REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are properly accounted for and adequately safeguarded. Management's evaluation concluded that the Corporation's internal controls over financial reporting were effective as of December 31, 2022.

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

PricewaterhouseCoopers LLP, an independent firm of auditors, has been engaged, as approved by a vote of the shareholders at the Corporation's most recent Annual General Meeting, to audit and provide their independent audit opinion on the Corporation's consolidated financial statements as at and for the year ended December 31, 2022. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

/s/ Derek Evans	/s/ Ryan Kubik
Derek Evans President and Chief Executive Officer	Ryan Kubik, CPA, CA Chief Financial Officer

February 27, 2023

Independent auditor's report

To the Shareholders of MEG Energy Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MEG Energy Corp. and its subsidiary (together, the Corporation) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Corporation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of proved bitumen reserves on crude oil assets *See note 3 – Significant accounting policies, note 4 – Significant accounting estimates, assumptions and judgments, and note 7 – Property, plant and equipment to the consolidated financial statements.* The Corporation's crude oil assets net balance was $5,536 million as at December 31, 2022 and the related depletion and depreciation (D&D) expense was $482 million for the year then ended. Crude oil assets consist mainly of field production assets and major facilities and equipment. Field production assets are depleted using the unit-of-production method based on estimates of proved bitumen reserves and major facilities and equipment are depreciated on a unit-of-production basis over the estimated total productive capacity of the asset. Management applies significant judgment in developing the estimates of proved bitumen reserves. These estimates are based on engineering data, estimated future prices, expected future rates of production and the cost and timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Corporation's estimates of proved bitumen reserves statement is reviewed by the Corporation's independent reserve engineers (management's experts).	Our approach to addressing the matter involved the following procedures, among others: • Tested how management developed the estimates of proved bitumen reserves and D&D expense, which included the following: – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates of proved bitumen reserves used to determine D&D expense. As a basis for using this work, the competence, capability and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included an evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. Evaluated the reasonableness of assumptions used in developing the underlying estimates, including: o Estimated future prices by comparing those prices with other reputable third party industry forecasts; and o Expected future rates of production, and the cost and timing of future capital expenditures by considering the current and past performance of

Key audit matter	How our audit addressed the key audit matter
We determined that this is a key audit matter due to the significant judgment by management, including the use of management's experts, when developing the estimates of proved bitumen reserves which led to a high degree of auditor judgment, subjectivity and effort in performing audit procedures.	the Corporation, and whether these assumptions were consistent with evidence obtained in other areas of the audit. – Tested the data used in the determination of these estimates. – Recalculated the unit-of-production rates used to calculate depletion expense related to field production assets. – Evaluated the reasonableness of the estimated total productive capacity used for facilities and recalculated depreciation expense for major facilities and equipment.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is John M. Williamson.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 27, 2023

Consolidated Balance Sheet
(Expressed in millions of Canadian dollars)

As at December 31	Note		2022		2021
Assets					
Current assets					
Cash and cash equivalents	20	**$**	**192**	$	361
Trade receivables and other	5		**488**		496
Inventories	6		**185**		157
Risk management	22		**78**		36
			943		1,050
Non-current assets					
Property, plant and equipment	7		**5,763**		5,878
Exploration and evaluation assets	8		**126**		126
Other assets	9		**201**		202
Risk management	22		**—**		41
Deferred income tax asset	12		**—**		296
Total assets		**$**	**7,033**	$	7,593
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**573**	$	500
Interest payable			**44**		80
Current portion of long-term debt	10		**3**		285
Current portion of provisions and other liabilities	11		**21**		27
Risk management	22		**13**		7
			654		899
Non-current liabilities					
Long-term debt	10		**1,578**		2,477
Provisions and other liabilities	11		**389**		409
Risk management	22		**5**		—
Deferred income tax liability	12		**24**		—
Total liabilities			**2,650**		3,785
Shareholders' equity					
Share capital	13		**5,164**		5,486
Contributed surplus			**169**		172
Deficit			**(988)**		(1,875)
Accumulated other comprehensive income			**38**		25
Total shareholders' equity			**4,383**		3,808
Total liabilities and shareholders' equity		**$**	**7,033**	$	7,593

Commitments and contingencies (Note 25)

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

These Consolidated Financial Statements were approved by the Corporation's Board of Directors on February 27, 2023.

/s/ Derek Evans
Derek Evans, Director

/s/ Robert B. Hodgins
Robert B. Hodgins, Director

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

Year ended December 31	Note		2022		2021
Revenues					
Petroleum revenue, net of royalties	15	**$**	**5,970**	$	4,222
Other revenue	15		**148**		99
Revenues			**6,118**		4,321
Expenses					
Diluent expense			**1,848**		1,369
Transportation and storage expense			**538**		379
Operating expenses			**420**		309
Purchased product			**1,135**		828
Depletion and depreciation	7, 9		**507**		450
General and administrative			**61**		56
Stock-based compensation	14		**36**		26
Net finance expense	17		**217**		267
Other expenses	18		**1**		21
Loss (gain) on asset dispositions	7, 9		**9**		(4)
Commodity risk management loss, net	22		**11**		283
Foreign exchange (gain) loss, net	16		**113**		(29)
Earnings before income taxes			**1,222**		366
Income tax expense	12		**320**		83
Net earnings			**902**		283
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment			**13**		(2)
Comprehensive income		**$**	**915**	$	281
Net earnings per common share					
Basic	21	**$**	**2.97**	$	0.92
Diluted	21	**$**	**2.92**	$	0.91

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

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

	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	**—**	**18**	**—**	**—**	**18**
Stock options exercised	**34**	**(10)**	**—**	**—**	**24**
RSUs vested and released	**11**	**(11)**	**—**	**—**	**—**
Repurchase of shares for cancellation	**(367)**	**—**	**(15)**	**—**	**(382)**
Comprehensive income	**—**	**—**	**902**	**13**	**915**
Balance as at December 31, 2022	**$ 5,164**	**$ 169**	**$ (988)**	**$ 38**	**$ 4,383**
Balance as at December 31, 2020	$ 5,460	$ 177	$ (2,158)	$ 27	$ 3,506
Stock-based compensation	—	16	—	—	16
Stock options exercised	7	(2)	—	—	5
RSUs vested and released	19	(19)	—	—	—
Comprehensive income	—	—	283	(2)	281
Balance as at December 31, 2021	$ 5,486	$ 172	$ (1,875)	$ 25	$ 3,808

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

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

Year ended December 31	Note	2022	2021
Cash provided by (used in):			
Operating activities			
Net earnings		**$ 902**	$ 283
Adjustments for:			
Deferred income tax expense	12	**320**	86
Depletion and depreciation	7, 9	**507**	450
Stock-based compensation	14	**13**	(33)
Unrealized net (gain) loss on foreign exchange	16	**111**	(27)
Unrealized net (gain) loss on commodity risk management	22	**21**	(31)
Amortization of debt discount and debt issue costs		**2**	8
Loss (gain) on asset dispositions	9	**9**	(4)
Debt extinguishment expense	17	**30**	18
Other		**8**	8
Decommissioning expenditures	11	**(5)**	(3)
Payments on onerous contracts		**—**	(25)
Net change in long-term incentive compensation liability		**(36)**	23
Funds flow from operating activities		**1,882**	753
Net change in non-cash working capital items	20	**6**	(63)
Net cash provided (used in) by operating activities		**1,888**	690
Investing activities			
Capital expenditures	24	**(376)**	(331)
Net proceeds on dispositions		**6**	44
Other		**—**	1
Net change in non-cash working capital items	20	**16**	5
Net cash provided by (used in) investing activities		**(354)**	(281)
Financing activities			
Issuance of senior unsecured notes		**—**	769
Repayment and redemption of long-term debt	10	**(1,325)**	(889)
Debt redemption premium and refinancing costs	10	**(30)**	(23)
Repurchase of shares	13	**(382)**	—
Issue of shares, net of issue costs		**24**	5
Receipts on leased assets	20	**3**	2
Payments on leased liabilities	20	**(23)**	(29)
Net change in non-cash working capital items	20	**6**	—
Net cash provided by (used in) financing activities		**(1,727)**	(165)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**24**	3
Change in cash and cash equivalents		**(169)**	247
Cash and cash equivalents, beginning of year		**361**	114
Cash and cash equivalents, end of year		**$ 192**	$ 361

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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the significant accounting policies disclosed in Note 3. These audited consolidated financial statements were approved by the Corporation's Board of Directors on February 27, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

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

b. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

c. Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. A financial asset or liability is measured initially at fair value plus, for an item not

measured at Fair Value Through Profit or Loss, transaction costs that are directly attributable to its acquisition or issuance.

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

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

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

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

i. Financial assets

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

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

ii. Financial liabilities

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

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

d. Cash and cash equivalents

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

e. Trade receivables and other

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

f. Inventories

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

g. Exploration and evaluation assets

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

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

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

h. Property, plant and equipment

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

i. Crude oil

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

Field production assets are depleted using the unit-of-production method based on estimated proved reserves. Costs subject to depletion include estimated future development costs required to develop and produce the proved reserves. These estimates are reviewed by independent reserve engineers at least annually. Independent reserve engineers also review proved plus probable bitumen reserves used in calculating recoverable amounts used for impairment testing.

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

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

ii. Transportation and storage

Transportation and storage assets consisted primarily of land and a pipeline associated with the Bruderheim Terminal. The net carrying values of transportation and storage assets was depreciated on a straight-line basis over their estimated useful lives, except for land which was not depreciated. These assets were sold in 2022.

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

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

iv. Corporate assets

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

v. Asset dispositions

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

i. Intangible assets

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

j. Leases

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

As Lessee

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

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

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

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

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

As Lessor

As a lessor, the Corporation assesses at inception whether a lease is a finance or operating lease. Leases where the Corporation transfers substantially all of the risk and rewards incidental to ownership of the underlying asset are classified as financing leases. Under a finance lease, the Corporation recognizes a receivable at an amount equal to the net investment in the lease which is the present value of the aggregate of lease payments receivable by the lessor. As an intermediate lessor, the Corporation accounts for its interest in head leases and subleases separately. If substantially all the risks and rewards of ownership of an asset are not transferred the lease is classified as an operating lease. The Corporation recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as other income.

k. Impairments

i. Financial assets

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

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

ii. Non-financial assets

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

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

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is estimated as the discounted present value of the expected future cash flows to be derived from the continuing use of the asset or CGU. In determining fair value less costs of disposal, recent market transactions are taken into account if available. In the absence of such transactions, an appropriate valuation model is used such as a discounted cash flow model. An impairment loss is recognized in earnings or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

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

l. Provisions

i. General

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

ii. Decommissioning provision

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

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

iii. Onerous contracts

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The net amount of actual costs incurred are charged against the onerous contract provision.

iv. Emissions obligations

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

m. Deferred income taxes

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

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

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

n. Share capital

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

o. Share based payments

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

i. Equity-settled

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

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

ii. Cash-settled

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

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

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

p. Revenue recognition

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

i. Petroleum revenue and royalties

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

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

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

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

ii. Other revenue

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

q. Net earnings (loss) per share

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

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

r. Government grants

Government grants are recognized when there is reasonable assurance that the Corporation will receive the grant and comply with the conditions attached to the grant. When a grant relates to income, it is recognized in earnings or loss over the period in which the grant is intended to compensate. When a grant relates to an asset, it is recognized as a reduction of the carrying amount of the related asset.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

a. Property, plant and equipment

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

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

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

b. Exploration and evaluation assets

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

c. Bitumen reserves

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, estimated future prices, expected future rates of production and the cost and timing of future capital

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

d. Decommissioning provision

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

e. Impairments

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

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

f. Stock-based compensation

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

g. Deferred income taxes

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. The extent to which a deferred tax asset may be utilized involves a significant amount of estimation and judgment including an evaluation of when the

temporary differences will reverse, an analysis of the amount of future taxable earnings and the availability of cash flow to offset the tax assets when the reversal occurs.

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

h. Derivative financial instruments

The estimated fair values of financial assets and liabilities are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Corporation may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows, and discount rates. Management's assumptions rely on external observable market data including quoted forward commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

i. Leases

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

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

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

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

5. TRADE RECEIVABLES AND OTHER

As at December 31		**2022**		**2021**
Trade receivables	**$**	**473**	$	479
Deposits and advances		**13**		14
Current portion of sublease receivable		**2**		3
	$	**488**	$	496

6. INVENTORIES

As at December 31	2022	2021
Bitumen blend	$ 134	$ 127
Diluent	39	21
Material and supplies	12	9
	$ 185	$ 157

During the year ended December 31, 2022, a total of $1.8 billion (2021 - $1.4 billion) in inventory product costs were charged to earnings through diluent expense.

7. 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	331	—	8	1	340
Dispositions	—	(39)	—	—	(39)
Derecognition	—	—	(18)	—	(18)
Change in decommissioning liabilities	35	(2)	—	—	33
Balance as at December 31, 2021	$ 9,611	$ 47	$ 286	$ 79	$ 10,023
Additions	377	—	3	—	380
Dispositions	—	(17)	—	—	(17)
Derecognition	(133)	—	(12)	—	(145)
Change in decommissioning liabilities	28	(1)	—	—	27
Balance as at December 31, 2022	**$ 9,883**	**$ 29**	**$ 277**	**$ 79**	**$ 10,268**

	Crude oil	Transportation and storage	Right-of-use assets	Corporate assets	Total
Accumulated depletion and depreciation					
Balance as at December 31, 2020	$ 3,580	$ 32	$ 53	$ 49	$ 3,714
Depletion and depreciation	418	—	26	5	449
Derecognition	—	—	(18)	—	(18)
Balance as at December 31, 2021	$ 3,998	$ 32	$ 61	$ 54	$ 4,145
Depletion and depreciation	482	—	21	4	507
Dispositions	—	(3)	—	—	(3)
Derecognition	(132)	—	(12)	—	(144)
Balance as at December 31, 2022	**$ 4,348**	**$ 29**	**$ 70**	**$ 58**	**$ 4,505**
Carrying amounts					
Balance as at December 31, 2021	$ 5,613	$ 15	$ 225	$ 25	$ 5,878
Balance as at December 31, 2022	**$ 5,535**	**$ —**	**$ 207**	**$ 21**	**$ 5,763**

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

During the year ended December 31, 2022, the Corporation completed the sale of Bruderheim Pipeline System for cash proceeds of approximately $2 million, and a loss on sale of $12 million was recognized.

8. 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.

9. OTHER ASSETS

As at December 31		2022		2021
Non-current pipeline linefill[(a)]	**$**	**178**	$	177
Finance sublease receivables		**12**		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 December 31, 2022, intangible assets consist of software that is not an integral component of the related computer hardware. Depreciation of $1 million was recognized for the year ended December 31, 2022 (year ended December 31, 2021 – $2 million). During the year ended December 31, 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.

10. LONG-TERM DEBT

As at December 31		2022		2021
Second Lien:				
6.5% senior secured second lien notes (December 31, 2022 - nil; fully redeemed April 4, 2022; December 31, 2021 - US$396 million)[(a)]	**$**	**—**	$	501
Unsecured:				
7.125% senior unsecured notes (December 31, 2022 - US$579.9 million; due 2027; December 31, 2021 - US$1.2 billion)[(b)]		**785**		1,519
5.875% senior unsecured notes (December 31, 2022 - US$600 million; due 2029; December 31, 2021 - US$600 million)[(c)]		**812**		759
		1,597		2,779
Debt redemption premium		**—**		8
Less unamortized deferred debt discount and debt issue costs		**(16)**		(25)
		1,581		2,762
Less current portion of senior secured term loan		**(3)**		(285)
	$	**1,578**	$	2,477

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US$1 = C$1.3534 (December 31, 2021 – US$1 = C$1.2656).

a. Effective January 27, 2017, the Corporation issued US$750 million in aggregate principal amount of 6.50% senior secured second lien notes, with a maturity of January 15, 2025. Interest is paid semi-annually in January and July. No principal payments are required until January 15, 2025. The Corporation deferred the associated debt issue costs of $18 million and is amortizing these costs over the life of the notes utilizing the effective interest method.

Redemptions on 6.50% senior secured second lien notes due January 2025		**US$**
Balance as at December 31, 2020	$	496
August 23, 2021(i)		(100)
Balance as at December 31, 2021	$	396
January 18, 2022(ii)		(225)
April 4, 2022(ii)		(171)
Balance as at December 31, 2022	**$**	**—**

(i) Redemption price of 103.25% plus accrued and unpaid interest.
(ii) 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. Effective January 31, 2020, the Corporation issued US$1.2 billion in aggregate principal amount of 7.125% senior unsecured notes, with a maturity of February 1, 2027. Interest is paid semi-annually in February and August. No principal payments are required until February 1, 2027. The Corporation has deferred the associated debt issue costs of $20 million and is amortizing these costs over the life of the notes utilizing the effective interest method.

Repurchase and extinguishment on 7.125% senior unsecured notes due February 2027		**US$**
Balance as at December 31, 2021	$	1,200
Second quarter of 2022(i)		(208)
Third quarter of 2022(ii)		(262)
Fourth quarter of 2022(iii)		(150)
Balance as at December 31, 2022	**$**	**580**

(i) Repurchased and extinguished at a weighted average price of 103.2% plus accrued and unpaid interest.
(ii) Repurchased and extinguished at a weighted average price of 102.2% plus accrued and unpaid interest.
(iii) Repurchased and extinguished at a weighted average price of 102.1% plus accrued and unpaid interest.

For the year ended December 31, 2022, the Corporation recognized a cumulative debt redemption premium of $22 million and associated unamortized deferred debt issue costs of $8 million for debt extinguishment expense of $30 million recognized in net finance expense (Note 17).

c. Effective February 2, 2021, the Corporation issued US$600 million in aggregate principal amount of 5.875% senior unsecured notes, with a maturity date of February 1, 2029. Interest is paid semi-annually in February and August. No principal payments are required until February 1, 2029. The Corporation has deferred the associated debt issue costs of $10 million and is amortizing these costs over the life of the notes utilizing the effective interest method.

On June 24, 2022, the Corporation amended and restated its Revolving Credit Facility and its letters of credit facility guaranteed by Export Development Canada ("EDC Facility") 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. Letters of credit under the EDC Facility do not consume capacity of the revolving credit facility. The revolving credit facility and EDC Facility are secured by substantially all the assets of the Corporation.

The revolving credit facility has a 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% or $300 million. 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. 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. The financial maintenance covenant, if triggered, will be tested quarterly. Issued letters of credit are not included in the calculation of this ratio. The Corporation continues to have no first lien debt outstanding.

As at December 31, 2022, the Corporation had $596 million of unutilized capacity under the $600 million revolving credit facility and the Corporation had $160 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 December 31, 2022.

11. PROVISIONS AND OTHER LIABILITIES

As at December 31	2022	2021
Lease liabilities[a]	$ 244	$ 266
Decommissioning provision[b]	166	135
Long-term incentive compensation liability[c]	—	35
Provisions and other liabilities	410	436
Less current portion	(21)	(27)
Non-current portion	$ 389	$ 409

a. Lease liabilities:

As at December 31	2022	2021
Balance, beginning of year	$ 266	$ 286
Additions	—	8
Payments	(48)	(54)
Interest expense	24	26
Foreign exchange impact	2	—
Balance, end of year	244	266
Less current portion	(17)	(22)
Non-current portion	$ 227	$ 244

The Corporation's minimum lease payments are as follows:

As at December 31		2022
Within one year	$	40
Later than one year but not later than five years		130
Later than five years		439
Minimum lease payments		609
Amounts representing finance charges		(365)
Net minimum lease payments	$	244

The Corporation has short-term leases with lease terms of twelve months or less as well as low-value leases. As these lease costs are incurred they are recognized as either general and administrative expense or operating expense depending on their nature. As at December 31, 2022, the present value of these arrangements is $1 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 December 31		2022		2021
Balance, beginning of year	$	135	$	96
Changes in estimated life and estimated future cash flows		32		5
Changes in discount rates		(5)		29
Liabilities settled		(5)		(3)
Accretion		9		8
Balance, end of year		166		135
Less current portion		(4)		(5)
Non-current portion	$	162	$	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 $830 million (December 31, 2021 – $799 million). As at December 31, 2022, the Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 9.5% (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 December 31, 2022, the Corporation recognized a liability of $100 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 22 for further details.

12. INCOME TAX

Year ended December 31	2022	2021
Earnings before income taxes	$ 1,222	$ 366
Statutory income tax rate	23 %	23 %
Expected income tax expense	281	84
Add (deduct) the tax effect of:		
Stock-based compensation	4	3
Non-taxable loss (gain) on foreign exchange	16	(3)
Taxable capital loss (gain) not recognized	16	(4)
Tax benefit of vested RSUs	—	(5)
Adjustments relating to prior periods	3	8
Income tax expense	$ 320	$ 83
Current income tax expense (recovery)	$ —	$ (3)
Deferred income tax expense	320	86
Income tax expense	$ 320	$ 83

As at December 31, 2022, the Corporation has recognized a deferred tax liability of $24 million (December 31, 2021 - $296 million deferred tax asset).

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

	2022	2021
Balance as at January 1	$ 296	$ 382
Credited (charged) to earnings	(320)	(86)
Credited (charged) to equity	—	—
Balance as at December 31	$ (24)	$ 296

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

Deferred tax assets	Tax losses	Risk management	Decommissioning provision	Right-of-use assets	Other	Total
Balance as at December 31, 2020	$ 1,176	$ 1	$ 22	$ 59	$ 49	$ 1,307
Credited (charged) to earnings	(10)	(17)	9	(7)	4	(21)
Balance as at December 31, 2021	1,166	(16)	31	52	53	1,286
Credited (charged) to earnings	(222)	2	7	(4)	1	(216)
Balance as at December 31, 2022	$ 944	$ (14)	$ 38	$ 48	$ 54	$ 1,070

Deferred tax liabilities		Property, plant and equipment	Total
Balance as at December 31, 2020	$	(925) $	(925)
Credited (charged) to earnings		(65)	(65)
Balance as at December 31, 2021		**(990)**	**(990)**
Credited (charged) to earnings		**(104)**	**(104)**
Balance as at December 31, 2022	**$**	**(1,094) $**	**(1,094)**

As at December 31, 2022, the Corporation had approximately $5.5 billion of available Canadian tax pools including $4.1 billion of non-capital losses and $0.2 billion of capital losses (December 31, 2021 - $7.2 billion in available Canadian tax pools including $5.1 billion of non-capital losses and $0.4 billion of capital losses). The $4.1 billion of non-capital loss carry forward balances expire as follows:

	2029	2030	2031	2032	2033	Thereafter	Total
Non-capital loss carry forward balances	$ 150	$ 250	$ 50	$ 300	$ 600	$ 2,750	$ 4,100

As at December 31, 2022, the Corporation had not recognized the tax benefit related to $199 million of realized and unrealized taxable capital foreign exchange losses (December 31, 2021 - $357 million).

13. 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:

	2022		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	**2,003**	**34**	939	7
Issued upon vesting and release of RSUs and PSUs	**2,867**	**11**	3,245	19
Repurchase of shares for cancellation	**(20,654)**	**(367)**	—	—
Balance, end of period	**291,081**	**$ 5,164**	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.

For the year ended December 31, 2022, the Corporation purchased for cancellation 20.7 million common shares under its NCIB at a weighted average price of $18.50 for a total cost of $382 million. Share capital was reduced by

the average carrying value of the shares of $17.79 per share. Retained earnings was reduced by $15 million for shares purchased above carrying value.

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.

14. STOCK-BASED COMPENSATION

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

a. Stock-based compensation

Year ended December 31	2022	2021
Cash-settled expense(i)	**$ 69**	$ 67
Equity-settled expense	**17**	15
Unrealized equity price risk management (gain) loss(ii)	**(4)**	(48)
Realized equity price risk management (gain) loss(ii)	**(46)**	(8)
Stock-based compensation	**$ 36**	$ 26

(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 22(d) for further details.

b. Cash-settled plans

i. Restricted share units and performance share units:

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

Cash-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	2022	2021
Outstanding, beginning of year	**6,745**	8,131
Granted(i)	**601**	446
Vested and released	**(2,837)**	(1,724)
Forfeited	**(96)**	(108)
Outstanding, end of year	**4,413**	6,745

(i) Includes units added by PSU performance factors

ii. Deferred share units outstanding:

The Deferred Share Unit Plan allows for the granting of DSUs to directors of the Corporation. A DSU represents the right for the holder to receive a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment or, at the election of the Corporation, its equivalent in fully-paid common shares purchased through a broker. DSUs vest immediately when granted and are redeemed on the earlier of (a) December 15 of the first calendar year starting after the date the holder ceases to be a member of the Corporation, and (b) the fifth business day following each of the redemption dates elected by such holder. As at December 31, 2022, there were 1,148,029 DSUs outstanding (December 31, 2021 – 1,172,653 DSUs outstanding).

As at December 31, 2022, the Corporation recognized a liability of $100 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2021 – $82 million). The current portion of $100 million is included within accounts payable and accrued liabilities (December 31, 2021 – $45 million in current portion and $37 million in non-current portion).

c. Equity-settled plans

i. Stock options outstanding:

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

Year ended December 31	2022		2021	
	Stock options (thousands)	**Weighted average exercise price**	**Stock options (thousands)**	**Weighted average exercise price**
Outstanding, beginning of year	**2,495**	**$ 11.70**	4,676	$ 15.21
Exercised	**(2,003)**	**11.84**	(914)	5.24
Forfeited	**(192)**	**18.65**	(604)	19.87
Expired	**(6)**	**21.07**	(663)	37.90
Outstanding, end of year	**294**	**$ 5.99**	2,495	$ 11.70

As at December 31, 2022			
	Outstanding and vested		
Range of exercise prices	**Options (thousands)**	**Weighted average exercise price**	**Weighted average remaining life (in years)**
$4.57 - $6.41	193	$ 4.57	3.45
$6.42 - $8.94	68	8.24	2.66
$8.95 - $9.63	33	9.63	2.45
	294	**$ 5.99**	**3.16**

There were no stock options granted during the years ended December 31, 2022 and December 31, 2021.

ii. Restricted share units and performance share units:

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

Equity-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	**2022**	**2021**
Outstanding, beginning of year	**6,596**	6,531
Granted	**1,645**	3,378
Vested and released	**(2,867)**	(3,270)
Forfeited	**(243)**	(43)
Outstanding, end of year	**5,131**	6,596

15. REVENUES

Year ended December 31	**2022**	**2021**
Sales from:		
Production	**$ 5,044**	$ 3,436
Purchased product[(i)]	**1,151**	862
Petroleum revenue	**$ 6,195**	$ 4,298
Royalties	**(225)**	(76)
Petroleum revenue, net of royalties	**$ 5,970**	$ 4,222
Power revenue	**$ 144**	$ 87
Transportation revenue	**4**	12
Other revenue	**$ 148**	$ 99
Revenues	**$ 6,118**	$ 4,321

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

a. Disaggregation of revenue from contracts with customers

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

	Year ended December 31					
	2022			**2021**		
	Petroleum Revenue			**Petroleum Revenue**		
	Proprietary	**Third-party**	**Total**	**Proprietary**	**Third-party**	**Total**
Country:						
Canada	**$ 1,521**	**$ 144**	**$ 1,665**	$ 1,824	$ 56	$ 1,880
United States	**3,523**	**1,007**	**4,530**	1,612	806	2,418
	$ 5,044	**$ 1,151**	**$ 6,195**	$ 3,436	$ 862	$ 4,298

For the year ended December 31, 2022, other revenue of $148 million was attributed to Canada (December 31, 2021 – $98 million attributed to Canada and $1 million attributed to the United States).

b. Revenue-related assets

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

As at December 31	2022	2021
Petroleum revenue	$ 427	$ 455
Other revenue	30	10
Total revenue-related assets	$ 457	$ 465

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

16. FOREIGN EXCHANGE (GAIN) LOSS, NET

Year ended December 31	2022	2021
Unrealized foreign exchange (gain) loss on:		
Long-term debt	$ 142	$ (30)
US$ denominated cash and cash equivalents	(25)	(4)
Foreign currency risk management contracts	(6)	7
Unrealized net (gain) loss on foreign exchange	111	(27)
Realized (gain) loss on foreign exchange	2	(2)
Foreign exchange (gain) loss, net	$ 113	$ (29)
C$ equivalent of 1 US$		
Beginning of period	1.2656	1.2755
End of period	1.3534	1.2656

17. NET FINANCE EXPENSE

Year ended December 31	2022	2021
Interest expense on long-term debt	$ 158	$ 217
Interest expense on lease liabilities	24	26
Interest income	(4)	(2)
Net interest expense	178	241
Debt extinguishment expense	30	18
Accretion on provisions	9	8
Net finance expense	$ 217	$ 267

For the year ended December 31, 2022, debt extinguishment expense of $30 million was recognized in association with the US$620 million (approximately $820 million) repurchase of the Corporation's 7.125% senior unsecured notes and included a cumulative debt redemption premium of $22 million and associated unamortized deferred debt issue costs of $8 million. Refer to Note 10 for further details.

For the year ended December 31, 2021, debt extinguishment expense of $18 million was recognized in association with debt redemptions up to and including April 4, 2022. The expense is comprised of a cumulative debt redemption premium of $12 million and associated expensing of unamortized deferred debt issue costs of $6 million. Refer to Note 10 for further details.

18. OTHER EXPENSES

Year ended December 31	2022	2021
Settlement expense[(i)]	$ —	$ 21
Severance and restructuring	1	—
Other expenses	$ 1	$ 21

(i) During the year ended December 31, 2021, the Corporation settled a 2014 litigation matter relating to legacy issues involving a unit train transloading facility in Alberta. The Corporation paid the sum of $21 million and the claim was discontinued.

19. TRANSACTIONS WITH RELATED PARTIES

The Corporation did not enter into any significant related party transactions during the years ended December 31, 2022 and 2021, other than compensation of key management personnel. The Corporation considers directors and officers of the Corporation as key management personnel.

Year ended December 31	2022	2021
Share-based compensation	$ 46	$ 36
Salaries and short-term employee benefits	7	5
	$ 53	$ 41

The increase in share-based compensation to key management personnel in 2022 is mainly due to the increase in the Corporation's share price and its impact on the value of the share-based awards.

20. SUPPLEMENTAL CASH FLOW DISCLOSURES

Year ended December 31	2022	2021
Cash provided by (used in):		
Trade receivables and other	$ 14	$ (220)
Inventories	(23)	(62)
Accounts payable and accrued liabilities	72	223
Interest payable	(35)	1
	$ 28	$ (58)
Changes in non-cash working capital relating to:		
Operating	$ 6	$ (63)
Investing	16	5
Financing	6	—
	$ 28	$ (58)
Cash and cash equivalents:[(a)]		
Cash	$ 192	$ 361
Cash equivalents	—	—
	$ 192	$ 361
Cash interest paid	$ 177	$ 190

a. As at December 31, 2022, $117 million of the Corporation’s total cash and cash equivalents balance was held in U.S. dollars (December 31, 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$1.3534 (December 31, 2021 – US$1 = C$1.2656).

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	(3)	—	—
Payments on leased liabilities	—	(23)	—
Repayment and redemption of long-term debt	—	—	(1,325)
Debt redemption premium and refinancing costs	—	—	(30)
Other cash and non-cash changes:			
Interest payments on lease liabilities	—	(25)	—
Interest expense on lease liabilities	—	24	—
Unrealized (gain) loss on foreign exchange	—	2	142
Debt extinguishment expense	—	—	30
Amortization of deferred debt discount and debt issue costs	—	—	2
Balance as at December 31, 2022	**$ 12**	**$ 244**	**$ 1,581**

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

21. NET EARNINGS PER COMMON SHARE

Year ended December 31	2022	2021
Net earnings	**$ 902**	$ 283
Weighted average common shares outstanding (millions)[(a)]	**304**	306
Dilutive effect of stock options, RSUs and PSUs (millions)	**5**	5
Weighted average common shares outstanding – diluted (millions)	**309**	311
Net earnings per share, basic	**$ 2.97**	$ 0.92
Net earnings per share, diluted	**$ 2.92**	$ 0.91

a. Weighted average common shares outstanding for the year ended December 31, 2022 include 337,186 PSUs vested but not yet released (year ended December 31, 2021 - nil PSUs vested but not yet released).

22. 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 December 31	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Recurring measurements:				
Financial assets				
Commodity risk management contracts	**$ —**	**$ —**	$ 3	$ 3
Equity price risk management contracts	**$ 78**	**$ 78**	$ 74	$ 74
Financial liabilities				
Long-term debt (Note 10)	**$ 1,597**	**$ 1,570**	$ 2,779	$ 2,888
Commodity risk management contracts	**$ 18**	**$ 18**	**$ —**	**$ —**
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 December 31, 2022 and is expected to fluctuate given the volatility in the debt and commodity price markets.

The estimated 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 condensate swaps, natural gas swaps, equity swaps and foreign currency swaps. The use of 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 December 31	2022			2021		
	Asset	Liability	Net	Asset	Liability	Net
Gross amount	**$ 78**	**$ (18)**	**$ 60**	$ 77	$ (7)	$ 70
Amount offset	**—**	**—**	**—**	—	—	—
Net amount	**$ 78**	**$ (18)**	**$ 60**	$ 77	$ (7)	$ 70
Current portion	**$ 78**	**$ (13)**	**$ 65**	$ 36	$ (7)	$ 29
Non-current portion	**—**	**(5)**	**(5)**	41	—	41
Net amount	**$ 78**	**$ (18)**	**$ 60**	$ 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 December 31:

As at December 31		2022		2021
Fair value of contracts, beginning of year	$	**70**	$	(2)
(Gain) loss on fair value of contracts realized		**(56)**		306
Change in fair value of contracts[i]		**46**		(234)
Fair value of contracts, end of period	$	**60**	$	70

(i) As at December 31, 2022 and 2021 this amount includes the change in the fair value of the equity price risk management contracts of $4 million and $48 million, respectively.

c. Commodity risk management

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

As at December 31, 2022			
Condensate Purchase Contracts	**Volumes (bbls/d)[i]**	**Term**	**Average Price (US$/bbl)**
WTI:Mont Belvieu Fixed Differential	10,000	Jan 1, 2023 - Oct 31, 2023	$(11.44)
Natural Gas Purchase Contracts	**Volumes (GJ/d)**	**Term**	**Average Price (C$/GJ)**
AECO Fixed Price	35,000	Jan 1, 2023 - Dec 31, 2023	$3.88
AECO Fixed Price	30,000	Jan 1, 2024 - Dec 31, 2024	$4.11

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

The Corporation did not enter into physical and financial commodity risk management contracts between December 31, 2022 and February 27, 2023.

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

Year ended December 31		2022		2021
Realized loss (gain) on commodity risk management	$	**(10)**	$	314
Unrealized loss (gain) on commodity risk management		**21**		(31)
Commodity risk management (gain) loss, net	$	**11**	$	283

The following table summarizes the sensitivity of the earnings (loss) before income tax impact of fluctuating commodity prices on the Corporation's open financial commodity risk management positions in place as at December 31, 2022:

Commodity	Sensitivity Range		Increase		Decrease
Condensate purchase price	± 5% in condensate price as a percentage of WTI	**$**	**16**	**$**	**(16)**
Natural gas purchase price	± C$0.50 per GJ applied to natural gas contracts	**$**	**12**	**$**	**(12)**

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, PSUs and DSUs, 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.

($millions)	**2022**	2021
Unrealized equity price risk management (gain) loss	**$ (4)**	$ (48)
Realized equity price risk management (gain) loss	**(46)**	(8)
Equity price risk management (gain) loss	**$ (50)**	$ (56)

The sensitivity of the earnings (loss) before income tax impact of changes in the Corporation's share price on equity price risk management contracts in place at December 31, 2022 is as follows:

	Sensitivity Range	**Increase**	**Decrease**
Equity price risk management contracts	± 10% applied to Corporation's share price	**$ 9**	**$ (9)**

e. Foreign currency risk management

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the fair value or future cash flows of the Corporation's financial assets or liabilities. The Corporation has U.S. dollar denominated long-term debt as described in Note 10. As at December 31, 2022, a $0.01 change in the U.S. dollar to Canadian dollar exchange rate would have resulted in a change to the carrying value of long-term debt and a corresponding change to earnings (loss) before income tax of C$12 million (December 31, 2021 - C$22 million).

The Corporation occasionally enters into short-term financial foreign currency risk management contracts to manage foreign currency risk on certain cash and cash equivalents. As at December 31, 2022, the Corporation did not have any outstanding financial foreign currency risk management contracts on cash and cash equivalents.

f. Credit risk management:

Credit risk arises from the potential that the Corporation may incur a loss if a counterparty fails to meet its obligations in accordance with agreed terms. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses a combination of historical and forward looking information to determine the appropriate loss allowance provisions. Credit risk exposure is mitigated through the use of credit policies governing the Corporation's credit portfolio and with credit practices that limit transactions according to each counterparty's credit quality. A substantial portion of accounts receivable are with investment grade customers in the energy industry and are subject to normal industry credit risk. The Corporation has experienced no material loss in relation to trade receivables. As at December 31, 2022, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $486 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.

The Corporation's cash balances are currently used to repay debt, fund sustaining capital and repurchase shares. As a result, the primary objectives of the investment portfolio are low risk capital preservation and high liquidity. The cash balances are held in high interest savings accounts or are invested in high grade, liquid, short-term instruments such as bankers' acceptances, commercial paper, money market deposits or similar instruments. The cash and cash equivalents balance at December 31, 2022 was $192 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 $192 million.

g. 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 capital resources, cash flow and working capital levels will allow the Corporation to meet current and future obligations or that future sources of capital will not be necessary.

The Corporation's earliest maturing long-term debt is represented by US$580 million of senior unsecured notes due February 2027. Additionally, the Corporation's modified covenant-lite $600 million revolving credit facility has no financial maintenance covenant unless drawn in excess of $300 million. If drawn in excess of $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. None of the Corporation's outstanding long-term debt contains financial maintenance covenants or is secured on a pari passu basis with the credit facility.

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

As at December 31, 2022	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Long-term debt	$ 1,597	$ —	$ —	$ 785	$ 812
Interest on long-term debt	$ 522	103	207	158	54
Commodity risk management contracts	$ 14	14	—	—	—
Accounts payable and accrued liabilities	$ 573	573	—	—	—
	$ 2,706	$ 690	$ 207	$ 943	$ 866

As at December 31, 2021	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Long-term debt	$ 2,779	$ 501	$ —	$ —	$ 2,278
Interest on long-term debt	$ 881	161	306	306	108
Commodity risk management contracts	$ 7	7	—	—	—
Accounts payable and accrued liabilities	$ 500	500	—	—	—
	$ 4,167	$ 1,169	$ 306	$ 306	$ 2,386

23. GEOGRAPHICAL DISCLOSURE

As at December 31, 2022, the Corporation had non-current assets related to operations in the United States of $98 million (December 31, 2021 – $105 million). For the year ended December 31, 2022, petroleum revenue related to operations in the United States was $4.5 billion (year ended December 31, 2021 – $2.4 billion).

24. 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 capital expenditures, 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 capital expenditures 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 started the year allocating all free cash flow to debt reduction. In the second quarter, upon reaching net debt of US$1.7 billion, the Corporation initiated the allocation of approximately 25% of free cash flow to share buybacks with the remainder applied to debt reduction. At the end of the third quarter, net debt declined to US$1.2 billion and free cash flow allocated to share buybacks was raised to approximately 50% with the remainder applied to debt reduction. This allocation will remain in place until net debt reaches US$600 million, which is expected to occur beyond 2023 at current oil prices.

The following table summarizes the Corporation's net debt:

As at December 31	Note	2022	2021
Long-term debt	10	**$ 1,578**	$ 2,477
Current portion of long-term debt	10	**3**	285
Cash and cash equivalents		**(192)**	(361)
Net debt - C$		**$ 1,389**	$ 2,401
Net debt - US$		**$ 1,026**	$ 1,897

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

During the year ended December 31, 2022, the Corporation repaid a total of US$1.0 billion (approximately $1.3 billion) 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 the second quarter of 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.
- During the third quarter of 2022, the Corporation repurchased and extinguished US$262 million (approximately $349 million) of its 7.125% senior unsecured notes due February 2027 at a weighted average price of 102.2% plus accrued and unpaid interest.
- During the fourth quarter of 2022, the Corporation repurchased and extinguished US$150 million (approximately $204 million) of its 7.125% senior unsecured notes due February 2027 at a weighted average price of 102.1% plus accrued and unpaid interest.

Beginning with the second quarter of 2022, the Corporation began purchasing MEG common shares for cancellation under the Corporation's NCIB program and as at December 31, 2022 the Corporation had purchased for cancellation 20.7 million common shares, returning $382 million to MEG shareholders.

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 has a 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% or $300 million. 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 represented by US$580 million of 7.125% senior unsecured notes due February 2027. As at December 31, 2022, the Corporation had $596 million of unutilized capacity under the $600 million revolving credit facility and $160 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 December 31, 2022.

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

($millions)	**2022**	2021
Funds flow from operating activities	**$ 1,882**	$ 753
Adjustments:		
Impact of cash-settled SBC units subject to equity price risk management	**98**	35
Realized equity price risk management gain	**(46)**	(8)
Settlement expense	**—**	21
Payments on onerous contract	**—**	25
Adjusted funds flow	**1,934**	826
Capital expenditures	**(376)**	(331)
Free cash flow	**$ 1,558**	$ 495

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 December 31, 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, the cash impact over the term of these RSUs has been reduced.

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.

25. COMMITMENTS AND CONTINGENCIES

a. Commitments

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

	2023	2024	2025	2026	2027	Thereafter	Total
Transportation and storage[(i)]	$ 432	$ 468	$ 441	$ 419	$ 422	$ 5,029	$ 7,211
Diluent purchases	223	—	—	—	—	—	223
Other operating commitments	17	14	14	14	5	19	83
Variable office lease costs	4	4	4	5	5	18	40
Capital commitments	23	—	—	—	—	—	23
Commitments	**$ 699**	**$ 486**	**$ 459**	**$ 438**	**$ 432**	**$ 5,066**	**$ 7,579**

(i) This represents transportation and storage commitments from 2023 to 2048, including the Access Pipeline Transportation Services agreement and pipeline commitments which are awaiting regulatory approval and not yet in service. Excludes finance leases recognized on the consolidated balance sheet (Note 11(a)).

b. Contingencies

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