



Canadian Natural

Canadian Natural Resources Limited

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As at (millions of Canadian dollars, unaudited)	Note	Sep 30 2020	Dec 31 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 175	\$ 139
Accounts receivable		1,606	2,465
Current income taxes receivable		321	13
Inventory		1,083	1,152
Prepays and other		315	174
Investments	7	272	490
Current portion of other long-term assets	8	263	54
		4,035	4,487
Exploration and evaluation assets	4	2,483	2,579
Property, plant and equipment	5	64,578	68,043
Lease assets	6	1,594	1,789
Other long-term assets	8	1,040	1,223
		\$ 73,730	\$ 78,121
LIABILITIES			
Current liabilities			
Accounts payable		\$ 825	\$ 816
Accrued liabilities		2,112	2,611
Current portion of long-term debt	9	828	2,391
Current portion of other long-term liabilities	6,10	391	819
		4,156	6,637
Long-term debt	9	21,048	18,591
Other long-term liabilities	6,10	5,962	7,363
Deferred income taxes		10,398	10,539
		41,564	43,130
SHAREHOLDERS' EQUITY			
Share capital	12	9,522	9,533
Retained earnings		22,520	25,424
Accumulated other comprehensive income	13	124	34
		32,166	34,991
		\$ 73,730	\$ 78,121

Commitments and contingencies (note 17).

Approved by the Board of Directors on November 4, 2020.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(millions of Canadian dollars, except per common share amounts, unaudited)	Note	Three Months Ended		Nine Months Ended	
		Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Product sales	18	\$ 4,676	\$ 6,587	\$ 12,272	\$ 18,059
Less: royalties		(172)	(427)	(397)	(1,089)
Revenue		4,504	6,160	11,875	16,970
Expenses					
Production		1,556	1,566	4,649	4,629
Transportation, blending and feedstock		989	1,248	3,180	3,283
Depletion, depreciation and amortization	5,6	1,464	1,426	4,431	3,996
Administration		88	95	284	249
Share-based compensation	10	(5)	7	(205)	62
Asset retirement obligation accretion	10	51	50	154	140
Interest and other financing expense		174	231	579	619
Risk management activities	16	23	(3)	(9)	49
Foreign exchange (gain) loss		(254)	115	238	(341)
Loss from investments	7,8	1	61	206	150
		4,087	4,796	13,507	12,836
Earnings (loss) before taxes		417	1,364	(1,632)	4,134
Current income tax (recovery) expense	11	(82)	161	(292)	403
Deferred income tax expense (recovery)	11	91	176	(156)	(1,088)
Net earnings (loss)		\$ 408	\$ 1,027	\$ (1,184)	\$ 4,819
Net earnings (loss) per common share					
Basic	15	\$ 0.35	\$ 0.87	\$ (1.00)	\$ 4.04
Diluted	15	\$ 0.35	\$ 0.87	\$ (1.00)	\$ 4.03

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(millions of Canadian dollars, unaudited)	Three Months Ended		Nine Months Ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Net earnings (loss)	\$ 408	\$ 1,027	\$ (1,184)	\$ 4,819
Items that may be reclassified subsequently to net earnings (loss)				
Net change in derivative financial instruments designated as cash flow hedges				
Unrealized income (loss) during the period, net of taxes of \$1 million (2019 – \$6 million) – three months ended; \$2 million (2019 – \$12 million) – nine months ended	(9)	48	17	97
Reclassification to net earnings (loss), net of taxes of \$1 million (2019 – \$2 million) – three months ended; \$2 million (2019 – \$5 million) – nine months ended	(4)	(13)	(13)	(36)
	(13)	35	4	61
Foreign currency translation adjustment				
Translation of net investment	(61)	36	86	(85)
Other comprehensive income (loss), net of taxes	(74)	71	90	(24)
Comprehensive income (loss)	\$ 334	\$ 1,098	\$ (1,094)	\$ 4,795

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars, unaudited)	Note	Nine Months Ended	
		Sep 30 2020	Sep 30 2019
Share capital	12		
Balance – beginning of period		\$ 9,533	\$ 9,323
Issued upon exercise of stock options		36	148
Previously recognized liability on stock options exercised for common shares		9	17
Purchase of common shares under Normal Course Issuer Bid		(56)	(174)
Balance – end of period		9,522	9,314
Retained earnings			
Balance – beginning of period		25,424	22,529
Net earnings (loss)		(1,184)	4,819
Dividends on common shares	12	(1,505)	(1,339)
Purchase of common shares under Normal Course Issuer Bid	12	(215)	(627)
Balance – end of period		22,520	25,382
Accumulated other comprehensive income	13		
Balance – beginning of period		34	122
Other comprehensive income (loss), net of taxes		90	(24)
Balance – end of period		124	98
Shareholders' equity		\$ 32,166	\$ 34,794

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars, unaudited)	Note	Three Months Ended		Nine Months Ended	
		Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Operating activities					
Net earnings (loss)		\$ 408	\$ 1,027	\$ (1,184)	\$ 4,819
Non-cash items					
Depletion, depreciation and amortization		1,464	1,426	4,431	3,996
Share-based compensation		(5)	7	(205)	62
Asset retirement obligation accretion		51	50	154	140
Unrealized risk management gain		(2)	(2)	(18)	(4)
Unrealized foreign exchange (gain) loss		(270)	129	418	(323)
Realized foreign exchange gain on settlement of cross currency swaps		—	—	(166)	—
Loss from investments	7,8	3	68	218	171
Deferred income tax expense (recovery)		91	176	(156)	(1,088)
Other		26	(1)	(79)	(101)
Abandonment expenditures		(68)	(63)	(197)	(212)
Net change in non-cash working capital		372	(299)	228	(1,085)
Cash flows from operating activities		2,070	2,518	3,444	6,375
Financing activities					
Issue (repayment) of bank credit facilities and commercial paper, net	9	68	(1,182)	901	2,726
Repayment of medium-term notes	9	(1,000)	—	(1,900)	(500)
Issue of US dollar debt securities	9	—	—	1,481	—
Proceeds on settlement of cross currency swaps	16	—	—	166	—
Payment of lease liabilities	6,10	(52)	(64)	(178)	(173)
Issue of common shares on exercise of stock options		1	30	36	148
Dividends on common shares		(502)	(447)	(1,448)	(1,299)
Purchase of common shares under Normal Course Issuer Bid	12	—	(169)	(271)	(801)
Cash flows (used in) from financing activities		(1,485)	(1,832)	(1,213)	101
Investing activities					
Net proceeds (expenditures) on exploration and evaluation assets		11	(3)	3	(73)
Net expenditures on property, plant and equipment		(714)	(897)	(1,836)	(2,563)
Acquisition of Devon assets		—	—	—	(3,412)
Net change in non-cash working capital		60	(8)	(362)	(353)
Cash flows used in investing activities		(643)	(908)	(2,195)	(6,401)
(Decrease) increase in cash and cash equivalents		(58)	(222)	36	75
Cash and cash equivalents – beginning of period		233	398	139	101
Cash and cash equivalents – end of period		\$ 175	\$ 176	\$ 175	\$ 176
Interest paid on long-term debt, net		\$ 211	\$ 263	\$ 598	\$ 674
Income taxes (received) paid		\$ (101)	\$ 86	\$ (29)	\$ 372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in millions of Canadian dollars, unless otherwise stated, unaudited)

1. ACCOUNTING POLICIES

Canadian Natural Resources Limited (the "Company") is a senior independent crude oil and natural gas exploration, development and production company. The Company's exploration and production operations are focused in North America, largely in Western Canada; the United Kingdom ("UK") portion of the North Sea; and Côte d'Ivoire and South Africa in Offshore Africa.

The "Oil Sands Mining and Upgrading" segment produces synthetic crude oil through bitumen mining and upgrading operations at Horizon Oil Sands ("Horizon") and through the Company's direct and indirect interest in the Athabasca Oil Sands Project ("AOSP").

Within Western Canada in the "Midstream and Refining" segment, the Company maintains certain activities that include pipeline operations, an electricity co-generation system and an investment in the North West Redwater Partnership ("NWRP"), a general partnership formed to upgrade and refine bitumen in the Province of Alberta.

The Company was incorporated in Alberta, Canada. The address of its registered office is 2100, 855 - 2 Street S.W., Calgary, Alberta, Canada.

These interim consolidated financial statements and the related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 "Interim Financial Reporting", following the same accounting policies as the audited consolidated financial statements of the Company as at December 31, 2019, except as disclosed in note 2. These interim consolidated financial statements contain disclosures that are supplemental to the Company's annual audited consolidated financial statements. Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019.

Critical Accounting Estimates and Judgements

For the three and nine months ended September 30, 2020, the novel coronavirus ("COVID-19") had an impact on the global economy, including the oil and gas industry. Business conditions in the third quarter of 2020 continued to reflect the market uncertainty associated with COVID-19, with some modest improvements to global crude oil demand and supply conditions. The Company has taken into account the impacts of COVID-19 and the unique circumstances it has created in making estimates, assumptions and judgements in the preparation of the unaudited interim consolidated financial statements, and continues to monitor the developments in the business environment and commodity market. Actual results may differ from estimated amounts, and those differences may be material.

Government Grants

The Company has received or is eligible for government grants in response to the impact of COVID-19. These government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. Grants that are intended to compensate for expenses incurred are classified as other income.

2. CHANGES IN ACCOUNTING POLICIES

In October 2018, the IASB issued amendments to IFRS 3 "Definition of a Business" that narrowed and clarified the definition of a business. The amendments permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments apply to business combinations after the date of adoption. The Company prospectively adopted the amendments on January 1, 2020.

In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments make minor changes to the definition of the term "material" and align the definition across all IFRS Standards. Materiality is used in making judgements related to the preparation of financial statements. The Company prospectively adopted the amendments on January 1, 2020.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

In January 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively. The Company is assessing the impact of these amendments on its consolidated financial statements.

In May 2020, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" to require proceeds received from selling items produced while the entity is preparing the asset for its intended use to be recognized in net earnings, rather than as a reduction in the cost of the asset. The amendments are effective January 1, 2022 with early adoption permitted. The Company is assessing the impact of these amendments on its consolidated financial statements.

4. EXPLORATION AND EVALUATION ASSETS

	Exploration and Production			Oil Sands Mining and Upgrading	Total
	North America	North Sea	Offshore Africa		
Cost					
At December 31, 2019	\$ 2,258	\$ —	\$ 69	\$ 252	2,579
Additions	25	—	2	—	27
Transfers to property, plant and equipment	(120)	—	—	—	(120)
Disposals/derecognitions	(3)	—	—	—	(3)
At September 30, 2020	\$ 2,160	\$ —	\$ 71	\$ 252	2,483

5. PROPERTY, PLANT AND EQUIPMENT

	Exploration and Production			Oil Sands Mining and Upgrading	Midstream and Refining	Head Office	Total
	North America	North Sea	Offshore Africa				
Cost							
At December 31, 2019	\$ 72,627	\$ 7,296	\$ 3,933	\$ 45,016	\$ 451	\$ 466	\$ 129,789
Additions	663	88	64	999	5	16	1,835
Transfers from E&E assets	120	—	—	—	—	—	120
Change in asset retirement obligation estimates	(794)	(114)	(29)	(332)	(1)	—	(1,270)
Disposals/derecognitions	(394)	—	—	(358)	—	—	(752)
Foreign exchange adjustments and other	—	210	110	—	—	—	320
At September 30, 2020	\$ 72,222	\$ 7,480	\$ 4,078	\$ 45,325	\$ 455	\$ 482	\$ 130,042
Accumulated depletion and depreciation							
At December 31, 2019	\$ 46,577	\$ 5,712	\$ 2,712	\$ 6,247	\$ 153	\$ 345	\$ 61,746
Expense	2,682	189	115	1,222	11	18	4,237
Disposals/derecognitions	(394)	—	—	(358)	—	—	(752)
Foreign exchange adjustments and other	(28)	165	79	17	—	—	233
At September 30, 2020	\$ 48,837	\$ 6,066	\$ 2,906	\$ 7,128	\$ 164	\$ 363	\$ 65,464
Net book value							
- at September 30, 2020	\$ 23,385	\$ 1,414	\$ 1,172	\$ 38,197	\$ 291	\$ 119	\$ 64,578
- at December 31, 2019	\$ 26,050	\$ 1,584	\$ 1,221	\$ 38,769	\$ 298	\$ 121	\$ 68,043

The Company regularly reviews the business environment and commodity markets to assess the recoverability of the carrying value of its cash generating units ("CGUs"). As at September 30, 2020, the Company determined the carrying value of all of its CGUs to be recoverable.

The Company capitalizes construction period interest for qualifying assets based on costs incurred and the Company's cost of borrowing. Interest capitalization to a qualifying asset ceases once the asset is substantially available for its intended use. For the nine months ended September 30, 2020, pre-tax interest of \$21 million (September 30, 2019 – \$45 million) was capitalized to property, plant and equipment using a weighted average capitalization rate of 3.6% (September 30, 2019 – 4.0%).

Subsequent to September 30, 2020, the Company completed the acquisition of all of the issued and outstanding common shares of Painted Pony Energy Ltd. ("Painted Pony") for net cash consideration of approximately \$111 million. At closing, the acquisition also included the assumption of long-term debt of approximately \$397 million and certain other obligations, which will be included in the initial purchase accounting for the acquisition. Painted Pony is involved in the exploration for and development of natural gas and natural gas liquids in Northeast British Columbia.

6. LEASES

Lease assets

	Product transportation and storage	Field equipment and power	Offshore vessels and equipment	Office leases and other	Total
At December 31, 2019	\$ 1,166	\$ 317	\$ 182	\$ 124	\$ 1,789
Additions	1	25	5	1	32
Depreciation	(93)	(39)	(42)	(20)	(194)
Derecognitions	(21)	(4)	(11)	—	(36)
Foreign exchange adjustments and other	(1)	(2)	6	—	3
At September 30, 2020	\$ 1,052	\$ 297	\$ 140	\$ 105	\$ 1,594

Lease liabilities

The Company measures its lease liabilities at the discounted value of its lease payments during the lease term. Lease liabilities at September 30, 2020 were as follows:

	Sep 30 2020	Dec 31 2019
Lease liabilities	\$ 1,634	\$ 1,809
Less: current portion	189	233
	\$ 1,445	\$ 1,576

Total cash outflows for leases for the three months ended September 30, 2020, including payments related to short-term leases not reported as lease assets, were \$213 million (three months ended September 30, 2019 – \$299 million; nine months ended September 30, 2020 – \$762 million; nine months ended September 30, 2019 – \$879 million). Interest expense on leases for the three months ended September 30, 2020 was \$16 million (three months ended September 30, 2019 – \$18 million; nine months ended September 30, 2020 – \$50 million; nine months ended September 30, 2019 – \$52 million).

7. INVESTMENTS

As at September 30, 2020, the Company had the following investments:

	Sep 30 2020	Dec 31 2019
Investment in PrairieSky Royalty Ltd.	\$ 188	\$ 345
Investment in Inter Pipeline Ltd.	84	145
	\$ 272	\$ 490

The loss (gain) from the investments was comprised as follows:

	Three Months Ended		Nine Months Ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Fair value loss (gain) from investments	\$ 3	\$ (20)	\$ 218	\$ (43)
Dividend income from investments	(2)	(7)	(12)	(21)
	\$ 1	\$ (27)	\$ 206	\$ (64)

The Company's investments in PrairieSky Royalty Ltd. ("PrairieSky") and Inter Pipeline Ltd. ("Inter Pipeline") do not constitute significant influence, and are accounted for at fair value through profit or loss, measured at each reporting date. As at September 30, 2020, the Company's investments in PrairieSky and Inter Pipeline were classified as current assets.

8. OTHER LONG-TERM ASSETS

	Sep 30 2020	Dec 31 2019
North West Redwater Partnership	\$ 679	\$ 652
Risk management (note 16)	237	290
Prepaid cost of service toll	163	130
Long-term inventory	121	121
Other	103	84
	1,303	1,277
Less: current portion	263	54
	\$ 1,040	\$ 1,223

The Company has a 50% equity investment in and has made subordinated debt advances of \$679 million to NWRP, including accrued interest, subject to final adjustments. The subordinated debt is repayable over 10 years commencing July 2021, and bears interest at prime plus 6%. NWRP operates a 50,000 barrels per day bitumen upgrader and refinery that targets to process 12,500 barrels per day of bitumen feedstock for the Company and 37,500 barrels per day of bitumen feedstock for the Alberta Petroleum Marketing Commission, an agent of the Government of Alberta, under a 30-year fee-for-service tolling agreement.

On June 1, 2020, the refinery achieved the Commercial Operation Date ("COD"), pursuant to the terms of the tolling agreement. The Company is unconditionally obligated to pay its 25% pro rata share of the debt tolls over the 30-year tolling period (note 17). Subsequent to COD, sales of diesel and refined products and associated refining tolls are recognized in the Midstream and Refining segment.

The unrecognized share of the equity (income) loss from NWRP for the three months ended September 30, 2020 was a recovery of unrecognized losses of \$16 million (nine months ended September 30, 2020 – unrecognized equity loss of \$100 million). As at September 30, 2020, the cumulative unrecognized share of losses from NWRP was \$159 million (December 31, 2019 – \$59 million).

9. LONG-TERM DEBT

	Sep 30 2020	Dec 31 2019
Canadian dollar denominated debt, unsecured		
Bank credit facilities	\$ 2,009	\$ 1,688
Medium-term notes	2,400	4,300
	4,409	5,988
US dollar denominated debt, unsecured		
Bank credit facilities (September 30, 2020 – US\$3,941 million; December 31, 2019 – US\$3,745 million)	5,250	4,855
Commercial paper (September 30, 2020 – US\$500 million; December 31, 2019 – US\$254 million)	666	329
US dollar debt securities (September 30, 2020 – US\$8,750 million; December 31, 2019 – US\$7,650 million)	11,659	9,918
	17,575	15,102
Long-term debt before transaction costs and original issue discounts, net	21,984	21,090
Less: original issue discounts, net ⁽¹⁾	18	17
transaction costs ⁽¹⁾⁽²⁾	90	91
	21,876	20,982
Less: current portion of commercial paper	666	329
current portion of other long-term debt ⁽¹⁾⁽²⁾	162	2,062
	\$ 21,048	\$ 18,591

(1) The Company has included unamortized original issue discounts and premiums, and directly attributable transaction costs in the carrying amount of the outstanding debt.

(2) Transaction costs primarily represent underwriting commissions charged as a percentage of the related debt offerings, as well as legal, rating agency and other professional fees.

For the nine months ended September 30, 2020, the Company reported an unrealized foreign exchange loss of \$392 million (September 30, 2019 – unrealized gain of \$355 million) on its US dollar denominated debt.

Bank Credit Facilities and Commercial Paper

As at September 30, 2020, the Company had in place revolving bank credit facilities of \$4,958 million, of which \$3,771 million was available. Additionally, the Company had in place fully drawn term credit facilities of \$6,738 million. Details of these facilities are described below. This excludes certain other dedicated credit facilities supporting letters of credit.

- a \$100 million demand credit facility;
- a \$1,000 million non-revolving term credit facility maturing February 2022;
- a \$2,425 million revolving syndicated credit facility maturing June 2022;
- a \$3,088 million non-revolving term credit facility maturing June 2022;
- a \$2,650 million non-revolving term credit facility maturing February 2023;
- a \$2,425 million revolving syndicated credit facility maturing June 2023; and
- a £5 million demand credit facility related to the Company's North Sea operations.

During the second quarter of 2020, the \$750 million non-revolving term credit facility, originally due February 2021, was extended to February 2022 and increased to \$1,000 million.

Borrowings under the Company's non-revolving term credit facilities may be made by way of pricing referenced to Canadian dollar bankers' acceptances, US dollar bankers' acceptances, LIBOR, US base rate or Canadian prime rate. As at September 30, 2020, the non-revolving term credit facilities were fully drawn.

The revolving syndicated credit facilities are extendible annually at the mutual agreement of the Company and the lenders. If the facilities are not extended, the full amount of the outstanding principal would be repayable on the maturity date. Borrowings under the Company's revolving term credit facilities may be made by way of pricing referenced to Canadian dollar bankers' acceptances, US dollar bankers' acceptances, LIBOR, US base rate or Canadian prime rate.

The Company's borrowings under its US commercial paper program are authorized up to a maximum US\$2,500 million. The Company reserves capacity under its revolving bank credit facilities for amounts outstanding under this program.

The Company's weighted average interest rate on bank credit facilities and commercial paper outstanding as at September 30, 2020 was 1.3% (September 30, 2019 – 2.5%), and on total long-term debt outstanding for the nine months ended September 30, 2020 was 3.6% (September 30, 2019 – 4.0%).

As at September 30, 2020, letters of credit and guarantees aggregating to \$473 million were outstanding.

Medium-Term Notes

During the third quarter of 2020, the Company repaid \$1,000 million of 2.89% medium-term notes. During the second quarter of 2020, the Company repaid \$900 million of 2.05% medium-term notes.

In July 2019, the Company filed a base shelf prospectus that allows for the offer for sale from time to time of up to \$3,000 million of medium-term notes in Canada, which expires in August 2021. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market conditions at the time of issuance.

US Dollar Debt Securities

During the second quarter of 2020, the Company issued US\$600 million of 2.05% notes due July 2025 and US\$500 million of 2.95% notes due July 2030.

After issuing these securities, the Company had US\$1,900 million remaining on its base shelf prospectus that allows for the offer for sale from time to time of up to US\$3,000 million of debt securities in the United States, which expires in August 2021. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market conditions at the time of issuance.

10. OTHER LONG-TERM LIABILITIES

	Sep 30 2020	Dec 31 2019
Asset retirement obligations	\$ 4,496	\$ 5,771
Lease liabilities (note 6)	1,634	1,809
Share-based compensation	51	297
Deferred purchase consideration ⁽¹⁾	72	95
Risk management (note 16)	3	112
Other	97	98
	6,353	8,182
Less: current portion	391	819
	\$ 5,962	\$ 7,363

(1) Relates to the acquisition of the Joslyn oil sands project in 2018, payable in annual installments of \$25 million over the next three years.

Asset Retirement Obligations

The Company's asset retirement obligations are expected to be settled on an ongoing basis over a period of approximately 60 years and discounted using a weighted average discount rate of 4.8% (December 31, 2019 – 3.8%) and inflation rates of up to 2% (December 31, 2019 – up to 2%). Reconciliations of the discounted asset retirement obligations were as follows:

	Sep 30 2020	Dec 31 2019
Balance – beginning of period	\$ 5,771	\$ 3,886
Liabilities incurred	4	15
Liabilities (disposed) acquired, net	(1)	198
Liabilities settled	(197)	(296)
Asset retirement obligation accretion	154	190
Change in discount rates	(1,270)	1,412
Foreign exchange adjustments	35	(46)
Revision of cost, inflation rates and timing estimates	—	412
Balance – end of period	4,496	5,771
Less: current portion	124	208
	\$ 4,372	\$ 5,563

Share-Based Compensation

The liability for share-based compensation includes costs incurred under the Company's Stock Option Plan and Performance Share Unit ("PSU") plans. The Company's Stock Option Plan provides current employees with the right to elect to receive common shares or a cash payment in exchange for stock options surrendered. The PSU plan provides certain executive employees of the Company with the right to receive a cash payment, the amount of which is determined by individual employee performance and the extent to which certain other performance measures are met.

The Company recognizes a liability for potential cash settlements under these plans. The current portion of the liability represents the maximum amount of the liability payable within the next twelve month period if all vested stock options and PSUs are settled in cash.

	Sep 30 2020	Dec 31 2019
Balance – beginning of period	\$ 297	\$ 124
Share-based compensation (recovery) expense	(205)	223
Cash payment for stock options surrendered and PSUs vested	(36)	(2)
Transferred to common shares	(9)	(53)
Charged to Oil Sands Mining and Upgrading, net	4	5
Balance – end of period	51	297
Less: current portion	34	227
	\$ 17	\$ 70

Included within share-based compensation liability as at September 30, 2020 was \$24 million related to PSUs granted to certain executive employees (December 31, 2019 – \$62 million).

11. INCOME TAXES

The provision for income tax was as follows:

Expense (recovery)	Three Months Ended		Nine Months Ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Current corporate income tax – North America	\$ (59)	\$ 133	\$ (287)	\$ 374
Current corporate income tax – North Sea	(14)	15	(4)	72
Current corporate income tax – Offshore Africa	6	14	12	37
Current PRT ⁽¹⁾ – North Sea	(17)	(4)	(17)	(89)
Other taxes	2	3	4	9
Current income tax	(82)	161	(292)	403
Deferred corporate income tax	91	176	(156)	(1,089)
Deferred PRT ⁽¹⁾ – North Sea	—	—	—	1
Deferred income tax	91	176	(156)	(1,088)
Income tax	\$ 9	\$ 337	\$ (448)	\$ (685)

(1) *Petroleum Revenue Tax*

In the second quarter of 2019, the Government of Alberta enacted legislation that decreased the provincial corporate income tax rate from 12% to 11% effective July 2019, with a further 1% rate reduction every year on January 1 until the provincial corporate income tax rate is 8% on January 1, 2022. Subsequent to September 30, 2020, the Government of Alberta substantively enacted legislation to accelerate this reduction, lowering the corporate tax rate from 10% to 8%, effective July 1, 2020.

12. SHARE CAPITAL

Authorized

Preferred shares issuable in a series.

Unlimited number of common shares without par value.

Issued common shares	Nine Months Ended Sep 30, 2020	
	Number of shares (thousands)	Amount
Balance – beginning of period	1,186,857	\$ 9,533
Issued upon exercise of stock options	1,169	36
Previously recognized liability on stock options exercised for common shares	—	9
Purchase of common shares under Normal Course Issuer Bid	(6,970)	(56)
Balance – end of period	1,181,056	\$ 9,522

Dividend Policy

The Company has paid regular quarterly dividends in each year since 2001. The dividend policy undergoes periodic review by the Board of Directors and is subject to change.

On March 4, 2020, the Board of Directors declared a quarterly dividend of \$0.425 per common share, an increase from the previous quarterly dividend of \$0.375 per common share.

Normal Course Issuer Bid

On May 21, 2019, the Company's application was approved for a Normal Course Issuer Bid to purchase through the facilities of the Toronto Stock Exchange, alternative Canadian trading platforms, and the New York Stock Exchange, up to 59,729,706 common shares, over a 12-month period commencing May 23, 2019 and ending May 22, 2020. The Company did not renew its Normal Course Issuer Bid after its expiry in May 2020.

During the first quarter of 2020, the Company purchased 6,970,000 common shares at a weighted average price of \$38.84 per common share for a total cost of \$271 million. Retained earnings were reduced by \$215 million, representing the excess of the purchase price of common shares over their average carrying value.

Share-Based Compensation – Stock Options

The following table summarizes information relating to stock options outstanding at September 30, 2020:

	Nine Months Ended Sep 30, 2020	
	Stock options (thousands)	Weighted average exercise price
Outstanding – beginning of period	47,646	\$ 38.04
Granted	11,619	\$ 33.06
Exercised for common shares	(1,169)	\$ 30.84
Surrendered for cash settlement	(315)	\$ 34.04
Forfeited	(5,468)	\$ 40.05
Outstanding – end of period	52,313	\$ 36.90
Exercisable – end of period	15,596	\$ 38.41

The Option Plan is a "rolling 7%" plan, whereby the aggregate number of common shares that may be reserved for issuance under the plan shall not exceed 7% of the common shares outstanding from time to time.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, net of taxes, were as follows:

	Sep 30 2020	Sep 30 2019
Derivative financial instruments designated as cash flow hedges	\$ 75	\$ 74
Foreign currency translation adjustment	49	24
	\$ 124	\$ 98

14. CAPITAL DISCLOSURES

The Company has defined its capital to mean its long-term debt and consolidated shareholders' equity, as determined at each reporting date.

The Company's objectives when managing its capital structure are to maintain financial flexibility and balance to enable the Company to access capital markets to sustain its on-going operations and to support its growth strategies. The Company primarily monitors capital on the basis of an internally derived financial measure referred to as its "debt to book capitalization ratio", which is the arithmetic ratio of net current and long-term debt divided by the sum of the carrying value of shareholders' equity plus net current and long-term debt. The Company's internal targeted range for its debt to book capitalization ratio is 25% to 45%. This range may be exceeded in periods when a combination of capital projects, acquisitions, or lower commodity prices occurs. The Company may be below the low end of the targeted range when cash flow from operating activities is greater than current investment activities. At September 30, 2020, the ratio was within the target range at 40.3%.

Readers are cautioned that the debt to book capitalization ratio is not defined by IFRS and this financial measure may not be comparable to similar measures presented by other companies. Further, there are no assurances that the Company will continue to use this measure to monitor capital or will not alter the method of calculation of this measure in the future.

	Sep 30 2020	Dec 31 2019
Long-term debt, net ⁽¹⁾	\$ 21,701	\$ 20,843
Total shareholders' equity	\$ 32,166	\$ 34,991
Debt to book capitalization	40.3%	37.3%

(1) Includes the current portion of long-term debt, net of cash and cash equivalents.

The Company is subject to a financial covenant that requires debt to book capitalization as defined in its credit facility agreements to not exceed 65%. At September 30, 2020, the Company was in compliance with this covenant.

15. NET EARNINGS (LOSS) PER COMMON SHARE

	Three Months Ended		Nine Months Ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Weighted average common shares outstanding – basic (thousands of shares)	1,181,046	1,185,589	1,181,701	1,193,184
Effect of dilutive stock options (thousands of shares)	441	1,533	—	2,143
Weighted average common shares outstanding – diluted (thousands of shares)	1,181,487	1,187,122	1,181,701	1,195,327
Net earnings (loss)	\$ 408	\$ 1,027	\$ (1,184)	\$ 4,819
Net earnings (loss) per common share – basic	\$ 0.35	\$ 0.87	\$ (1.00)	\$ 4.04
– diluted	\$ 0.35	\$ 0.87	\$ (1.00)	\$ 4.03

16. FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments by category were as follows:

Asset (liability)	Sep 30, 2020				
	Financial assets at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Accounts receivable	\$ 1,606	\$ —	\$ —	\$ —	\$ 1,606
Investments	—	272	—	—	272
Other long-term assets	679	—	237	—	916
Accounts payable	—	—	—	(825)	(825)
Accrued liabilities	—	—	—	(2,112)	(2,112)
Other long-term liabilities ⁽¹⁾	—	(3)	—	(1,706)	(1,709)
Long-term debt ⁽²⁾	—	—	—	(21,876)	(21,876)
	\$ 2,285	\$ 269	\$ 237	\$ (26,519)	\$ (23,728)

Asset (liability)	Dec 31, 2019				
	Financial assets at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Accounts receivable	\$ 2,465	\$ —	\$ —	\$ —	\$ 2,465
Investments	—	490	—	—	490
Other long-term assets	652	—	290	—	942
Accounts payable	—	—	—	(816)	(816)
Accrued liabilities	—	—	—	(2,611)	(2,611)
Other long-term liabilities ⁽¹⁾	—	(21)	(91)	(1,904)	(2,016)
Long-term debt ⁽²⁾	—	—	—	(20,982)	(20,982)
	\$ 3,117	\$ 469	\$ 199	\$ (26,313)	\$ (22,528)

(1) Includes \$1,634 million of lease liabilities (December 31, 2019 – \$1,809 million) and \$72 million of deferred purchase consideration payable over the next three years (December 31, 2019 – \$95 million).

(2) Includes the current portion of long-term debt.

The carrying amounts of the Company's financial instruments approximated their fair value, except for fixed rate long-term debt. The fair values of the Company's investments, recurring other long-term assets (liabilities) and fixed rate long-term debt are outlined below:

Asset (liability) ^{(1) (2)}	Sep 30, 2020				
	Carrying amount	Fair value			Level 3 ^{(4) (5)}
		Level 1	Level 2	Level 3	
Investments ⁽³⁾	\$ 272	\$ 272	\$ —	\$ —	—
Other long-term assets	\$ 916	\$ —	\$ 237	\$ 679	679
Other long-term liabilities	\$ (75)	\$ —	\$ (3)	\$ (72)	(72)
Fixed rate long-term debt ^{(6) (7)}	\$ (13,951)	\$ (15,546)	\$ —	\$ —	—

Dec 31, 2019

Asset (liability) ^{(1) (2)}	Carrying amount	Fair value		
		Level 1	Level 2	Level 3 ^{(4) (5)}
Investments ⁽³⁾	\$ 490	\$ 490	\$ —	\$ —
Other long-term assets	\$ 942	\$ —	\$ 290	\$ 652
Other long-term liabilities	\$ (207)	\$ —	\$ (112)	\$ (95)
Fixed rate long-term debt ^{(6) (7)}	\$ (14,110)	\$ (15,938)	\$ —	\$ —

(1) Excludes financial assets and liabilities where the carrying amount approximates fair value due to the short-term nature of the asset or liability (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities).

(2) There were no transfers between Level 1, 2 and 3 financial instruments.

(3) The fair values of the investments are based on quoted market prices.

(4) The fair value of the deferred purchase consideration included in other long-term liabilities is based on the present value of future cash payments.

(5) The fair value of NWRP subordinated debt is based on the present value of future cash receipts.

(6) The fair value of fixed rate long-term debt has been determined based on quoted market prices.

(7) Includes the current portion of fixed rate long-term debt.

Risk Management

The Company periodically uses derivative financial instruments to manage its commodity price, interest rate and foreign currency exposures. These financial instruments are entered into solely for hedging purposes and are not used for speculative purposes.

The following provides a summary of the carrying amounts of derivative financial instruments held and a reconciliation to the Company's consolidated balance sheets.

Asset (liability)	Sep 30 2020	Dec 31 2019
Derivatives held for trading		
Natural gas AECO fixed price swaps	\$ (2)	\$ (3)
Foreign currency forward contracts	(1)	(10)
Natural gas AECO basis swaps	—	(8)
Cash flow hedges		
Foreign currency forward contracts	62	(91)
Cross currency swaps	175	290
	\$ 234	\$ 178
Included within:		
Current portion of other long-term assets	\$ 68	\$ 8
Current portion of other long-term liabilities	(3)	(112)
Other long-term assets	169	282
	\$ 234	\$ 178

For the nine months ended September 30, 2020, the ineffectiveness arising from cash flow hedges was \$nil (year ended December 31, 2019 – gain of \$3 million).

The estimated fair values of derivative financial instruments in Level 2 at each measurement date have been determined based on appropriate internal valuation methodologies and/or third party indications. Level 2 fair values determined using valuation models require the use of assumptions concerning the amount and timing of future cash flows and discount rates. In determining these assumptions, the Company primarily relied on external, readily-observable quoted market inputs as applicable, including crude oil and natural gas forward benchmark commodity prices and volatility, Canadian and United States interest rate yield curves, and Canadian and United States forward foreign exchange rates, discounted to present value as appropriate. The resulting fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and these differences may be material.

The changes in estimated fair values of derivative financial instruments included in the risk management asset (liability) were recognized in the financial statements as follows:

Asset (liability)	Sep 30 2020	Dec 31 2019
Balance – beginning of period	\$ 178	\$ 356
Net change in fair value of outstanding derivative financial instruments recognized in:		
Risk management activities	18	(13)
Foreign exchange	34	(231)
Other comprehensive income	4	66
Balance – end of period	234	178
Less: current portion	65	(104)
	\$ 169	\$ 282

Net loss (gain) from risk management activities were as follows:

	Three Months Ended		Nine Months Ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Net realized risk management loss (gain)	\$ 25	\$ (1)	\$ 9	\$ 53
Net unrealized risk management gain	(2)	(2)	(18)	(4)
	\$ 23	\$ (3)	\$ (9)	\$ 49

Financial Risk Factors

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk is comprised of commodity price risk, interest rate risk, and foreign currency exchange risk.

Commodity price risk management

The Company periodically uses commodity derivative financial instruments to manage its exposure to commodity price risk associated with the sale of its future crude oil and natural gas production and with natural gas purchases.

At September 30, 2020, the Company had the following derivative financial instruments outstanding to manage its commodity price risk:

	Remaining term	Volume	Weighted average price	Index
Natural Gas				
AECO fixed price swaps	Oct 2020	102,500 GJ/d	\$1.51	AECO

The Company's outstanding commodity derivative financial instruments are expected to be settled monthly based on the applicable index pricing for the respective contract month.

Interest rate risk management

The Company is exposed to interest rate price risk on its fixed rate long-term debt and to interest rate cash flow risk on its floating rate long-term debt. The Company periodically enters into interest rate swap contracts to manage its fixed to floating interest rate mix on long-term debt. Interest rate swap contracts require the periodic exchange of payments without the exchange of the notional principal amounts on which the payments are based. At September 30, 2020, the Company had no interest rate swap contracts outstanding.

Foreign currency exchange rate risk management

The Company is exposed to foreign currency exchange rate risk in Canada primarily related to its US dollar denominated long-term debt, commercial paper and working capital. The Company is also exposed to foreign currency exchange rate risk on transactions conducted in other currencies and in the carrying value of its foreign subsidiaries. The Company periodically enters into cross currency swap contracts and foreign currency forward contracts to manage known currency exposure on US dollar denominated long-term debt, commercial paper and

working capital. The cross currency swap contract requires the periodic exchange of payments with the exchange at maturity of notional principal amounts on which the payments are based.

At September 30, 2020, the Company had the following cross currency swap contract outstanding:

	Remaining term	Amount	Exchange rate (US\$/C\$)	Interest rate (US\$)	Interest rate (C\$)
Cross currency					
Swap	Oct 2020 – Mar 2038	US\$550	1.170	6.25 %	5.76 %

The cross currency swap derivative financial instrument was designated as a hedge at September 30, 2020 and was classified as a cash flow hedge.

In addition to the cross currency swap contract noted above, at September 30, 2020, the Company had US\$5,009 million of foreign currency forward contracts outstanding, with original terms of up to 90 days, including US\$4,441 million designated as cash flow hedges.

During the first quarter of 2020, the Company settled the US\$500 million cross currency swaps designated as cash flow hedges of the US\$500 million 3.45% US dollar debt securities due November 2021. The Company realized cash proceeds of \$166 million on settlement.

b) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to discharge an obligation.

Counterparty credit risk management

The Company's accounts receivable are mainly with customers in the crude oil and natural gas industry and are subject to normal industry credit risks. The Company manages these risks by reviewing its exposure to individual companies on a regular basis and where appropriate, ensures that parental guarantees or letters of credit are in place to minimize the impact in the event of default. At September 30, 2020, substantially all of the Company's accounts receivable were due within normal trade terms.

The Company is also exposed to possible losses in the event of nonperformance by counterparties to derivative financial instruments; however, the Company manages this credit risk by entering into agreements with counterparties that are substantially all investment grade financial institutions. At September 30, 2020, the Company had net risk management assets of \$235 million with specific counterparties related to derivative financial instruments (December 31, 2019 – \$265 million).

The carrying amount of financial assets approximates the maximum credit exposure.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of liquidity risk requires the Company to maintain sufficient cash and cash equivalents, along with other sources of capital, consisting primarily of cash flow from operating activities, available credit facilities, commercial paper and access to debt capital markets, to meet obligations as they become due. The Company believes it has adequate bank credit facilities to provide liquidity to manage fluctuations in the timing of the receipt and/or disbursement of operating cash flows.

The maturity dates of the Company's financial liabilities were as follows:

	Less than 1 year	1 to less than 2 years	2 to less than 5 years	Thereafter
Accounts payable	\$ 825	\$ —	\$ —	\$ —
Accrued liabilities	\$ 2,112	\$ —	\$ —	\$ —
Long-term debt ⁽¹⁾	\$ 828	\$ 5,637	\$ 7,224	\$ 8,295
Other long-term liabilities ⁽²⁾	\$ 217	\$ 186	\$ 405	\$ 901
Interest and other financing expense ⁽³⁾	\$ 780	\$ 703	\$ 1,731	\$ 4,693

⁽¹⁾ Long-term debt represents principal repayments only and does not reflect interest, original issue discounts and premiums or transaction costs.

⁽²⁾ Lease payments included within other long-term liabilities reflect principal payments only and are as follows; less than one year, \$189 million; one to less than two years, \$161 million; two to less than five years, \$383 million; and thereafter, \$901 million.

⁽³⁾ Includes interest and other financing expense on long-term debt and other long-term liabilities. Payments were estimated based upon applicable interest and foreign exchange rates at September 30, 2020.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company has committed to certain payments. The following table summarizes the Company's commitments as at September 30, 2020:

	Remaining 2020	2021	2022	2023	2024	Thereafter
Product transportation ⁽¹⁾	\$ 189	\$ 749	\$ 664	\$ 740	\$ 715	\$ 8,015
North West Redwater Partnership service toll ⁽²⁾	\$ 41	\$ 164	\$ 152	\$ 161	\$ 160	\$ 2,825
Offshore vessels and equipment	\$ 16	\$ 66	\$ 9	\$ —	\$ —	\$ —
Field equipment and power	\$ 12	\$ 21	\$ 21	\$ 21	\$ 21	\$ 267
Other	\$ 6	\$ 20	\$ 20	\$ 20	\$ 20	\$ 36

(1) Includes commitments pertaining to a 20-year product transportation agreement on the Trans Mountain Pipeline Expansion. In addition, the Company has entered into certain product transportation agreements on pipelines that have not yet received regulatory and other approvals. The Company may be required to reimburse certain construction costs to the service provider under certain conditions.

(2) Pursuant to the processing agreements, on June 1, 2018 the Company began paying its 25% pro rata share of the debt component of the monthly cost of service tolls. Included in the cost of service tolls is \$1,168 million of interest payable over the 30-year tolling period (note 8).

In addition to the commitments disclosed above, the Company has entered into various agreements related to the engineering, procurement and construction of its various development projects. These contracts can be cancelled by the Company upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.

The Company is defendant and plaintiff in a number of legal actions arising in the normal course of business. In addition, the Company is subject to certain contractor construction claims. The Company believes that any liabilities that might arise pertaining to any such matters would not have a material effect on its consolidated financial position.

18. SEGMENTED INFORMATION

	North America				North Sea				Offshore Africa				Total Exploration and Production			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	Sep 30		Sep 30		Sep 30		Sep 30		Sep 30		Sep 30		Sep 30		Sep 30	
(millions of Canadian dollars, unaudited)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Segmented product sales																
Crude oil and NGLs	2,282	2,661	5,106	6,797	81	218	313	563	122	226	228	538	2,485	3,105	5,647	7,898
Natural gas	277	199	808	823	1	9	11	45	12	16	32	52	290	224	851	920
Other income and revenue ⁽¹⁾	17	1	28	6	—	1	3	3	19	3	22	6	36	5	53	15
Total segmented product sales	2,576	2,861	5,942	7,626	82	228	327	611	153	245	282	596	2,811	3,334	6,551	8,833
Less: royalties	(151)	(266)	(330)	(690)	—	—	(1)	(1)	(6)	(14)	(11)	(35)	(157)	(280)	(342)	(726)
Segmented revenue	2,425	2,595	5,612	6,936	82	228	326	610	147	231	271	561	2,654	3,054	6,209	8,107
Segmented expenses																
Production	583	624	1,877	1,797	61	103	222	270	41	37	76	79	685	764	2,175	2,146
Transportation, blending and feedstock	751	793	2,367	1,893	2	5	13	15	1	—	1	1	754	798	2,381	1,909
Depletion, depreciation and amortization	937	858	2,763	2,391	41	83	216	210	68	80	136	192	1,046	1,021	3,115	2,793
Asset retirement obligation accretion	23	27	73	68	7	6	22	21	2	1	5	4	32	34	100	93
Risk management activities (commodity derivatives)	3	7	9	36	—	—	—	—	—	—	—	—	3	7	9	36
Equity loss from investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total segmented expenses	2,297	2,309	7,089	6,185	111	197	473	516	112	118	218	276	2,520	2,624	7,780	6,977
Segmented earnings (loss) before the following	128	286	(1,477)	751	(29)	31	(147)	94	35	113	53	285	134	430	(1,571)	1,130
Non-segmented expenses																
Administration																
Share-based compensation																
Interest and other financing expense																
Risk management activities (other)																
Foreign exchange (gain) loss																
Loss (gain) from investments																
Total non-segmented expenses																
Earnings (loss) before taxes																
Current income tax (recovery) expense																
Deferred income tax expense (recovery)																
Net earnings (loss)																

(millions of Canadian dollars, unaudited)	Oil Sands Mining and Upgrading				Midstream and Refining				Inter-segment elimination and other				Total			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	Sep 30	2019	Sep 30	2019	Sep 30	2019	Sep 30	2019	Sep 30	2019	Sep 30	2019	Sep 30	2019	Sep 30	2019
Segmented product sales	2020		2020		2020		2020		2020		2020		2020		2020	
Crude oil and NGLs ⁽²⁾	1,764	3,117	5,311	8,707	21	21	62	62	(68)	81	(33)	336	4,202	6,324	10,987	17,003
Natural gas	—	—	—	—	—	—	—	—	48	33	131	117	338	257	982	1,037
Other income and revenue ⁽¹⁾	25	1	125	4	78	—	103	—	(3)	—	22	—	136	6	303	19
Total segmented product sales	1,789	3,118	5,436	8,711	99	21	165	62	(23)	114	120	453	4,676	6,587	12,272	18,059
Less: royalties	(15)	(147)	(55)	(363)	—	—	—	—	—	—	—	—	(172)	(427)	(397)	(1,089)
Segmented revenue	1,774	2,971	5,381	8,348	99	21	165	62	(23)	114	120	453	4,504	6,160	11,875	16,970
Segmented expenses																
Production	788	784	2,327	2,420	74	4	109	15	9	14	38	48	1,556	1,566	4,649	4,629
Transportation, blending and feedstock ⁽²⁾	188	357	641	976	76	—	98	—	(29)	93	60	398	989	1,248	3,180	3,283
Depletion, depreciation and amortization	414	401	1,305	1,192	4	4	11	11	—	—	—	—	1,464	1,426	4,431	3,996
Asset retirement obligation accretion	19	16	54	47	—	—	—	—	—	—	—	—	51	50	154	140
Risk management activities (commodity derivatives)	—	—	—	—	—	—	—	—	—	—	—	—	3	7	9	36
Equity loss from investments	—	—	—	—	—	88	—	214	—	—	—	—	—	88	—	214
Total segmented expenses	1,409	1,558	4,327	4,635	154	96	218	240	(20)	107	98	446	4,063	4,385	12,423	12,298
Segmented earnings (loss) before the following	365	1,413	1,054	3,713	(55)	(75)	(53)	(178)	(3)	7	22	7	441	1,775	(548)	4,672
Non-segmented expenses																
Administration													88	95	284	249
Share-based compensation													(5)	7	(205)	62
Interest and other financing expense													174	231	579	619
Risk management activities (other)													20	(10)	(18)	13
Foreign exchange (gain) loss													(254)	115	238	(341)
Loss (gain) from investments													1	(27)	206	(64)
Total non-segmented expenses													24	411	1,084	538
Earnings (loss) before taxes													417	1,364	(1,632)	4,134
Current income tax (recovery) expense													(82)	161	(292)	403
Deferred income tax expense (recovery)													91	176	(156)	(1,088)
Net earnings (loss)													408	1,027	(1,184)	4,819

(1) Includes other income, the sale of diesel and other refined products, and recoveries associated with the joint operation partners' share of the costs of lease contracts.

(2) Includes blending and feedstock costs associated with the processing of third party bitumen and other purchased feedstock in the Oil Sands Mining and Upgrading segment.

Capital Expenditures ⁽¹⁾

	Nine Months Ended					
	Sep 30, 2020			Sep 30, 2019		
	Net expenditures (proceeds)	Non-cash and fair value changes ⁽²⁾	Capitalized costs	Net expenditures	Non-cash and fair value changes ⁽²⁾	Capitalized costs
Exploration and evaluation assets						
Exploration and Production						
North America ⁽³⁾	\$ (5)	\$ (93)	\$ (98)	\$ 129	\$ (185)	\$ (56)
Offshore Africa	2	—	2	35	—	35
	\$ (3)	\$ (93)	\$ (96)	\$ 164	\$ (185)	\$ (21)
Property, plant and equipment						
Exploration and Production						
North America ⁽³⁾	\$ 665	\$ (1,070)	\$ (405)	\$ 4,372	\$ 915	\$ 5,287
North Sea	88	(114)	(26)	133	104	237
Offshore Africa ⁽⁴⁾	64	(29)	35	145	(1,489)	(1,344)
	817	(1,213)	(396)	4,650	(470)	4,180
Oil Sands Mining and Upgrading ⁽⁵⁾	999	(690)	309	1,004	146	1,150
Midstream and Refining	4	—	4	9	—	9
Head office	16	—	16	26	(3)	23
	\$ 1,836	\$ (1,903)	\$ (67)	\$ 5,689	\$ (327)	\$ 5,362

(1) This table provides a reconciliation of capitalized costs, reported in note 4 and note 5, to net expenditures reported in the investing activities section of the statements of cash flows. The reconciliation excludes the impact of foreign exchange adjustments.

(2) Derecognitions, asset retirement obligations, transfer of exploration and evaluation assets, and other fair value adjustments.

(3) Includes cash consideration paid of \$91 million for exploration and evaluation assets and \$3,126 million for property, plant and equipment acquired from Devon in the second quarter of 2019.

(4) Includes a derecognition of property, plant and equipment of \$1,515 million following the FPSO demobilization at the Olowi field, Gabon in the first quarter of 2019.

(5) Net expenditures include capitalized interest and share-based compensation.

Segmented Assets

	Sep 30 2020	Dec 31 2019
Exploration and Production		
North America	\$ 27,931	\$ 30,963
North Sea	1,588	1,948
Offshore Africa	1,474	1,529
Other	142	30
Oil Sands Mining and Upgrading	40,983	42,006
Midstream and Refining	1,402	1,418
Head office	210	227
	\$ 73,730	\$ 78,121

SUPPLEMENTARY INFORMATION

INTEREST COVERAGE RATIOS

The following financial ratios are provided in connection with the Company's continuous offering of medium-term notes pursuant to the short form prospectus dated July 2019. These ratios are based on the Company's interim consolidated financial statements that are prepared in accordance with accounting principles generally accepted in Canada.

Interest coverage ratios for the twelve month period ended September 30, 2020:

Interest coverage (times)	
Net earnings ⁽¹⁾	0.0x
Adjusted funds flow ⁽²⁾	7.9x

(1) *Net earnings plus income taxes and interest expense; divided by the sum of interest expense and capitalized interest.*

(2) *Adjusted funds flow plus current income taxes and interest expense; divided by the sum of interest expense and capitalized interest.*