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

As at	Note	June 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents	14	$ **244**	$ 361
Trade receivables and other		**583**	496
Inventories		**240**	157
Risk management	16	**84**	36
		1,151	1,050
Non-current assets			
Property, plant and equipment	3	**5,867**	5,878
Exploration and evaluation assets	4	**126**	126
Other assets	5	**201**	202
Risk management	16	**5**	41
Deferred income tax asset	13	**100**	296
Total assets		$ **7,450**	$ 7,593
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ **629**	$ 500
Interest payable		**58**	80
Current portion of long-term debt	6	**—**	285
Current portion of provisions and other liabilities	7	**27**	27
Risk management	16	**—**	7
		714	899
Non-current liabilities			
Long-term debt	6	**2,026**	2,477
Provisions and other liabilities	7	**371**	409
Total liabilities		**3,111**	3,785
Shareholders' equity			
Share capital	8	**5,451**	5,486
Contributed surplus		**162**	172
Deficit		**(1,302)**	(1,875)
Accumulated other comprehensive income		**28**	25
Total shareholders' equity		**4,339**	3,808
Total liabilities and shareholders' equity		$ **7,450**	$ 7,593

Commitments and contingencies (Note 18)
The accompanying notes are an integral part of these Interim Consolidated Financial Statements.

Consolidated Statement of Earnings 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	**2022**	**2021**	**2022**	**2021**
Revenues					
Petroleum revenue, net of royalties	10	**$ 1,549**	$ 986	**$ 3,056**	$ 1,872
Other revenue	10	**22**	23	**46**	51
Revenues		**1,571**	1,009	**3,102**	1,923
Expenses					
Diluent expense		**415**	324	**932**	620
Transportation and storage expense		**130**	91	**248**	184
Operating expenses		**107**	67	**211**	133
Purchased product		**376**	184	**536**	369
Depletion and depreciation	3, 5	**87**	108	**211**	216
General and administrative		**15**	13	**29**	27
Stock-based compensation	9	**14**	4	**20**	6
Net finance expense	12	**62**	67	**117**	133
Inventory impairment		**—**	(1)	**—**	5
Gain on asset dispositions	5	**(3)**	(4)	**(3)**	(4)
Commodity risk management (gain) loss, net	16	**(9)**	114	**(14)**	271
Foreign exchange (gain) loss, net	11	**60**	(41)	**32**	(84)
Earnings before income taxes		**317**	83	**783**	47
Income tax expense (recovery)	13	**92**	15	**196**	(4)
Net earnings		**225**	68	**587**	51
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment		**5**	(2)	**3**	(5)
Comprehensive income		**$ 230**	$ 66	**$ 590**	$ 46
Net earnings per common share					
Basic	15	**$ 0.73**	$ 0.22	**$ 1.90**	$ 0.17
Diluted	15	**$ 0.72**	$ 0.22	**$ 1.87**	$ 0.17

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

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

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at December 31, 2021	**$ 5,486**	**$ 172**	**$ (1,875)**	**$ 25**	**$ 3,808**
Stock-based compensation	**—**	**11**	**—**	**—**	**11**
Stock options exercised	**34**	**(10)**	**—**	**—**	**24**
RSUs vested and released	**11**	**(11)**	**—**	**—**	**—**
Repurchase of shares for cancellation	**(80)**	**—**	**(14)**	**—**	**(94)**
Comprehensive income (loss)	**—**	**—**	**587**	**3**	**590**
Balance as at June 30, 2022	**$ 5,451**	**$ 162**	**$ (1,302)**	**$ 28**	**$ 4,339**
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
RSUs 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

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	2022	2021	2022	2021
Cash provided by (used in):					
Operating activities					
Net earnings		**$ 225**	$ 68	**$ 587**	$ 51
Adjustments for:					
Deferred income tax expense (recovery)	13	**92**	17	**196**	(2)
Inventory impairment		**—**	(1)	**—**	5
Depletion and depreciation	3, 5	**87**	108	**211**	216
Stock-based compensation	9	**3**	(13)	**11**	(21)
Unrealized net (gain) loss on foreign exchange	11	**59**	(41)	**30**	(84)
Unrealized net (gain) loss on commodity risk management	16	**(8)**	27	**(12)**	115
Amortization of debt discount and debt issue costs		**(1)**	2	**1**	4
Gain on asset dispositions	5	**(3)**	(4)	**(3)**	(4)
Debt extinguishment expense	12	**12**	5	**12**	5
Other		**2**	2	**3**	3
Decommissioning expenditures	7	**1**	—	**(1)**	(2)
Payments on onerous contracts		**—**	(6)	**—**	(12)
Net change in long-term incentive compensation liability		**(57)**	(4)	**(36)**	7
Funds flow from operating activities		**412**	160	**999**	281
Net change in non-cash working capital items	14	**199**	20	**(71)**	(89)
Net cash provided (used in) by operating activities		**611**	180	**928**	192
Investing activities					
Capital expenditures	3	**(104)**	(71)	**(192)**	(141)
Net proceeds on dispositions		**3**	44	**3**	44
Other		**2**	—	**1**	—
Net change in non-cash working capital items	14	**7**	(46)	**8**	(25)
Net cash provided by (used in) investing activities		**(92)**	(73)	**(180)**	(122)
Financing activities					
Issuance of senior unsecured notes		**—**	—	**—**	769
Repayment and redemption of long-term debt	6	**(484)**	—	**(772)**	(763)
Debt redemption premium and refinancing costs	6	**(12)**	—	**(17)**	(19)
Repurchase of shares	8	**(94)**	—	**(94)**	—
Issue of shares, net of issue costs		**17**	2	**24**	4
Receipts on leased assets	14	**1**	—	**2**	1
Payments on leased liabilities	14	**(6)**	(7)	**(12)**	(14)
Net cash provided by (used in) financing activities		**(578)**	(5)	**(869)**	(22)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**13**	3	**4**	(3)
Change in cash and cash equivalents		**(46)**	105	**(117)**	45
Cash and cash equivalents, beginning of period		**290**	54	**361**	114
Cash and cash equivalents, end of period		**$ 244**	$ 159	**$ 244**	$ 159

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

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

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

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

These interim consolidated financial statements are presented in Canadian dollars ($ or C$), which is the Corporation's functional currency and were approved by the Corporation's Audit Committee on July 28, 2022.

3. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Cost					
Balance as at December 31, 2021	$ 9,611	$ 47	$ 286	$ 79	$ 10,023
Additions	193	—	1	—	194
Derecognition	—	—	(3)	—	(3)
Change in decommissioning liabilities	6	—	—	—	6
Balance as at June 30, 2022	**$ 9,810**	**$ 47**	**$ 284**	**$ 79**	**$ 10,220**
Accumulated depletion and depreciation					
Balance as at December 31, 2021	$ 3,998	$ 32	$ 61	$ 54	$ 4,145
Depletion and depreciation	198	—	11	2	211
Derecognition	—	—	(3)	—	(3)
Balance as at June 30, 2022	**$ 4,196**	**$ 32**	**$ 69**	**$ 56**	**$ 4,353**
Carrying amounts					
Balance as at December 31, 2021	$ 5,613	$ 15	$ 225	$ 25	$ 5,878
Balance as at June 30, 2022	**$ 5,614**	**$ 15**	**$ 215**	**$ 23**	**$ 5,867**

As at June 30, 2022, property, plant and equipment was assessed for indicators of impairment and none were identified.

4. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of $126 million in exploration projects which are pending the determination of proved or probable reserves (year ended December 31, 2021 – $126 million). These assets were assessed for indicators of impairment and none were identified.

5. OTHER ASSETS

As at		June 30, 2022		December 31, 2021
Non-current pipeline linefill[(a)]	**$**	**177**	$	177
Finance sublease receivables		**13**		15
Intangible assets[(b)]		**4**		5
Prepaid transportation costs[(c)]		**8**		8
Pathways Initiative		**1**		—
		203		205
Less current portion, included in trade receivables and other		**(2)**		(3)
	$	**201**	$	202

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

b. As at June 30, 2022, intangible assets consist of software that is not an integral component of the related computer hardware. Depreciation of $1 million was recognized for the six months ended June 30, 2022 (year ended December 31, 2021 – $2 million). During the six months ended June 30, 2022, the Corporation sold internally generated emission performance credits that were recorded at a nominal amount, and recognized a gain on asset dispositions of $3 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, 2022		December 31, 2021
Second Lien:				
6.50% senior secured second lien notes (June 30, 2022 - nil; fully redeemed April 4, 2022; December 31, 2021 - US$396 million)[(a)]	**$**	**—**	$	501
Unsecured:				
7.125% senior unsecured notes (June 30, 2022 - US$992 million; due 2027; December 31, 2021 - US$1.2 billion)[(b)]		**1,277**		1,519
5.875% senior unsecured notes (June 30, 2022 - US$600 million; due 2029; December 31, 2021 - US$600 million)		**772**		759
		2,049		2,779
Debt redemption premium		**—**		8
Unamortized deferred debt discount and debt issue costs		**(23)**		(25)
	$	**2,026**	$	2,762
Less current portion of 6.50% senior secured second lien notes		**—**		(285)
	$	**2,026**	$	2,477

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.2872 (December 31, 2021 – US$1 = C$1.2656).

a. On January 18, 2022, the Corporation redeemed US$225 million (approximately $288 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest.

   On April 4, 2022, the Corporation redeemed the remaining outstanding balance of US$171 million (approximately $216 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest.

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

b. During the three months ended June 30, 2022, the Corporation repurchased and extinguished US$208 million (approximately $268 million) of its 7.125% senior unsecured notes due February 2027 at a weighted average price of 103.2% plus accrued and unpaid interest. For the three and six months ended June 30, 2022, the Corporation recognized a cumulative debt redemption premium of $9 million and associated unamortized deferred debt issue costs of $3 million for debt extinguishment expense of $12 million recognized in net finance expense (Note 12).

   Subsequent to June 30, 2022, the Corporation has repurchased a further US$96 million (approximately $124 million) of the Corporation's outstanding 7.125% senior unsecured notes due February 2027 at a weighted average price of 101%.

7. PROVISIONS AND OTHER LIABILITIES

As at	**June 30, 2022**	**December 31, 2021**
Lease liabilities[(a)]	**$ 254**	$ 266
Decommissioning provision[(b)]	**144**	135
Long-term incentive compensation liability[(c)]	**—**	35
Provisions and other liabilities	**398**	436
Less current portion	**(27)**	(27)
Non-current portion	**$ 371**	$ 409

a. Lease liabilities:

As at	**June 30, 2022**	**December 31, 2021**
Balance, beginning of period	**$ 266**	$ 286
Additions	**—**	8
Payments	**(24)**	(54)
Interest expense	**12**	26
Balance, end of period	**254**	266
Less current portion	**(20)**	(22)
Non-current portion	**$ 234**	$ 244

The Corporation's minimum lease payments are as follows:

As at June 30		2022
Within one year	$	43
Later than one year but not later than five years		134
Later than five years		454
Minimum lease payments		631
Amounts representing finance charges		(377)
Net minimum lease payments	$	254

The Corporation has short-term leases with lease terms of twelve months or less as well as low-value leases. As these lease costs are incurred they are recognized as either general and administrative expense or operating expense depending on their nature. As at June 30, 2022, the present value of these arrangements is $2 million (December 31, 2021 - $2 million), using the Corporation's estimated incremental borrowing rate.

b. Decommissioning provision:

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

As at		June 30, 2022		December 31, 2021
Balance, beginning of period	$	135	$	96
Changes in estimated life and estimated future cash flows		4		5
Changes in discount rates		2		29
Liabilities settled		(1)		(3)
Accretion		4		8
Balance, end of period		144		135
Less current portion		(7)		(5)
Non-current portion	$	137	$	130

The decommissioning provision represents the present value of the estimated future costs for the reclamation and abandonment of the Corporation's property, plant and equipment and exploration and evaluation assets. The total undiscounted amount of the estimated future cash flows to settle the decommissioning obligations is $792 million (December 31, 2021 – $799 million). As at June 30, 2022, the Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 9.0% (December 31, 2021 – 9.2%) and an inflation rate of 2.1% (December 31, 2021 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2021 - periods up to the year 2066).

c. Long-term incentive compensation liability:

As at June 30, 2022, the Corporation recognized a liability of $85 million, all of which is recognized as current within accounts payable and accrued liabilities, relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2021 – $82 million). The Corporation entered into equity price risk management contracts to manage its exposure on cash-settled RSUs and PSUs vesting between 2021 and 2023. Refer to Note 16 for further details.

8. 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. When the Corporation repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. If the average carrying value of the shares exceeds the purchase price, the difference will be recognized as contributed surplus. If the purchase price exceeds the average carrying value of the shares, any previous contributed surplus related to such transactions is reversed. To the extent there is none, the difference is recognized as a reduction to retained earnings.

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, 2022		Year ended December 31, 2021	
	Number of shares (thousands)	**Amount**	**Number of shares (thousands)**	**Amount**
Balance, beginning of year	**306,865**	**$ 5,486**	302,681	$ 5,460
Issued upon exercise of stock options	**1,986**	**34**	939	7
Issued upon vesting and release of RSUs and PSUs	**2,867**	**11**	3,245	19
Repurchase of shares for cancellation	**(4,447)**	**(80)**	—	—
Balance, end of period	**307,271**	**$ 5,451**	306,865	$ 5,486

On March 7, 2022, the Corporation received approval from the Toronto Stock Exchange for a normal course issuer bid ("NCIB") which allows the Corporation to purchase for cancellation, from time to time, as the Corporation considers advisable, up to a maximum of 27,242,211 common shares of MEG. The NCIB became effective March 10, 2022 and will terminate on March 9, 2023 or such earlier time as the NCIB is completed or terminated at the option of the Corporation.

During the three months ended June 30, 2022, the Corporation purchased for cancellation 4.45 million common shares under its NCIB at a weighted average price of $21.14 for a total cost of $94 million. Share capital was reduced by the average carrying value of the shares of $17.98 per share, with the remaining cost recognized as a reduction to retained earnings.

Subsequent to June 30, 2022, the Corporation has purchased for cancellation a further 2.79 million common shares for a total cost of $45 million.

During 2022, the Corporation issued approximately 2 million common shares upon exercise of stock options and issued approximately 3 million common shares upon vesting and release of RSUs and PSUs.

9. STOCK-BASED COMPENSATION

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Cash-settled expense(i)	**$ 11**	$ 17	**$ 55**	$ 36
Equity-settled expense	**6**	5	**10**	7
Realized equity price risk management (gain) loss(ii)	**—**	—	**(46)**	(8)
Unrealized equity price risk management (gain) loss(ii)	**(3)**	(18)	**1**	(29)
Stock-based compensation	**$ 14**	$ 4	**$ 20**	$ 6

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

(ii) Relates to financial derivatives entered into to manage the Corporation's exposure to cash-settled RSUs and PSUs vesting between 2021 and 2023 granted under the Corporation's stock-based compensation plans. Amounts are unrealized until vesting of the related units occurs. See note 16(d) for further details.

A $55 million cash-settled expense was recognized during the six months ended June 30, 2022 due to the increase in the Corporation's share price, and associated increase in value of cash-settled RSUs, PSUs and DSUs compared to December 31, 2021, which translated into an increased liability at June 30, 2022, and higher expense for the six months ended June 30, 2022 compared to the prior period. As at June 30, 2022, the Corporation recognized a liability of $85 million, all of which is recognized as current within accounts payable and accrued liabilities, relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2021 – $82 million).

10. REVENUES

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Sales from:				
Production	**$ 1,224**	$ 813	**$ 2,617**	$ 1,508
Purchased product(i)	**383**	187	**544**	385
Petroleum revenue	**$ 1,607**	$ 1,000	**$ 3,161**	$ 1,893
Royalties	**(58)**	(14)	**(105)**	(21)
Petroleum revenue, net of royalties	**$ 1,549**	$ 986	**$ 3,056**	$ 1,872
Power revenue	**$ 21**	$ 21	**$ 44**	$ 46
Transportation revenue	**1**	2	**2**	5
Other revenue	**$ 22**	$ 23	**$ 46**	$ 51
Revenues	**$ 1,571**	$ 1,009	**$ 3,102**	$ 1,923

(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					
	2022			2021		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	**$ 230**	**$ 31**	**$ 261**	$ 411	$ —	$ 411
United States	**994**	**352**	**1,346**	402	187	589
	$ 1,224	**$ 383**	**$ 1,607**	$ 813	$ 187	$ 1,000

	Six months ended June 30					
	2022			2021		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	Third-party	Total	Proprietary	Third-party	Total
Country:						
Canada	**$ 766**	**$ 86**	**$ 852**	$ 802	$ —	$ 802
United States	**1,851**	**458**	**2,309**	706	385	1,091
	$ 2,617	**$ 544**	**$ 3,161**	$ 1,508	$ 385	$ 1,893

For the three and six months ended June 30, 2022, other revenue of $22 million and $46 million was attributed to Canada, respectively (three and six months ended June 30, 2021 – $23 million and $51 million attributed to Canada, respectively).

b. Revenue-related assets

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

As at	June 30, 2022	December 31, 2021
Petroleum revenue	**$ 528**	$ 455
Other revenue	**8**	10
Total revenue-related assets	**$ 536**	$ 465

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

11. FOREIGN EXCHANGE (GAIN) LOSS, NET

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Unrealized foreign exchange (gain) loss on:				
Long-term debt	$ 73	$ (38)	$ 42	$ (86)
US$ denominated cash and cash equivalents	(14)	(3)	(5)	2
Foreign currency risk management contracts	—	—	(7)	—
Unrealized net (gain) loss on foreign exchange	59	(41)	30	(84)
Realized (gain) loss on foreign exchange	1	—	2	—
Foreign exchange (gain) loss, net	$ 60	$ (41)	$ 32	$ (84)

C$ equivalent of 1 US$				
Beginning of period	1.2508	1.2572	1.2656	1.2755
End of period	1.2872	1.2405	1.2872	1.2405

12. NET FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest expense on long-term debt	$ 43	$ 53	$ 90	$ 111
Interest expense on lease liabilities	6	7	12	13
Interest income	(1)	—	(1)	—
Net interest expense	48	60	101	124
Debt extinguishment expense	12	5	12	5
Accretion on provisions	2	2	4	4
Net finance expense	$ 62	$ 67	$ 117	$ 133

For the three and six months ended June 30, 2022, debt extinguishment expense of $12 million was recognized in association with the US$208 million (approximately $268 million) repurchase of the Corporation's 7.125% senior unsecured notes and included a cumulative debt redemption premium of $9 million and associated unamortized deferred debt issue costs of $3 million. Refer to Note 6 for further details.

For the three and six months ended June 30, 2021, debt extinguishment expense of $5 million was recognized in association with the US$100 million (approximately $125 million) redemption of the Corporation's 6.5% senior secured second lien notes and included a cumulative debt redemption premium of $4 million and associated expensing of unamortized deferred debt issue costs of $1 million.

13. INCOME TAX EXPENSE (RECOVERY)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Current income tax expense (recovery)	$ —	$ (2)	$ —	$ (2)
Deferred income tax expense (recovery)	92	17	196	(2)
Income tax expense (recovery)	$ 92	$ 15	$ 196	$ (4)

14. SUPPLEMENTAL CASH FLOW DISCLOSURES

	Three months ended June 30		Six months ended June 30	
	2022	**2021**	**2022**	**2021**
Cash provided by (used in):				
Trade receivables and other	**$ 100**	$ (57)	**$ (84)**	$ (174)
Inventories	**(14)**	(2)	**(83)**	(36)
Accounts payable and accrued liabilities	**91**	(14)	**126**	92
Interest payable	**29**	47	**(22)**	4
	$ 206	$ (26)	**$ (63)**	$ (114)
Changes in non-cash working capital relating to:				
Operating	**$ 199**	$ 20	**$ (71)**	$ (89)
Investing	**7**	(46)	**8**	(25)
	$ 206	$ (26)	**$ (63)**	$ (114)
Cash and cash equivalents:[a]				
Cash	**$ 244**	$ 159	**$ 244**	$ 159
Cash equivalents	**—**	—	**—**	—
	$ 244	$ 159	**$ 244**	$ 159
Cash interest paid	**$ 9**	$ —	**$ 103**	$ 96

a. As at June 30, 2022, $214 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars (June 30, 2021 – $6 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$1.2872 (June 30, 2021 – US$1=C$1.2405).

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

	Finance sublease receivables	**Lease liabilities**	**Long-term debt**
Balance as at December 31, 2021	$ 15	$ 266	$ 2,762
Financing cash flow changes:			
Receipts on leased assets	(2)	—	—
Payments on leased liabilities	—	(12)	—
Repayment and redemption of long-term debt	—	—	(772)
Debt redemption premium and refinancing costs	—	—	(17)
Other cash and non-cash changes:			
Interest payments on lease liabilities	—	(12)	—
Interest expense on lease liabilities	—	12	—
Unrealized (gain) loss on foreign exchange	—	—	42
Debt redemption premium	—	—	9
Amortization of deferred debt discount and debt issue costs	—	—	2
Balance as at June 30, 2022	**$ 13**	**$ 254**	**$ 2,026**

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

15. NET EARNINGS PER COMMON SHARE

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net earnings	$ 225	$ 68	$ 587	$ 51
Weighted average common shares outstanding (millions)[a]	310	307	309	305
Dilutive effect of stock options, RSUs and PSUs (millions)	4	4	5	5
Weighted average common shares outstanding – diluted (millions)	314	311	314	310
Net earnings per share, basic	$ 0.73	$ 0.22	$ 1.90	$ 0.17
Net earnings per share, diluted	$ 0.72	$ 0.22	$ 1.87	$ 0.17

a. Weighted average common shares outstanding for the three and six months ended June 30, 2022 include 238,773 PSUs vested but not yet released and 120,046 PSUs vested but not yet released, respectively (three and six months ended June 30, 2021 - nil and 272,259 PSUs vested but not yet released, respectively).

16. 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, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Recurring measurements:				
Financial assets				
Commodity risk management contracts	$ 15	$ 15	$ 3	$ 3
Equity price risk management contracts	$ 74	$ 74	$ 74	$ 74
Financial liabilities				
Long-term debt (Note 6)	$ 2,049	$ 1,985	$ 2,779	$ 2,888
Foreign currency risk management contracts	$ —	$ —	$ 7	$ 7

The estimated fair value of long-term debt is derived using quoted prices in an inactive market from a third-party independent broker. The fair value was determined based on estimates as at June 30, 2022 and is expected to fluctuate given the volatility in the debt and commodity price markets.

The fair value of risk management contracts is derived using quoted prices in an active market from a third-party independent broker. Management's assumptions rely on external observable market data including forward prices for commodities and foreign exchange rates. The observable inputs may be adjusted using certain methods, which include extrapolation to the end of the term of the contract.

b. Risk management:

The Corporation's risk management assets and liabilities consist of natural gas and WTI fixed price swaps, WTI:condensate fixed differential swaps and total return 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, 2022**			**December 31, 2021**		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Gross amount	**$ 89**	**$ —**	**$ 89**	$ 77	$ (7)	$ 70
Amount offset	**—**	**—**	**—**	—	—	—
Net amount	**$ 89**	**$ —**	**$ 89**	$ 77	$ (7)	$ 70
Current portion	**$ 84**	**$ —**	**$ 84**	$ 36	$ (7)	$ 29
Non-current portion	**5**	**—**	**5**	41	—	41
Net amount	**$ 89**	**$ —**	**$ 89**	$ 77	$ (7)	$ 70

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

As at June 30	**2022**	**2021**
Fair value of contracts, beginning of year	**$ 70**	$ (2)
Fair value of contracts realized	**(48)**	156
Change in fair value of contracts	**67**	(242)
Fair value of contracts, end of period	**$ 89**	$ (88)

c. Commodity risk management:

The Corporation had the following financial commodity risk management contracts relating to condensate and natural gas purchases outstanding as at June 30, 2022:

As at June 30, 2022			
Condensate Purchase Contracts	**Volumes (bbls/d)(i)**	**Term**	**Average Price (US$/bbl)**
WTI:Mont Belvieu Fixed Differential	200	Jul 1, 2022 - Dec 31, 2022	$(11.30)
WTI:Mont Belvieu Fixed Differential	7,000	Jan 1, 2023 - Oct 31, 2023	$(11.54)
Natural Gas Purchase Contracts	**Volumes (GJ/d)(i)**	**Term**	**Average Price (C$/GJ)**
AECO Fixed Price	5,000	Jul 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.

Incremental to these commodity risk management contracts, the Corporation occasionally enters into contracts to fix the spread between WTI prices for consecutive months to support marketing asset optimization activities.

The Corporation entered into the following financial commodity risk management contract relating to condensate purchases subsequent to June 30, 2022. As a result, these contracts are not reflected in the Corporation's Interim Consolidated Financial Statements:

Subsequent to June 30, 2022			
Condensate Purchase Contracts	**Volumes (bbls/d)**	**Term**	**Average Price (US$/bbl)**
WTI:Mont Belvieu Fixed Differential	1,500	Jan 1, 2023 - Oct 31, 2023	$(11.03)

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, 2022:

Commodity	**Sensitivity Range**	**Increase**	**Decrease**
Condensate purchase price	± 5% in condensate price as a percentage of WTI	**$ 12**	**$ (12)**
Natural gas purchase price	± C$0.50 per GJ applied to natural gas contracts	**$ 1**	**$ (1)**

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

	Three months ended June 30		**Six months ended June 30**	
	2022	**2021**	**2022**	**2021**
Realized loss (gain) on commodity risk management	**$ (1)**	$ 87	**$ (2)**	$ 156
Unrealized loss (gain) on commodity risk management	**(8)**	27	**(12)**	115
Commodity risk management (gain) loss, net	**$ (9)**	$ 114	**$ (14)**	$ 271

d. Equity price risk management:

In 2020, the Corporation entered into financial equity price risk management contracts to increase the predictability of the Corporation's cash flow by managing share price volatility related to the Corporation's stock-based compensation program. Equity price risk is the risk that changes in the Corporation's own share price impact earnings and cash flows. Earnings, funds flow from operating activities and adjusted funds flow 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 the cash-settled components of these stock-based compensation units are ultimately settled. The Corporation entered into these equity price risk management contracts in March 2020 to manage its exposure on cash-settled RSUs and PSUs vesting between April 1, 2021 and April 1, 2023. Equity price risk management (gain) loss is recognized in stock-based compensation expense on the statement of earnings (loss), the unrealized asset (liability) is included in risk management on the balance sheet and any realized asset outstanding at period-end is included in trade receivables and other on the balance sheet.

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Realized equity price risk management (gain) loss	**$ —**	$ —	**$ (46)**	$ (8)
Unrealized equity price risk management (gain) loss	**(3)**	(18)	**1**	(29)
Equity price risk management (gain) loss	**$ (3)**	$ (18)	**$ (45)**	$ (37)

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, 2022, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $581 million. All amounts receivable from commodity risk management activities are due from large Canadian banks with strong investment grade credit ratings. Counterparty default risk associated with the Corporation's commodity risk management activities is also partially mitigated through credit exposure limits, frequent assessment of counterparty credit ratings and netting arrangements, as outlined in note 23 of the Corporation's 2021 annual consolidated financial statements.

The Corporation's cash balances are used to repay debt, fund sustaining capital, return capital to shareholders or fund future production growth. The cash balances are held in high interest savings accounts or are invested in high grade, liquid, short-term instruments such as bankers' acceptances, commercial paper, money market deposits or similar instruments. The cash and cash equivalents balance at June 30, 2022 was $244 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 $244 million.

f. Liquidity risk management:

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

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

The Corporation's earliest maturing long-term debt is 4.5 years out, represented by US$992 million of senior unsecured notes due February 2027. None of the Corporation's outstanding long-term debt contain financial maintenance covenants. Additionally, the Corporation's modified covenant-lite $600 million revolving credit facility has no financial maintenance covenant unless drawn in excess of 50%, or $300 million. If drawn in excess of 50%, or $300 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.

17. 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, share buybacks 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 March 7, 2022, the Corporation received approval from the TSX for a NCIB which will allow the Corporation to purchase for cancellation, from time to time, as the Corporation considers advisable, up to a maximum of 27,242,211 common shares of MEG. The NCIB became effective March 10, 2022 and will terminate on March 9, 2023 or such earlier time as the NCIB is completed or terminated at the option of the Corporation.

The Corporation reached its net debt target of US$1.7 billion during the second quarter of 2022. As a result, the Corporation began allocating approximately 25% of free cash flow generated to share buybacks with the remaining free cash flow applied to ongoing debt reduction which will continue until the Corporation's net debt balance reaches US$1.2 billion. Once the US$1.2 billion net debt target is reached the Corporation intends to increase the percentage of free cash flow allocated to share buybacks to approximately 50% with the remainder applied to further debt reduction until the Corporation reaches its net debt floor of US$600 million at which time 100% of free cash flow will be returned to shareholders.

The following table summarizes the Corporation's net debt:

As at	Note	June 30, 2022	December 31, 2021
Long-term debt	6	**$ 2,026**	$ 2,477
Current portion of long-term debt	6	**—**	285
Cash and cash equivalents		**(244)**	(361)
Net debt - C$		**$ 1,782**	$ 2,401
Net debt - US$		**$ 1,384**	$ 1,897

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

During the first half of 2022, the Corporation repaid a total of US$604 million (approximately $772 million) of outstanding indebtedness. This reduction in outstanding indebtedness was achieved as follows:

- On January 18, 2022, the redemption of US$225 million (approximately $288 million) of the 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625%, plus accrued and unpaid interest;

- On April 4, 2022, the redemption of the remaining US$171 million (approximately $216 million) of the Corporation's outstanding 6.50% senior secured second lien notes due January 2025 at a redemption price of 101.625% plus accrued and unpaid interest; and

- During May and June 2022, the Corporation repurchased and extinguished US$208 million (approximately $268 million) of the Corporation's 7.125% senior unsecured notes due February 2027 at a weighted average price of 103.2% plus accrued and unpaid interest.

Subsequent to June 30, 2022, the Corporation has repurchased a further US$96 million (approximately $124 million) of the Corporation's outstanding 7.125% senior unsecured notes due February 2027 at a weighted average price of 101%.

During the second quarter of 2022, the Corporation began purchasing MEG common shares for cancellation and as at June 30, 2022 the Corporation had purchased for cancellation 4.45 million common shares, returning $94 million to MEG shareholders.

Subsequent to June 30, 2022, the Corporation has purchased for cancellation a further 2.79 million common shares for a total cost of $45 million.

On June 24, 2022, the Corporation amended and restated its Revolving Credit Facility and its letters of credit facility guaranteed by EDC and extended the maturity date of each facility by 2.3 years to October 31, 2026. Total credit available under the two facilities was reduced from $1.3 billion to $1.2 billion and is comprised of $600 million under the Revolving Credit Facility and $600 million under the EDC Facility.

The Revolving Credit Facility retains its modified covenant-lite structure, meaning it continues to contain no financial maintenance covenant unless the Corporation is drawn under the Revolving Credit Facility in excess of 50%. If drawn in excess of 50%, or $300 million, under the Revolving Credit Facility the Corporation is required to maintain a first lien net debt to last twelve month EBITDA ratio of 3.50 or less. The Corporation continues to have no first lien debt outstanding.

The Corporation's earliest maturing long-term debt is approximately 4.5 years out, represented by US$992 million of the 7.125% senior unsecured notes due February 2027. As at June 30, 2022, the Corporation had $596 million of unutilized capacity under the $600 million revolving credit facility and the Corporation had $170 million of unutilized capacity under the $600 million EDC Facility. A letter of credit of $4 million remains outstanding under the revolving credit facility as at June 30, 2022.

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

	Three months ended June 30		Six months ended June 30	
($millions)	**2022**	**2021**	**2022**	**2021**
Funds flow from operating activities	**$ 412**	$ 160	**$ 999**	$ 281
Adjustments:				
Impact of cash-settled SBC units subject to equity price risk management	**66**	18	**85**	23
Realized equity price risk management gain	**—**	—	**(46)**	(8)
Payments on onerous contract	**—**	6	**—**	12
Adjusted funds flow	**478**	184	**1,038**	308
Capital expenditures	**(104)**	(71)	**(192)**	(141)
Free cash flow	**$ 374**	$ 113	**$ 846**	$ 167

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

In the second quarter of 2022, an adjustment was made to the presentation of adjusted funds flow and free cash flow. In April 2020, the Corporation issued cash-settled restricted share units ("RSUs") under its long-term incentive ("LTI") plan when the Corporation's share price was at a historic low of $1.57 per share. Concurrent with the issuance, the Corporation entered into equity price risk management contracts to manage share price volatility in the three-year period following the issuance, effectively eliminating cash flow risk associated with share price appreciation over that time period. The significant increase in the Corporation's share price from April 1, 2020 to June 30, 2022 resulted in the recognition of a significant cash-settled stock-based compensation expense, which was previously included as a component of adjusted funds flow and free cash flow. Since the actual cash impact of the 2020 cash-settled RSUs was hedged through the equity price risk management contracts, there is no cash impact over the term of these RSUs beyond the value at the date of issue of $1.57 per share.

The Corporation's operating performance and cash flow generating ability are not impacted by the April 2020 cash-settled RSUs issued and the associated equity price risk management contracts, therefore the financial statement impacts of the cash-settled stock-based compensation associated with the April 2020 issuance and the equity price risk management contracts have been excluded from Adjusted Funds Flow and Free Cash Flow. All prior periods presented have been adjusted to reflect this change in presentation. The adjustments to prior periods are as follows:

	2022	2021				2020		
($millions, except as indicated)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Adjusted funds flow, as previously presented	**$ 587**	$ 266	$ 239	$ 166	$ 127	$ 84	$ 26	$ 89
Adjustments:								
Impact of cash-settled SBC units subject to equity price risk management(	**18**	8	4	18	5	4	—	2
Realized equity price risk management gain	**(46)**	—	—	—	(8)	—	—	—
Adjusted funds flow, current presentation	**$ 559**	$ 274	$ 243	$ 184	$ 124	$ 88	$ 26	$ 91
Free cash flow, as previously presented	**$ 499**	$ 160	$ 155	$ 95	$ 57	$ 44	$ (9)	$ 69
Adjustments:								
Impact of cash-settled SBC units subject to equity price risk management	**18**	8	4	18	5	4	—	2
Realized equity price risk management gain	**(46)**	—	—	—	(8)	—	—	—
Free cash flow, current presentation	**$ 471**	$ 168	$ 159	$ 113	$ 54	$ 48	$ (9)	$ 71

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

18. 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, 2022:

	2022	2023	2024	2025	2026	Thereafter	Total
Transportation and storage[(i)]	$ 212	$ 431	$ 456	$ 431	$ 410	$ 5,430	$ 7,370
Diluent purchases	93	31	—	—	—	—	124
Other operating commitments	8	16	14	13	13	24	88
Variable office lease costs	2	5	5	5	5	23	45
Capital commitments	23	—	—	—	—	—	23
Commitments	**$ 338**	**$ 483**	**$ 475**	**$ 449**	**$ 428**	**$ 5,477**	**$ 7,650**

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