$ 22**	**$ 3,564**
Balance as at December 31, 2019	$ 5,443	$ 182	$ (1,801)	$ 29	$ 3,853
Stock-based compensation	—	8	—	—	8
RSUs vested and released	17	(17)	—	—	—
Comprehensive income (loss)	—	—	(364)	10	(354)
Balance as at June 30, 2020	$ 5,460	$ 173	$ (2,165)	$ 39	$ 3,507

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

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

		Three months ended June 30		Six months ended June 30	
	Note	2021	2020	2021	2020
Cash provided by (used in):					
Operating activities					
Net earnings (loss)		**$ 68**	$ (80)	**$ 51**	$ (364)
Adjustments for:					
Deferred income tax expense (recovery)	15	**17**	(61)	**(2)**	(63)
Inventory Impairment	5	**(1)**	(29)	**5**	—
Depletion and depreciation	3, 5	**108**	93	**216**	217
Exploration expense	4	**—**	—	**—**	366
Stock-based compensation	9	**(13)**	(17)	**(21)**	(13)
Unrealized net (gain) loss on foreign exchange	12	**(41)**	(114)	**(84)**	153
Unrealized net (gain) loss on commodity risk management	18	**27**	267	**115**	(161)
Amortization of debt discount and debt issue costs	6	**2**	2	**4**	4
Gain on asset dispositions	3, 5	**(4)**	—	**(4)**	(6)
Debt extinguishment expense	13	**5**	—	**5**	—
Other		**2**	2	**3**	4
Decommissioning expenditures	7	**—**	—	**(2)**	(2)
Payments on onerous contracts	7	**(6)**	—	**(12)**	—
Net change in other liabilities		**(4)**	6	**7**	3
Funds flow from operating activities		**160**	69	**281**	138
Net change in non-cash working capital items	16	**20**	48	**(89)**	78
Net cash provided by (used in) operating activities		**180**	117	**192**	216
Investing activities					
Capital expenditures	3	**(71)**	(20)	**(141)**	(74)
Net proceeds on dispositions	3	**44**	—	**44**	6
Net change in non-cash working capital items	16	**(46)**	(30)	**(25)**	(41)
Net cash provided by (used in) investing activities		**(73)**	(50)	**(122)**	(109)
Financing activities					
Issuance of senior unsecured notes	6	**—**	—	**769**	1,581
Repayment and redemption of long-term debt	6	**—**	—	**(763)**	(1,723)
Debt redemption premium and refinancing costs	6	**—**	(1)	**(19)**	(49)
Issue of shares, net of issue costs		**2**	—	**4**	—
Receipts on leased assets	16	**—**	1	**1**	1
Payments on leased liabilities	16	**(7)**	(7)	**(14)**	(13)
Net cash provided by (used in) financing activities		**(5)**	(7)	**(22)**	(203)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**3**	(2)	**(3)**	10
Change in cash and cash equivalents		**105**	58	**45**	(86)
Cash and cash equivalents, beginning of period		**54**	62	**114**	206
Cash and cash equivalents, end of period		**$ 159**	**$ 120**	**$ 159**	**$ 120**

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 400 square miles of mineral leases in the southern Athabasca oil region of Alberta, Canada and is primarily engaged in sustainable *in situ* thermal oil production at its Christina Lake Project.

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

2. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements ("interim consolidated financial statements") were prepared using the same accounting policies and methods as those used in the Corporation's audited consolidated financial statements for the year ended December 31, 2020. The interim consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB"), has been omitted or condensed. The preparation of interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, have been set out in Note 4 of the Corporation's audited consolidated financial statements for the year ended December 31, 2020. These interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2020.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of coronavirus ("COVID-19"). COVID-19 continues to impact worldwide demand for crude oil and therefore global commodity markets. Price volatility remains largely due to market sensitivity to COVID-19 related news including vaccine breakthroughs and rollouts, and the resurgence of COVID-19 cases and developing variants of concern.

The continued impact on capital and financial markets on a macro-scale present uncertainty and risk with respect to the Corporation's performance, and estimates and assumptions used in the preparation of its financial results.

These interim consolidated financial statements are presented in Canadian dollars ($ or C$), which is the Corporation's functional currency and were approved by the Corporation's Audit Committee on July 22, 2021.

3. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Cost					
Balance as at December 31, 2020	$ 9,245	$ 88	$ 296	$ 78	$ 9,707
Additions	142	—	8	—	150
Dispositions	—	(39)	—	—	(39)
Change in decommissioning liabilities	7	(2)	—	—	5
Balance as at June 30, 2021	**$ 9,394**	**$ 47**	**$ 304**	**$ 78**	**$ 9,823**
Accumulated depletion and depreciation					
Balance as at December 31, 2020	$ 3,580	$ 32	$ 53	$ 49	$ 3,714
Depletion and depreciation	201	—	13	2	216
Balance as at June 30, 2021	**$ 3,781**	**$ 32**	**$ 66**	**$ 51**	**$ 3,930**
Carrying amounts					
Balance as at December 31, 2020	$ 5,665	$ 56	$ 243	$ 29	$ 5,993
Balance as at June 30, 2021	**$ 5,613**	**$ 15**	**$ 238**	**$ 27**	**$ 5,893**

During the quarter, the Corporation completed the sale of non-core industrial lands near Edmonton for cash proceeds of approximately $44 million, and a gain on sale of $4 million was recognized.

As at June 30, 2021, property, plant and equipment was assessed for impairment and no impairment was recognized. Included in the cost of property, plant and equipment is $254 million of assets that were under construction (December 31, 2020 – $244 million) and became available for use and will be depreciated subsequent to June 30, 2021.

4. EXPLORATION AND EVALUATION ASSETS

As at June 30, 2021, exploration and evaluation assets consist of $126 million in exploration projects which are pending the determination of proved or probable reserves. These assets were assessed for impairment and no impairment has been recognized on exploration and evaluation assets.

5. OTHER ASSETS

As at	June 30, 2021	December 31, 2020
Non-current pipeline linefill[(a)]	**$ 168**	$ 176
Finance sublease receivables	**16**	17
Intangible assets[(b)]	**6**	7
Deferred financing costs	**1**	3
Prepaid transportation costs[(c)]	**8**	8
	199	211
Less current portion, included in trade receivables and other	**(4)**	(5)
	$ 195	$ 206

a. Non-current pipeline linefill on third-party owned pipelines is classified as a non-current asset as these transportation contracts expire between the years 2025 and 2048. During the six months ended June 30, 2021, an impairment of $5 million was recognized on long-term linefill.

b. As at June 30, 2021, intangible assets consist of software that is not an integral component of the related computer hardware. Depreciation of $1 million was recognized for the six months ended June 30, 2021 (year ended December 31, 2020 – $2 million). In 2020, the Corporation sold patents that were recorded at a nominal amount, and recognized a gain on asset disposition of $6 million.

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

6. LONG-TERM DEBT

As at	June 30, 2021	December 31, 2020
Second Lien:		
6.5% senior secured second lien notes (June 30, 2021 - US$496 million; December 31, 2020 - US$496 million; due 2025)	**$ 615**	$ 633
Unsecured:		
7.125% senior unsecured notes (June 30, 2021 - US$1.2 billion; December 31, 2020 - US$1.2 billion; due 2027)	**1,489**	1,531
5.875% senior unsecured notes (June 30, 2021 - US$600 million; December 31, 2020 - US$nil; due 2029)	**744**	—
7.0% senior unsecured notes (June 30, 2021 - US$nil; December 31, 2020 - US$600 million; due 2024)	**—**	765
	2,848	2,929
Debt redemption premium	**4**	9
Unamortized deferred debt discount and debt issue costs	**(32)**	(26)
	$ 2,820	$ 2,912

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.2405 (December 31, 2020 – US$1 = C$1.2755).

On February 2, 2021, the Corporation successfully closed on a private offering of US$600 million in aggregate principal amount of 5.875% senior unsecured notes due February 2029. The net proceeds of the offering, together with cash-on-hand, were used to fully redeem US$600 million in aggregate principal amount of its 7.00% senior unsecured notes due March 2024 at a redemption price of 101.167% and to pay fees and expenses related to the offer. The redemption included a prepayment option, recognized as at December 31, 2020, whereby the Corporation was required to make an estimate at the reporting date of the likelihood of the prepayment option being exercised.

As at June 30, 2021, the Corporation had $785 million of unutilized capacity under the $800 million revolving credit facility and the Corporation had $112 million of unutilized capacity under the $500 million EDC Facility. A letter of credit of $15 million was issued under the revolving credit facility during the year ended December 31, 2020 that remains outstanding.

Subsequent to the second quarter of 2021, on July 22, 2021, the Corporation announced that it had issued a notice to redeem US$100 million (approximately C$125 million) of the Corporation's 6.50% senior secured second lien notes due January 2025 at a redemption price of 103.25%, plus accrued and unpaid interest to, but not including, the redemption date. The redemption is expected to be completed on or about August 23, 2021. The redemption includes a prepayment option whereby the Corporation is required to make an estimate at the reporting date of the likelihood of the prepayment option being exercised under *IAS 10, Events After the Reporting Period*, as an adjusting subsequent event. Given the announced redemption, an expense was recognized as at June 30, 2021 to reflect the known likelihood of the prepayment option, with the expense reflecting the 103.25% redemption price. For the three and six months ended June 30, 2021, the Corporation recognized a debt redemption premium of

$4 million and an additional $1 million expense reflecting a portion of the remaining unamortized deferred debt issue costs on the announced redemption (Note 13).

7. PROVISIONS AND OTHER LIABILITIES

As at		**June 30, 2021**		**December 31, 2020**
Lease liabilities[(a)]	**$**	**280**	$	286
Decommissioning provision[(b)]		**104**		96
Onerous contract provision[(c)]		**12**		25
Long-term incentive compensation liability[(d)]		**20**		13
Provisions and other liabilities		**416**		420
Less current portion		**(44)**		(56)
Non-current portion	**$**	**372**	$	364

a. Lease liabilities:

As at		**June 30, 2021**		**December 31, 2020**
Balance, beginning of period	**$**	**286**	$	281
Additions		**8**		19
Modifications		**—**		7
Payments		**(27)**		(47)
Interest expense		**13**		26
Balance, end of period		**280**		286
Less current portion		**(27)**		(28)
Non-current portion	**$**	**253**	$	258

The Corporation's minimum lease payments are as follows:

As at June 30		**2021**
Within one year	**$**	**51**
Later than one year but not later than five years		**147**
Later than five years		**484**
Minimum lease payments		**682**
Amounts representing finance charges		**(402)**
Net minimum lease payments	**$**	**280**

b. Decommissioning provision:

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

As at	June 30, 2021	December 31, 2020
Balance, beginning of period	**$ 96**	$ 71
Changes in estimated life and estimated future cash flows	**1**	4
Changes in discount rates	**5**	16
Liabilities settled	**(2)**	(3)
Accretion	**4**	8
Balance, end of period	**104**	96
Less current portion	**(5)**	(3)
Non-current portion	**$ 99**	$ 93

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 $794 million (December 31, 2020 – $802 million). As at June 30, 2021, the Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 11.2% (December 31, 2020 – 11.7%) and an inflation rate of 2.1% (December 31, 2020 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2020 - periods up to the year 2066).

c. Onerous contract provision:

The provision represents the present value of the minimum future payments that the Corporation is obligated to make under the non-cancelable onerous contract. There is no impact from discounting as the onerous contract will be settled by December 31, 2021. Liabilities settled during the six months ended June 30, 2021 were $12 million.

d. Long-term incentive compensation liability:

An $36 million cash-settled expense was recognized in the six months ended June 30, 2021 due to the increase in the Corporation's share price, and associated increase in value of cash-settled RSUs, PSUs and DSUs compared to December 31, 2020, which translates to an increased liability and expense at June 30, 2021.

8. SHARE CAPITAL

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

Changes in issued common shares are as follows:

	Six months ended June 30, 2021		Year ended December 31, 2020	
	Number of shares (thousands)	Amount	Number of shares (thousands)	Amount
Balance, beginning of year	**302,681**	**$ 5,460**	299,508	$ 5,443
Issued upon exercise of stock options	**790**	**6**	39	—
Issued upon vesting and release of RSUs and PSUs	**3,245**	**19**	3,134	17
Balance, end of period	**306,716**	**$ 5,485**	302,681	$ 5,460

9. STOCK-BASED COMPENSATION

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Cash-settled expense (recovery)[(i)]	**$ 17**	$ 9	**$ 36**	$ (9)
Equity-settled expense	**5**	2	**7**	7
Equity price risk management (gain) loss[(ii)]	**(18)**	(19)	**(37)**	(20)
Stock-based compensation	**$ 4**	$ (8)	**$ 6**	$ (22)

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

(ii) Relates to financial derivatives entered into to manage the Corporation's exposure to cash-settled RSUs and PSUs vesting in 2021, 2022 and 2023 granted under the Corporation's stock-based compensation plans. Amounts are unrealized until vesting of the related units occurs. See note 18(d) for further details.

A $36 million cash-settled expense was recognized during the six months ended June 30, 2021 due to the increase in the Corporation's share price, and associated increase in value of cash-settled RSUs, PSUs and DSUs compared to December 31, 2020, which translates to an increased liability and expense at June 30, 2021. As at June 30, 2021, the Corporation recognized a liability of $49 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2020 – $23 million). The current portion of $29 million is included within accounts payable and accrued liabilities and $20 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards.

10. REVENUES

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Sales from:				
Production	**$ 813**	$ 181	**$ 1,508**	$ 650
Purchased product[(i)]	**187**	118	**385**	297
Petroleum revenue	**$ 1,000**	$ 299	**$ 1,893**	$ 947
Royalties	**(14)**	—	**(21)**	(6)
Petroleum revenue, net of royalties	**$ 986**	$ 299	**$ 1,872**	$ 941
Power revenue	**$ 21**	$ 6	**$ 46**	$ 26
Transportation revenue	**2**	2	**5**	5
Other revenue	**$ 23**	$ 8	**$ 51**	$ 31
Total revenues	**$ 1,009**	$ 307	**$ 1,923**	$ 972

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

a. Disaggregation of revenue from contracts with customers

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

	Three months ended June 30					
	2021			2020		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	**$ 411**	**$ —**	**$ 411**	$ 84	$ 3	$ 87
United States	**402**	**187**	**589**	97	115	212
	$ 813	**$ 187**	**$ 1,000**	$ 181	$ 118	$ 299

	Six months ended June 30					
	2021			2020		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	**$ 802**	**$ —**	**$ 802**	$ 392	$ 34	$ 426
United States	**706**	**385**	**1,091**	258	263	521
	$ 1,508	**$ 385**	**$ 1,893**	$ 650	$ 297	$ 947

Other revenue recognized during the three and six months ended June 30, 2021 and 2020 is attributed to Canada.

b. Revenue-related assets

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

As at	June 30, 2021	December 31, 2020
Petroleum revenue	**$ 369**	$ 249
Other revenue	**8**	4
Total revenue-related assets	**$ 377**	$ 253

Revenue-related receivables are typically settled within 30 days. As at June 30, 2021 and December 31, 2020, there was no material expected credit loss required against revenue-related receivables.

11. DILUENT AND TRANSPORTATION

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Diluent expense	**$ 324**	$ 128	**$ 620**	$ 428
Transportation and storage	**91**	77	**184**	157
Diluent and transportation	**$ 415**	$ 205	**$ 804**	$ 585

12. FOREIGN EXCHANGE (GAIN) LOSS, NET

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Unrealized foreign exchange (gain) loss on:				
Long-term debt	**$ (38)**	$ (116)	**$ (86)**	$ 162
US$ denominated cash and cash equivalents	**(3)**	2	**2**	(9)
Unrealized net (gain) loss on foreign exchange	**(41)**	(114)	**(84)**	153
Realized (gain) loss on foreign exchange	**—**	(2)	**—**	1
Foreign exchange (gain) loss, net	**$ (41)**	$ (116)	**$ (84)**	$ 154

C$ equivalent of 1 US$				
Beginning of period	**1.2572**	1.4120	**1.2755**	1.2965
End of period	**1.2405**	1.3616	**1.2405**	1.3616

13. NET FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Interest expense on long-term debt	**$ 53**	$ 60	**$ 111**	$ 124
Interest expense on lease liabilities	**7**	7	**13**	13
Interest income	**—**	—	**—**	(2)
Net interest expense	**60**	67	**124**	135
Debt extinguishment expense	**5**	—	**5**	—
Accretion on provisions	**2**	2	**4**	4
Net finance expense	**$ 67**	$ 69	**$ 133**	$ 139

For the three and six months ended June 30, 2021, debt extinguishment expense was recognized in association with the July 22, 2021 announced debt redemption and included a cumulative debt redemption premium of $4 million and associated unamortized deferred debt issue costs of $1 million. Refer to Note 6 for further details.

14. OTHER EXPENSES

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Contract cancellation[i]	**$ —**	$ 20	**$ —**	$ 26
Severance and restructuring	**—**	2	**—**	4
Other expenses	**$ —**	$ 22	**$ —**	$ 30

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

15. INCOME TAX EXPENSE (RECOVERY)

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Current income tax expense (recovery)	**$ (2)**	$ (1)	**$ (2)**	$ (1)
Deferred income tax expense (recovery)	**17**	(61)	**(2)**	(63)
Income tax expense (recovery)	**$ 15**	$ (62)	**$ (4)**	$ (64)

For the three and six months ended June 30, 2021, the Corporation recognized a $12 million deferred tax expense associated with the tax treatment of a prior year investment in pipeline access. The Corporation disputes the current Canada Revenue Agency assessment and is considering its alternatives.

16. SUPPLEMENTAL CASH FLOW DISCLOSURES

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Cash provided by (used in):				
Trade receivables and other	**$ (57)**	$ (7)	**$ (174)**	$ 157
Inventories	**(2)**	(7)	**(36)**	27
Accounts payable and accrued liabilities	**(14)**	(21)	**92**	(156)
Interest payable	**47**	53	**4**	9
	$ (26)	$ 18	**$ (114)**	$ 37
Changes in non-cash working capital relating to:				
Operating	**$ 20**	$ 48	**$ (89)**	$ 78
Investing	**(46)**	(30)	**(25)**	(41)
	$ (26)	$ 18	**$ (114)**	$ 37
Cash and cash equivalents:[(a)]				
Cash	**$ 159**	$ 120	**$ 159**	$ 120
Cash equivalents	**—**	—	**—**	—
	$ 159	$ 120	**$ 159**	$ 120
Cash interest paid	**$ —**	$ —	**$ 96**	$ 105

a. As at June 30, 2021, $6 million of the Corporation’s total cash and cash equivalents balance was held in U.S. dollars (June 30, 2020 – $90 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$1.2405 (June 30, 2020 – US$1=C$1.3616).

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, 2020	$ 17	$ 286	$ 2,912
Financing cash flow changes:			
Receipts on leased assets	(1)	—	—
Payments on leased liabilities	—	(14)	—
Issuance of senior unsecured notes	—	—	769
Repayment and redemption of long-term debt	—	—	(763)
Debt redemption premium and refinancing costs	—	—	(19)
Other cash and non-cash changes:			
Lease liabilities settled	—	(13)	—
Lease liabilities incurred	—	8	—
Interest expense on lease liabilities	—	13	—
Unrealized (gain) loss on foreign exchange	—	—	(86)
Debt redemption premium	—	—	5
Amortization of deferred debt discount and debt issue costs	—	—	2
Balance as at June 30, 2021	**$ 16**	**$ 280**	**$ 2,820**

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

17. NET EARNINGS (LOSS) PER COMMON SHARE

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Net earnings (loss)	**$ 68**	$ (80)	**$ 51**	$ (364)
Weighted average common shares outstanding (millions)[(a)]	**307**	303	**305**	302
Dilutive effect of stock options, RSUs and PSUs (millions)[(b)]	**4**	—	**5**	—
Weighted average common shares outstanding – diluted (millions)	**311**	303	**310**	302
Net earnings (loss) per share, basic	**$ 0.22**	$ (0.26)	**$ 0.17**	$ (1.21)
Net earnings (loss) per share, diluted	**$ 0.22**	$ (0.26)	**$ 0.17**	$ (1.21)

a. Weighted average common shares outstanding for the three months ended June 30, 2021 did not include any PSUs vested but not yet released (three months ended June 30, 2020 - 571,529 PSUs). Weighted average common shares outstanding for the six months ended June 30, 2021 includes 272,259 PSUs vested but not yet released (six months ended June 30, 2020 - 476,272 PSUs).

b. For the three and six months ended June 30, 2020, the Corporation incurred a net loss and therefore there was no dilutive effect of stock options, RSUs and PSUs. If the Corporation had recognized net earnings for the three and six months ended June 30, 2020, the dilutive effect of stock options, RSUs and PSUs would have been 3.6 million weighted average common shares.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a. Fair values:

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

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

As at	**June 30, 2021**		**December 31, 2020**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Recurring measurements:				
Financial assets				
Risk management contracts	**$ 56**	**$ 56**	$ 27	$ 27
Financial liabilities				
Long-term debt (Note 6)	**$ 2,848**	**$ 3,010**	$ 2,929	$ 3,019
Risk management contracts	**$ 144**	**$ 144**	$ 29	$ 29

The estimated fair value of long-term debt is derived using quoted prices in an inactive market from a third-party independent broker. The fair value was determined based on estimates as at June 30, 2021 and is expected to fluctuate given the volatility in the debt and commodity price markets.

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

b. Risk management:

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

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

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

As at	June 30, 2021			December 31, 2020		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Gross amount	**$ 56**	**$ (167)**	**$ (111)**	$ 27	$ (62)	$ (35)
Amount offset	**—**	**23**	**23**	—	33	33
Net amount	**$ 56**	**$ (144)**	**$ (88)**	$ 27	$ (29)	$ (2)
Current portion	**$ 25**	**$ (144)**	**$ (119)**	$ 6	$ (29)	$ (23)
Non-current portion	**31**	**—**	**31**	21	—	21
Net amount	**$ 56**	**$ (144)**	**$ (88)**	$ 27	$ (29)	$ (2)

The following table provides a reconciliation of changes in the fair value of the Corporation's financial risk management assets and liabilities from January 1 to June 30:

As at June 30	2021	2020
Fair value of contracts, beginning of year	$ (2)	$ (77)
Fair value of contracts realized	156	321
Change in fair value of contracts	(242)	(140)
Fair value of contracts, end of period	**$ (88)**	$ 104

c. Commodity risk management:

The Corporation had the following financial commodity risk management contracts relating to crude oil sales and condensate purchases outstanding as at June 30, 2021:

As at June 30, 2021			
Crude Oil Sales Contracts[(ii)]	**Volumes (bbls/d)**[(i)]	**Term**	**Average Price (US$/bbl)**[(i)]
WTI:WCS[(iii)(iv)] Fixed Differential	10,000	Jul 1, 2021 - Sep 30, 2021	$(11.05)
Enhanced Fixed Price with Sold Put Option			
WTI Fixed Price/Sold Put Option Strike Price	29,000	Jul 1, 2021 - Dec 31, 2021	$46.18/$38.79
Condensate Purchase Contracts			
WTI:Mont Belvieu Fixed Differential	10,950	Jul 1, 2021 - Dec 31, 2021	$(10.37)
WTI:Mont Belvieu Fixed Differential	200	Jan 1, 2022 - Dec 31, 2022	$(11.30)
Natural Gas Purchase Contracts	**Volumes (GJ/d)**[(i)]	**Term**	**Average Price (C$/GJ)**[(i)]
AECO Fixed Price	37,500	Jul 1, 2021 - Dec 31, 2021	$2.60
AECO Fixed Price	5,000	Jan 1, 2022 - Dec 31, 2023	$2.50

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

(ii) Incremental to these crude oil sales contracts, the Corporation occasionally enters into contracts to fix the spread between WTI prices for consecutive months within a quarter.

(iii) West Texas Intermediate ("WTI") crude oil

(iv) Western Canadian Select ("WCS") crude oil blend

Except for contracts to fix the spread between July and August 2021 WTI prices, the Corporation did not enter into any financial commodity risk management contracts subsequent to June 30, 2021.

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

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Realized loss (gain) on commodity risk management	**$ 87**	$ (215)	**$ 156**	$ (321)
Unrealized loss (gain) on commodity risk management	**27**	267	**115**	(161)
Commodity risk management (gain) loss, net	**$ 114**	$ 52	**$ 271**	$ (482)

The following table summarizes the sensitivity of the earnings (loss) before income tax impact of fluctuating commodity prices on the Corporation's open financial commodity risk management positions in place as at June 30, 2021:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$5.00 per bbl applied to WTI contracts	**$ (33)**	**$ 32**
Crude oil differential price [(i)]	± US$5.00 per bbl applied to WTI:WCS differential contracts	**$ 6**	**$ (6)**
Condensate purchase price	± 5% in condensate price as a percentage of WTI	**$ 9**	**$ (9)**
Natural gas purchase price	± C$0.50 per GJ applied to natural gas contracts	**$ 5**	**$ (5)**

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

d. Equity price risk management:

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

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Unrealized equity price risk management (gain) loss	**$ (18)**	$ (19)	**$ (29)**	$ (20)
Realized equity price risk management (gain) loss	**—**	—	**(8)**	—
Equity price risk management (gain) loss	**$ (18)**	$ (19)	**$ (37)**	$ (20)

e. Credit risk management:

Credit risk arises from the potential that the Corporation may incur a loss if a counterparty fails to meet its obligations in accordance with agreed terms. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses a combination of historical and forward looking information to determine the appropriate loss allowance provisions. Credit risk exposure is mitigated through the use of credit policies governing the Corporation's credit portfolio and with credit practices that limit transactions according to each counterparty's credit quality. A substantial portion of accounts receivable are with investment grade customers in the energy industry and are subject to normal industry credit risk. The Corporation has experienced no material loss in relation to trade receivables. As at June 30, 2021, the Corporation’s estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $448 million. All amounts receivable from commodity risk management activities are due from large Canadian banks with strong investment grade credit ratings. Counterparty default risk associated with the Corporation’s commodity risk management activities is also partially mitigated through credit exposure limits, frequent assessment of counterparty credit ratings and netting arrangements, as outlined in note 24 of the Corporation’s 2020 annual consolidated financial statements.

The Corporation’s cash balances are used to fund the development of its properties. As a result, the primary objectives of the investment portfolio are low risk capital preservation and high liquidity. The cash balances are held in high interest savings accounts or are invested in high grade, liquid, short-term instruments such as bankers’ acceptances, commercial paper, money market deposits or similar instruments. The cash and cash equivalents balance at June 30, 2021 was $159 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 $159 million.

f. Liquidity risk management:

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

Management believes its current capital resources and its ability to manage cash flow and working capital levels will allow the Corporation to meet its current and future obligations, to make scheduled principal and interest payments, and to fund the other needs of the business for at least the next 12 months. Meeting current and future obligations through periods of volatility is supported by the Corporation's financial framework including a strong commodity risk management program securing cash flow through 2021 and credit risk management policies minimizing exposure related to customer receivables primarily to investment grade customers in the energy industry. However, no assurance can be given that this will be the case or that future sources of capital will not be necessary.

The Corporation's earliest maturing long-term debt is three and a half years out, represented by US$496 million of senior unsecured notes due January 2025, of which US$100 million will be redeemed on or about August 23, 2021 as per the announced notice of redemption. None of the Corporation’s outstanding long-term debt contain financial maintenance covenants. Additionally, the Corporation's modified covenant-lite $800 million revolving credit facility has no financial maintenance covenant unless drawn in excess of $400 million. If drawn in excess of $400 million, the Corporation is required to maintain a quarterly first lien net leverage ratio (first lien net debt to last twelve-month EBITDA) of 3.5 or less. Under the Corporation's credit facility, first lien net debt is calculated as debt under the credit facility plus other debt that is secured on a *pari passu* basis with the credit facility, less cash on hand.

19. CAPITAL MANAGEMENT

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

On February 2, 2021, the Corporation successfully closed on a private offering of US$600 million in aggregate principal amount of 5.875% senior unsecured notes due February 2029. The net proceeds of the offering, together with cash-on-hand, were used to fully redeem US$600 million in aggregate principal amount of the 7.00% senior unsecured notes due March 2024 at a redemption price of 101.167% and to pay fees and expenses related to the offer.

The Corporation's earliest maturity date on outstanding debt is January 2025. As at June 30, 2021, the Corporation had $785 million of unutilized capacity under the $800 million revolving credit facility and had $112 million of unutilized capacity under the $500 million letter of credit facility. A letter of credit of $15 million was issued under its revolving credit facility in the first quarter of 2020.

The following table summarizes the Corporation's net debt:

As at	Note	June 30, 2021	December 31, 2020
Long-term debt	6	**$ 2,820**	$ 2,912
Cash and cash equivalents		**(159)**	(114)
Net debt		**$ 2,661**	$ 2,798

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

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

		Three months ended June 30		Six months ended June 30	
	Note	2021	2020	2021	2020
Net cash provided by (used in) operating activities		**$ 180**	$ 117	**$ 192**	$ 216
Net change in non-cash operating working capital items	16	**(20)**	(48)	**89**	(78)
Funds flow from (used in) operations		**160**	69	**281**	138
Adjustments:					
Payments on onerous contracts		**6**	—	**12**	—
Contract cancellation		**—**	20	**—**	26
Adjusted funds flow		**$ 166**	$ 89	**$ 293**	$ 164

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 and non-recurring items 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.

20. COMMITMENTS AND CONTINGENCIES

a. Commitments

The Corporation’s commitments are enforceable and legally binding obligations to make payments in the future for goods and services. These items exclude amounts recorded on the consolidated balance sheet. The Corporation had the following commitments as at June 30, 2021:

	2021	2022	2023	2024	2025	Thereafter	Total
Transportation and storage[i]	$ 197	$ 399	$ 440	$ 435	$ 411	$ 5,657	$ 7,539
Diluent purchases	100	20	17	—	—	—	137
Other operating commitments	11	16	16	13	12	36	104
Variable office lease costs	2	4	4	4	5	27	46
Capital commitments	35	—	—	—	—	—	35
Commitments	**$ 345**	**$ 439**	**$ 477**	**$ 452**	**$ 428**	**$ 5,720**	**$ 7,861**

(i) This represents transportation and storage commitments from 2021 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 7(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.

21. SUBSEQUENT EVENT

On July 22, 2021, the Corporation announced that it had issued a notice to redeem US$100 million (approximately C$125 million) of the Corporation's 6.50% senior secured second lien notes due January 2025 at a redemption price of 103.25%, plus accrued and unpaid interest to, but not including, the redemption date. The redemption is expected to be completed on or about August 23, 2021. The redemption includes a prepayment option whereby the Corporation is required to make an estimate at the reporting date of the likelihood of the prepayment option being exercised under *IAS 10, Events After the Reporting Period*, as an adjusting subsequent event. Given the announced redemption, an expense was recognized as at June 30, 2021 to reflect the known likelihood of the prepayment option, with the expense reflecting the 103.25% redemption price. For the three and six months ended June 30, 2021, the Corporation recognized a debt redemption premium of $4 million and an additional $1 million expense reflecting a portion of the remaining unamortized deferred debt issue costs on the announced redemption for a total debt extinguishment expense of $5 million.