



## THIRD QUARTER REPORT

NINE MONTHS ENDED SEPTEMBER 30, 2017

TSX & NYSE: CNQ

### **CANADIAN NATURAL RESOURCES LIMITED ANNOUNCES 2017 THIRD QUARTER RESULTS**

Commenting on Company results, Steve Laut, President of Canadian Natural stated, "Canadian Natural has reached a major milestone with the successful completion of the Phase 3 expansion at our world class Horizon Oil Sands Mining and Upgrading asset, a significant event. The completion of the Phase 3 expansion also marks the final step of our transition to a long life low decline asset base. High value upgraded products will represent approximately 45% of total corporate liquids production in the fourth quarter of 2017 and approximately 70% of our liquids production volumes are from long life low decline assets, and will increase going into 2018. Our long life low decline assets combined with our strong portfolio of conventional E&P assets will drive significant sustainable free cash flow providing flexibility for continued balanced capital allocation to our four pillars; economic resource development, returns to shareholders, opportunistic acquisitions and balance sheet strength, with continued focus on increasing return on equity and capital employed."

Canadian Natural's Chief Operating Officer, Tim McKay, added, "The Horizon Phase 3 expansion and the turnaround and tie-in activities are complete and were on budget, strong results for this large scale, world class project. Optimization and reliability work on the fractionation tower, the vacuum distillate unit and diluent recovery unit furnaces were also successfully completed during the turnaround on time and on budget. With completion of the Horizon turnaround, startup activities are underway and are going as expected, with production ramping up through November and December.

In the third quarter, operations across our balanced asset base were strong as quarterly production reached record levels for the second straight quarter at just under 1,040,000 BOE/d, up 14% from the second quarter of 2017. Production increases were achieved as a result of strong utilization and high reliability at the Athabasca Oil Sands Project for a full quarter and drilling programs that delivered as expected at Pelican Lake, primary heavy crude oil and light crude oil. Our continued focus on effectiveness and efficiencies delivered strong quarterly operating costs at AOSP of \$24.60/bbl of synthetic crude oil."

Canadian Natural's Chief Financial Officer, Corey Bieber, continued, "The Company was able to achieve funds flow from operations of approximately \$1.7 billion in the quarter, contributing to absolute debt reduction of \$350 million when compared to second quarter 2017 debt levels, even as we funded the Pelican Lake acquisition in the quarter. Liquidity improved to \$3.9 billion and debt metrics strengthened at the end of the quarter. Debt to EBITDA decreased to 3.0x at quarter end, while debt to book capital remains in the Company's targeted range at 42%. With completion of the Horizon Phase 3 expansion, strong reliability at AOSP and continued focus on effective operations across our asset base, the Company will generate significant growing sustainable free cash flow, allowing for balanced capital allocation that includes a focus on continued strengthening of our balance sheet."

## QUARTERLY HIGHLIGHTS

(\$ millions, except per common share amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net earnings (loss)	\$ 684	\$ 1,072	\$ (326)	\$ 2,001	\$ (770)
Per common share – basic	\$ 0.56	\$ 0.93	\$ (0.29)	\$ 1.72	\$ (0.70)
– diluted	\$ 0.56	\$ 0.93	\$ (0.29)	\$ 1.71	\$ (0.70)
Adjusted net earnings (loss) from operations <sup>(1)</sup>	\$ 229	\$ 332	\$ (355)	\$ 838	\$ (1,108)
Per common share – basic	\$ 0.19	\$ 0.29	\$ (0.32)	\$ 0.72	\$ (1.01)
– diluted	\$ 0.19	\$ 0.29	\$ (0.32)	\$ 0.72	\$ (1.01)
Funds flow from operations <sup>(2)</sup>	\$ 1,675	\$ 1,726	\$ 1,021	\$ 5,040	\$ 2,616
Per common share – basic	\$ 1.38	\$ 1.50	\$ 0.93	\$ 4.34	\$ 2.38
– diluted	\$ 1.37	\$ 1.49	\$ 0.92	\$ 4.32	\$ 2.38
Capital expenditures, excluding AOSP acquisition costs <sup>(3)</sup>	\$ 2,094	\$ 889	\$ 1,185	\$ 3,829	\$ 3,383
Total net capital expenditures <sup>(3)</sup>	\$ 2,094	\$ 13,046	\$ 1,185	\$ 15,986	\$ 3,383
Daily production, before royalties					
Natural gas (MMcf/d)	1,664	1,656	1,645	1,664	1,707
Crude oil and NGLs (bbl/d)	759,189	637,127	460,986	665,399	503,286
Equivalent production (BOE/d) <sup>(4)</sup>	1,036,499	913,171	735,212	942,776	787,718

(1) Adjusted net earnings (loss) from operations is a non-GAAP measure that the Company utilizes to evaluate its performance. The derivation of this measure is discussed in the Management's Discussion and Analysis ("MD&A").

(2) Funds flow from operations (formally cash flow from operations) is a non-GAAP measure that the Company considers key as it demonstrates the Company's ability to fund capital reinvestment and debt repayment. The derivation of this measure is discussed in the MD&A.

(3) For additional information and details, refer to the net capital expenditures table in the Company's MD&A.

(4) A barrel of oil equivalent ("BOE") is derived by converting six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of crude oil (6 Mcf:1 bbl). This conversion may be misleading, particularly if used in isolation, since the 6 Mcf:1 bbl ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In comparing the value ratio using current crude oil prices relative to natural gas prices, the 6 Mcf:1 bbl conversion ratio may be misleading as an indication of value.

- The Company's corporate production volumes averaged a record 1,036,499 BOE/d in Q3/17, representing 14% and 41% increases from Q2/17 and Q3/16 levels, respectively.
- Canadian Natural's corporate crude oil and NGLs production volumes averaged a record 759,189 bbl/d representing 19% and 65% increases from Q2/17 and Q3/16 levels respectively. Crude oil and NGLs production volume increases were primarily due to high reliability and strong production from the Horizon Phase 2B expansion and a full quarter of production from the Athabasca Oil Sands Project ("AOSP").
- Canadian Natural generated funds flow from operations of \$1,675 million in Q3/17, comparable to Q2/17 and an increase of \$654 million over Q3/16 levels.
- The Company has generated significant free cash flow year to date of approximately \$1.2 billion after net capital expenditures, including the Company's Pelican Lake acquisition expenditures, and excluding the AOSP acquisition expenditures.
- The Company's strong financial performance in the quarter resulted in Q3/17 ending debt being reduced by approximately \$350 million from Q2/17 levels. Additionally, liquidity increased by approximately \$300 million over the same period, after capital expenditures relating to the Pelican Lake acquisition. Debt to book capitalization decreased to 42% and debt to adjusted EBITDA strengthened to 3.0x.
- For Q3/17, the Company had net earnings of \$684 million compared to net earnings of \$1,072 million in Q2/17 and a net loss of \$326 million in Q3/16. Adjusted net earnings from operations was \$229 million in Q3/17, compared to

adjusted net earnings of \$332 million in Q2/17 and an increase of \$584 million from the adjusted net loss of \$355 million in Q3/16.

- At the AOSP, high reliability continued in Q3/17, the Company's first full quarter of operations. Strong quarterly production of approximately 282,700 bbl/d (197,900 bbl/d net to Canadian Natural) of AOSP synthetic crude oil ("SCO") was realized in Q3/17. A combination of strong production and modest integration gains resulted in operating costs of \$24.60/bbl for upgraded products.
  - Subsequent to quarter end, Canadian Natural successfully completed planned pit stops at both the Jackpine and Muskeg River mines. The production impacts from the planned pit stops were incorporated in the Company's quarterly and annual guidance, which remain unchanged.
- At Horizon, Q3/17 production of 156,465 bbl/d of SCO was strong, with high reliability and utilization during the quarter. Q3/17 production decreased from Q2/17 levels by 18%, as Horizon began the planned turnaround activities and the Phase 3 expansion tie-in on September 11, 2017.
  - Through safe, steady and reliable operations and a strong focus on continuous improvement, the Company realized average unadjusted operating costs of \$25.68/bbl in Q3/17, a strong result given 19 days of planned downtime in the quarter related to the planned major turnaround and tie-in of the Phase 3 expansion. After normalizing for downtime in relation to the planned turnaround, quarterly operating costs reached a record low of \$20.24/bbl of SCO in Q3/17.
  - During the Company's planned turnaround, optimization and reliability work on the fractionation tower, vacuum distillate unit ("VDU") and diluent recovery unit ("DRU") furnaces was completed on schedule and on budget. Ramp up of the units is currently underway, and progress is going as expected.
  - The Horizon Phase 3 expansion was completed subsequent to quarter end, marking the completion of the Company's transformational transition to a long life low decline asset base.
    - Commissioning activities have begun with production ramping up through November and December 2017. Targeted production volumes in December 2017 are expected to be approximately 240,000 bbl/d of SCO. The construction of the Horizon Phase 3 expansion was ahead of schedule and within the cost estimate.
  - The Company's annual 2017 production guidance at Horizon remains unchanged at 170,000 - 184,000 bbl/d, due to the strong production results before the turnaround and targeted production volume ramp up through November and December 2017.
- Thermal in situ operations were strong in Q3/17, with production averaging 122,372 bbl/d, above the midpoint of quarterly guidance, representing 16% and 18% increases from Q2/17 and Q3/16 levels, respectively. Results were strong after the completion of planned turnaround activities in Q2/17 at Primrose and a full quarter of production from the previously announced acquired Peace River assets.
  - Kirby South, the Company's Steam Assisted Gravity Drainage ("SAGD") project achieved production of 37,157 bbl/d in Q3/17.
    - Including energy costs, strong operating costs of \$8.94/bbl were achieved in the quarter, a 13% reduction from Q2/17 and in-line with Q3/16 levels. Kirby South's Steam to Oil Ratio ("SOR") was 2.7 in Q3/17.
  - Primrose production was strong in Q3/17 averaging 80,668 bbl/d. Including energy costs, operating costs of \$10.24/bbl were achieved in the quarter.
    - The development of the Company's low pressure steamflood at Primrose East continues as planned. The average production volumes under steamflood were strong in Q3/17 at approximately 43,600 bbl/d, representing an increase of 36% from Q2/17 levels.
- Pelican Lake heavy crude oil production of 47,604 bbl/d in Q3/17 was in-line with Q2/17 and Q3/16 levels, reflecting the low decline nature of this asset. Operations continued to be optimized in the quarter, resulting in record low operating costs of \$6.00/bbl in Q3/17, a decrease of 6% from Q2/17 and in-line with Q3/16 levels.
  - On September 29, 2017, the Company successfully closed the previously announced Pelican Lake acquisition, adding approximately 19,100 bbl/d of heavy crude oil production. The integration of the assets is proceeding as planned.
- Primary heavy crude oil production averaged 98,564 bbl/d in Q3/17, representing a 10% increase from Q2/17 as a result of the Company's successful heavy crude oil drilling program and a full quarter of production from the previously announced acquired Cliffdale asset.

- North America light crude oil and NGLs quarterly production averaged 92,676 bbl/d, representing 2% and 3% increases from Q2/17 and Q3/16 levels respectively, as a result of a successful drilling program.
- The Company's North America natural gas production in Q3/17 averaged 1,593 MMcf/d, in-line with Q2/17 and Q3/16 levels. Operating costs of \$1.15/Mcf were achieved in the quarter, a decrease of 2% from Q2/17 levels.
- International quarterly crude oil production volumes were within the Company's production guidance and averaged 43,608 bbl/d in Q3/17.
- Canadian Natural maintains significant financial stability and liquidity represented in part by committed bank credit facilities. At September 30, 2017 the Company had \$3.9 billion of available liquidity, including cash and cash equivalents, an increase of \$300 million from Q2/17.
- Canadian Natural declared a quarterly cash dividend on common shares of C\$0.275 per share payable on January 1, 2018.
- Canadian Natural's 2018 budget is targeted to be released on November 7, 2017, followed by a webcast with more details on the Company's current and future plans. Details will be available on our website [www.cnrl.com](http://www.cnrl.com).

## OPERATIONS REVIEW AND CAPITAL ALLOCATION

Canadian Natural has a balanced and diverse portfolio of assets, primarily Canadian-based, with international exposure in the UK sector of the North Sea and Offshore Africa. Canadian Natural's production is well balanced between light and medium crude oil, primary heavy crude oil, Pelican Lake heavy crude oil, bitumen and SCO (herein collectively referred to as "crude oil"), natural gas and NGLs. This balance provides optionality for capital investments, facilitating improved value for the Company's shareholders.

Underpinning this asset base is long life low decline production from Horizon mining and upgrading and the AOSP mining and upgrading, thermal in situ oil sands and Pelican Lake heavy crude oil assets. The combination of low decline, low reserve replacement costs, and effective and efficient operations means these assets provide substantial and sustainable cash flow throughout the commodity price cycle.

Augmenting this, Canadian Natural maintains a substantial inventory of low capital exposure projects within its conventional asset base. These projects can be executed quickly and with the right economic conditions, can provide excellent returns and maximize value for shareholders. Supporting these projects is the Company's undeveloped land base which enables large, repeatable drilling programs; programs that can be optimized over time. Additionally, by owning and operating most of the related infrastructure, Canadian Natural is able to control a major component of its operating cost and minimize production commitments. Low capital exposure projects can typically be easily stopped or started depending upon success, market conditions, or corporate needs.

Canadian Natural's balanced portfolio, built with both long life low decline assets and low capital exposure assets, enables effective capital allocation, production growth and value creation.

### Drilling Activity

(number of wells)	Nine Months Ended Sep 30			
	2017		2016	
	Gross	Net	Gross	Net
Crude oil	395	370	99	93
Natural gas	19	19	6	5
Dry	4	4	4	4
Subtotal	418	393	109	102
Stratigraphic test / service wells	238	238	206	206
Total	656	631	315	308
Success rate (excluding stratigraphic test / service wells)		99%		96%

- The Company's total crude oil and natural gas drilling program of 393 net wells for the nine months ended September 30, 2017, excluding strat/service wells, was a significant increase of 291 net wells from the same period in 2016. The change in drilling reflects the flexibility of Canadian Natural's resource development program and the Company's disciplined capital allocation process.

### North America Exploration and Production

*Crude oil and NGLs – excluding Thermal In Situ Oil Sands*

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Crude oil and NGLs production (bbl/d)	238,844	227,083	240,298	232,533	242,561
Net wells targeting crude oil	145	57	88	349	95
Net successful wells drilled	144	55	84	346	91
Success rate	99%	96%	95%	99%	96%

- Quarterly production volumes of North America crude oil and NGLs averaged 238,844 bbl/d in Q3/17, representing a 5% increase from Q2/17 and in-line with Q3/16 levels.
- Pelican Lake heavy crude oil production of 47,604 bbl/d in Q3/17 was in-line with Q2/17 and Q3/16 levels, reflecting the low decline nature of this asset, given little to no drilling in 2015 and 2016. Operations continued to be optimized in the quarter, resulting in record low operating costs of \$6.00/bbl in Q3/17, a decrease of 6% and 1% from Q2/17 and Q3/16 levels, respectively.
  - On September 29, 2017, the Company successfully closed the previously announced Pelican Lake acquisition, adding approximately 19,100 bbl/d of heavy crude oil production. The integration of the assets is proceeding as planned.
  - Drilling activities at Pelican Lake saw 6 net wells drilled in Q3/17. In the first nine months of 2017, drilling activity increased to 17 net wells. Results from the Company's drilling program have been as expected, with current total production of approximately 1,700 bbl/d from the new drills.
- Primary heavy crude oil production averaged 98,564 bbl/d in Q3/17, representing a 10% increase from Q2/17 as a result of the Company's successful heavy crude oil drilling program and a full quarter of production from the previously announced acquired Cliffdale asset.
  - Drilling continued in primary heavy crude oil in Q3/17 with 136 net wells drilled, an increase of 97 wells from Q2/17. Early results of the Q3/17 heavy crude oil drilling program have been as expected, with the wells ramping up to the targeted 50 bbl/d per well.
- North America light crude oil and NGLs quarterly production averaged 92,676 bbl/d, representing 2% and 3% increases from Q2/17 and Q3/16 levels respectively, as a result of a successful drilling program. Operating costs in the quarter averaged \$14.45/bbl.
- The Company's 2017 North America E&P crude oil and NGLs annual production guidance remains unchanged and is targeted to range from 236,000 bbl/d - 246,000 bbl/d.

#### *Thermal In Situ Oil Sands*

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Bitumen production (bbl/d)	<b>122,372</b>	105,719	103,481	118,798	104,908
Net wells targeting bitumen	<b>10</b>	4	1	<b>22</b>	1
Net successful wells drilled	<b>10</b>	4	1	<b>22</b>	1
Success rate	<b>100%</b>	100%	100%	<b>100%</b>	100%

- Thermal in situ operations were strong in Q3/17, with production averaging 122,372 bbl/d, above the midpoint of quarterly guidance, representing 16% and 18% increases from Q2/17 and Q3/16 levels, respectively. Results were strong after the completion of planned turnaround activities in Q2/17 at Primrose and a full quarter of production from the previously announced acquired Peace River assets.
  - Kirby South, the Company's SAGD project achieved production of 37,157 bbl/d in Q3/17.
    - Including energy costs, strong operating costs of \$8.94/bbl were achieved in the quarter, a 13% reduction from Q2/17 and in-line with Q3/16 levels. Kirby South's SOR was 2.7 in Q3/17.
    - Steam circulation is targeted to begin in Q4/17 for the 8 producer and 3 injection wells that were drilled in Q3/17, with production targeted in Q1/18.
  - Primrose production was strong in Q3/17 averaging 80,668 bbl/d. Including energy costs, operating costs of \$10.24/bbl were achieved in the quarter.
    - The development of the Company's low pressure steamflood at Primrose East continues as planned. The average production volumes under steamflood were strong in Q3/17 at approximately 43,600 bbl/d, representing an increase of 36% from Q2/17 levels.

- At Kirby North, the project is trending ahead of schedule and cost performance is trending below budget. Civil works at the plant site are nearing completion and the major mechanical work is ramping up with module and equipment setting underway. Project construction manpower is currently at 220 and will be increasing to over 300 in early 2018.
- The Company's 2017 thermal in situ annual production guidance remains unchanged and is targeted to range between 112,000 bbl/d - 122,000 bbl/d.

#### Natural Gas

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Natural gas production (MMcf/d)	<b>1,593</b>	1,603	1,567	<b>1,602</b>	1,637
Net wells targeting natural gas	<b>3</b>	5	—	<b>20</b>	5
Net successful wells drilled	<b>3</b>	5	—	<b>19</b>	5
Success rate	<b>100%</b>	100%	—	<b>95%</b>	100%

- The Company's North America natural gas production in Q3/17 averaged 1,593 MMcf/d, in-line with Q2/17 and Q3/16 levels. Operating costs of \$1.15/Mcf were achieved in the quarter, a decrease of 2% from Q2/17 levels.
  - The decrease in natural gas production during the first nine months of 2017 from the previous comparable period was primarily due to shut-in production volumes of approximately 27 MMcf/d related to low natural gas prices and 41 MMcf/d related to the impact of reliability issues at a third party facility. Natural gas production at the third party facility restarted at the end of July, with plant operations reinstated to near full capacity in the latter half of August 2017. In the month of September 2017 the plant operated reliably at 130 MMcf/d.
- The Company's 2017 total natural gas annual production guidance remains unchanged and is targeted to range from 1,655 MMcf/d - 1,705 MMcf/d.

#### International Exploration and Production

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Crude oil production (bbl/d)					
North Sea	<b>24,832</b>	26,304	23,450	<b>24,733</b>	23,376
Offshore Africa	<b>18,776</b>	20,480	26,171	<b>20,610</b>	27,576
Natural gas production (MMcf/d)					
North Sea	<b>46</b>	37	50	<b>40</b>	36
Offshore Africa	<b>25</b>	16	28	<b>22</b>	34
Net wells targeting crude oil	—	1.8	—	<b>1.8</b>	1.2
Net successful wells drilled	—	1.8	—	<b>1.8</b>	1.2
Success rate	—	100%	—	<b>100%</b>	100%

- International quarterly crude oil production volumes were within the Company's production guidance and averaged 43,608 bbl/d in Q3/17.
  - In the North Sea, the Company's continued focus on production enhancements, increased reliability and water flood optimization resulted in average production volumes of 24,832 bbl/d in Q3/17 as expected, a decrease of 6% from Q2/17 levels and a 6% increase from Q3/16 levels.
    - North Sea quarterly crude oil operating costs were \$35.72/bbl, representing a reduction of 9% from Q3/16 levels.

- Offshore Africa production volumes averaged 18,776 bbl/d in Q3/17 as expected, an 8% decrease from Q2/17 levels, primarily due to normal well declines, as well as down time relating to the successfully completed planned turnaround in Q3/17 at Baobab.
  - Production expense related to the Baobab and Espoir fields in Cote d'Ivoire, decreased to \$12.51/bbl in Q3/17, a reduction of 28% from Q2/17. After incorporating production from the Olowi field in Gabon, production expense was \$29.24/bbl.
- The Company's 2017 International annual production guidance remains unchanged and is targeted to range from 43,000 bbl/d - 49,000 bbl/d.

### North America Oil Sands Mining and Upgrading – Horizon

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Synthetic crude oil production (bbl/d) <sup>(1)</sup>	<b>156,465</b>	190,837	67,586	<b>179,799</b>	104,865

(1) During the Q3/17, no SCO production was consumed internally as diesel (Q2/17 – 438 bbl/d; Q3/16 – 1,464 bbl/d; nine months ended September 30, 2017 – 287 bbl/d; nine months ended September 30, 2016 – 2,083 bbl/d).

- At Horizon, Q3/17 production of 156,465 bbl/d of SCO was strong, with high reliability and utilization during the quarter. Q3/17 production decreased from Q2/17 levels by 18%, as Horizon began the planned turnaround activities and the Phase 3 expansion tie-in on September 11, 2017.
  - Through safe, steady and reliable operations and a strong focus on continuous improvement, the Company realized average unadjusted operating costs of \$25.68/bbl in Q3/17, a strong result given 19 days of planned downtime in the quarter related to the planned major turnaround and tie-in of the Phase 3 expansion. After normalizing for downtime in relation to the planned turnaround, quarterly operating costs reached a record low of \$20.24/bbl of SCO in Q3/17.
  - During the Company's planned turnaround, optimization and reliability work on the fractionation tower, VDU and DRU furnaces was completed on schedule and on budget. Ramp up of the units is currently underway, and progress is going as expected.
  - On September 11, 2017, during ramp down at Horizon for the planned turnaround, a fire occurred at an electrical control building on the plant site. Repairs have now been successfully completed, however an extra 7 days of incremental time was needed in addition to the planned 45 day turnaround.
  - Overall the turnaround and additional work related to the electrical control building was completed very effectively and efficiently, with overall costs for both the turnaround and work allocated to the electrical building being within the 45 day turnaround budget.
  - The Horizon Phase 3 expansion was completed subsequent to quarter end, marking the completion of the Company's transition to a long life low decline asset base.
    - Commissioning activities have begun with production ramping up through November and December 2017. Targeted production volumes in December 2017 are expected to be approximately 240,000 bbl/d of SCO. The construction of the Horizon Phase 3 expansion was ahead of schedule and within the cost estimate.
- Directive 85 (formerly Directive 74) implementation at the Horizon project remains on track and was 72% physically complete as at September 30, 2017. This project includes research into tailings management and investments in technological advancements to advance the cessation of the use of traditional tailings ponds.
- The Company's annual 2017 production guidance at Horizon remains unchanged at 170,000 - 184,000 bbl/d, due to the strong production results before the turnaround, and strong targeted production volume ramp up in Q4/17.



## North America Oil Sands Mining and Upgrading – AOSP

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Synthetic crude oil production (bbl/d) <sup>(1)</sup>	<b>197,900</b>	66,704	—	<b>88,926</b>	—

(1) Consists of heavy and light synthetic crude oil products.

- At the AOSP, high reliability continued in Q3/17, the Company's first full quarter of operations. Strong quarterly production of approximately 282,700 bbl/d (197,900 bbl/d net to Canadian Natural) of AOSP SCO was realized in Q3/17. A combination of strong production and modest integration gains resulted in operating costs of \$24.60/bbl of upgraded products.
  - In early Q4/17, Canadian Natural successfully completed planned pit stops at both the Jackpine and Muskeg River mines. The production impacts from the planned pit stops were incorporated in the Company's quarterly and annual guidance.
- The Company's 2017 AOSP annual production guidance remains unchanged and is targeted to range from 102,000 bbl/d - 116,000 bbl/d of AOSP SCO.

## MARKETING

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Crude oil and NGLs pricing					
WTI benchmark price (US\$/bbl) <sup>(1)</sup>	<b>\$ 48.19</b>	\$ 48.29	\$44.94	\$ 49.43	\$ 41.37
WCS blend differential from WTI (%) <sup>(2)</sup>	<b>21%</b>	23%	30%	24%	33%
SCO price (US\$/bbl)	<b>\$ 48.83</b>	\$ 49.83	\$ 45.63	\$ 50.03	\$ 42.27
Condensate benchmark pricing (US\$/bbl)	<b>\$ 47.96</b>	\$ 48.44	\$ 43.05	\$ 49.52	\$ 40.54
Average realized pricing before risk management (C\$/bbl) <sup>(3)</sup>	<b>\$ 46.33</b>	\$ 47.12	\$ 39.66	\$ 46.82	\$ 34.14
Natural gas pricing					
AECO benchmark price (C\$/GJ)	<b>\$ 1.94</b>	\$ 2.63	\$ 2.08	\$ 2.45	\$ 1.75
Average realized pricing before risk management (C\$/Mcf)	<b>\$ 2.29</b>	\$ 2.97	\$ 2.44	\$ 2.83	\$ 2.06

(1) West Texas Intermediate ("WTI").

(2) Western Canadian Select ("WCS").

(3) Average crude oil and NGL pricing excludes SCO. Pricing is net of blending costs and excluding risk management activities.

- WTI averaged US\$48.19/bbl in Q3/17, an increase of 7% from US\$44.94/bbl in Q3/16, and in-line with Q2/17.
- Crude oil sales contracts for the Company's North Sea and Offshore Africa segments are typically based on Brent pricing, which is representative of international markets and overall world supply and demand. Brent averaged US \$51.76/bbl in Q3/17, an increase of 13% from US\$45.76/bbl in Q3/16, and an increase of 3% from \$50.24/bbl in Q2/17.
- WTI and Brent pricing continued to reflect volatility in supply and demand factors and geopolitical events.
- The WCS Heavy Differential averaged US\$9.94/bbl in Q3/17, a decrease of 26% from US\$13.49/bbl in Q3/16, and a decrease of 11% from \$11.11/bbl in Q2/17. The WCS Heavy Differential largely reflects US Gulf Coast pricing, adjusted for transportation costs. The narrowing of the differential in Q3/17 compared with Q2/17 primarily reflects seasonality.
- Canadian Natural contributed approximately 196,000 bbl/d of its heavy crude oil stream to the WCS blend in Q3/17. The Company remains the largest contributor to the WCS blend, accounting for 47% of the total blend.

- The SCO price averaged US\$48.83/bbl in Q3/17, an increase of 7% from \$45.63/bbl in Q3/16, and in-line with Q2/17. The fluctuations in SCO pricing from the comparable periods were primarily due to changes in WTI benchmark pricing.
- AECO natural gas prices averaged \$1.94/GJ in Q3/17, a decrease of 7% from \$2.08/GJ in Q3/16, and a decrease of 26% from \$2.63/GJ in Q2/17. The fluctuations in natural gas prices in Q3/17 compared with the Q3/16 and Q2/17 reflected third party pipeline maintenance, reducing flow capability of natural gas to discretionary storage and export markets.
- The North West Redwater refinery, upon completion, will strengthen the Company's position by providing a competitive return on investment and by adding 50,000 bbl/d of bitumen conversion capacity in Alberta and create demand for 79,000 bbl/d of dilbit that will not require export pipelines, which will help reduce pricing volatility in all Western Canadian heavy crude oil. The Company has a 50% interest in the North West Redwater Partnership. For project updates, please refer to: <https://nwrsturgeonrefinery.com/whats-happening/news/>.

## FINANCIAL REVIEW

The Company continues to implement proven strategies and its disciplined approach to capital allocation. As a result, the financial position of Canadian Natural remains strong. Canadian Natural's funds flow generation, credit facilities, US commercial paper program, diverse asset base and related flexible capital expenditure programs all support a flexible financial position and provide the appropriate financial resources for the near-, mid- and long-term.

- The Company's strategy is to maintain a diverse portfolio balanced across various commodity types. The Company achieved record production levels of 1,036,499 BOE/d in Q3/17, with approximately 98% of total production located in G7 countries.
- The Company has generated significant free cash flow year to date of approximately \$1.2 billion after net capital expenditures including the Company's Pelican Lake acquisition expenditures, and excluding AOSP acquisition expenditures.
- Canadian Natural maintains significant financial stability and liquidity represented in part by committed bank credit facilities. At September 30, 2017 the Company had \$3.9 billion of available liquidity, including cash and cash equivalents, an increase of \$300 million from Q2/17.
- Balance sheet strength continues to be a focus of the Company with strong financial performance in the quarter resulting in a Q3/17 ending debt reduction of approximately \$350 million, while liquidity increased by approximately \$300 million.
  - Important metrics improved with debt to book capitalization within the Company's targeted operating range at 42% and debt to adjusted EBITDA strengthening to 3.0x, as at September 30, 2017.
- In addition to its strong funds flow, capital flexibility and access to debt capital markets, Canadian Natural has additional financial levers at its disposal to effectively manage its liquidity. As at September 30, 2017, these financial levers include the Company's third party equity investments of approximately \$888 million.
- At September 30, 2017, 50,000 GJ/d of natural gas volumes were hedged using AECO swaps through to October 31, 2017. Additionally, 67,500 bbl/d of crude oil volumes were hedged through to December 31, 2017 using WTI costless collars with a floor of US\$50.00 and ceiling of US\$60.10. For full hedging disclosure please see the Company's website.
- Canadian Natural declared a quarterly cash dividend on common shares of C\$0.275 per share payable on January 1, 2018.

## OUTLOOK

The Company forecasts annual 2017 production levels to average between 663,000 and 717,000 bbl/d of crude oil and NGLs and between 1,655 and 1,705 MMcf/d of natural gas, before royalties. Q4/17 production guidance before royalties is forecast to average between 736,000 and 772,000 bbl/d of crude oil and NGLs and between 1,700 and 1,750 MMcf/d of natural gas. Detailed guidance on production levels, capital allocation and operating costs can be found on the Company's website at [www.cnrl.com](http://www.cnrl.com).

Canadian Natural's annual 2017 capital expenditures are targeted to be approximately \$4.9 billion.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Forward-Looking Statements

Certain statements relating to Canadian Natural Resources Limited (the "Company") in this document or documents incorporated herein by reference constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements can be identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule", "proposed" or expressions of a similar nature suggesting future outcome or statements regarding an outlook. Disclosure related to expected future commodity pricing, forecast or anticipated production volumes, royalties, operating costs, capital expenditures, income tax expenses and other guidance provided throughout this Management's Discussion and Analysis ("MD&A"), constitute forward-looking statements. Disclosure of plans relating to and expected results of existing and future developments, including but not limited to the Horizon Oil Sands operations and future expansions, the Athabasca Oil Sands Project ("AOSP"), Primrose thermal projects, Pelican Lake water and polymer flood project, the Kirby Thermal Oil Sands Project, the construction and future operations of the North West Redwater bitumen upgrader and refinery, and construction by third parties of new or expansion of existing pipeline capacity or other means of transportation of bitumen, crude oil, natural gas or synthetic crude oil ("SCO") that the Company may be reliant upon to transport its products to market also constitute forward-looking statements. This forward-looking information is based on annual budgets and multi-year forecasts, and is reviewed and revised throughout the year as necessary in the context of targeted financial ratios, project returns, product pricing expectations and balance in project risk and time horizons. These statements are not guarantees of future performance and are subject to certain risks. The reader should not place undue reliance on these forward-looking statements as there can be no assurances that the plans, initiatives or expectations upon which they are based will occur.

In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment based on certain estimates and assumptions that the reserves described can be profitably produced in the future. There are numerous uncertainties inherent in estimating quantities of proved and proved plus probable crude oil, natural gas and natural gas liquids ("NGLs") reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserve and production estimates.

The forward-looking statements are based on current expectations, estimates and projections about the Company and the industry in which the Company operates, which speak only as of the date such statements were made or as of the date of the report or document in which they are contained, and are subject to known and unknown risks and uncertainties that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions which will, among other things, impact demand for and market prices of the Company's products; volatility of and assumptions regarding crude oil and natural gas prices; fluctuations in currency and interest rates; assumptions on which the Company's current guidance is based; economic conditions in the countries and regions in which the Company conducts business; political uncertainty, including actions of or against terrorists, insurgent groups or other conflict including conflict between states; industry capacity; ability of the Company to implement its business strategy, including exploration and development activities; impact of competition; the Company's defense of lawsuits; availability and cost of seismic, drilling and other equipment; ability of the Company and its subsidiaries to complete capital programs; the Company's and its subsidiaries' ability to secure adequate transportation for its products; unexpected disruptions or delays in the resumption of the mining, extracting or upgrading of the Company's bitumen products; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; ability of the Company to attract the necessary labour required to build its thermal and oil sands mining projects; operating hazards and other difficulties inherent in the exploration for and production and sale of crude oil and natural gas and in mining, extracting or upgrading the Company's bitumen products; availability and cost of financing; the Company's and its subsidiaries' success of exploration and development activities and its ability to replace and expand crude oil and natural gas reserves; timing and success of integrating the business and operations of acquired companies and assets, including the interests in AOSP as well as additional working interests in certain other producing and non-producing oil and gas properties (the "other assets"), acquired by the Company on May 31, 2017; production levels; imprecision of reserve estimates and estimates of recoverable quantities of crude oil, natural gas and NGLs not currently classified as proved; actions by governmental authorities; government regulations and the expenditures required to comply with them (especially safety and environmental laws and regulations and the impact of climate change initiatives on capital and operating costs); asset retirement obligations; the adequacy of the Company's provision for taxes; and other circumstances affecting revenues and expenses.

The Company's operations have been, and in the future may be, affected by political developments and by federal, provincial and local laws and regulations such as restrictions on production, changes in taxes, royalties and other amounts payable to governments or governmental agencies, price or gathering rate controls and environmental protection regulations. Should one or more of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are dependent upon other factors, and the Company's course of action would depend upon its assessment of the future considering all information then available.

Readers are cautioned that the foregoing list of factors is not exhaustive. Unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements. Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements are made, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Except as required by law, the Company assumes no obligation to update forward-looking statements, whether as a result of new information, future events or other factors, or the foregoing factors affecting this information, should circumstances or Management's estimates or opinions change.

### **Management's Discussion and Analysis**

This MD&A of the financial condition and results of operations of the Company should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2017 and the MD&A and the audited consolidated financial statements for the year ended December 31, 2016.

All dollar amounts are referenced in millions of Canadian dollars, except where noted otherwise. The Company's unaudited interim consolidated financial statements for the period ended September 30, 2017 and this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This MD&A includes references to financial measures commonly used in the crude oil and natural gas industry, such as adjusted net earnings (loss) from operations, funds flow from operations (previously referred to as cash flow from operations), and adjusted cash production costs. These financial measures are not defined by IFRS and therefore are referred to as non-GAAP measures. The non-GAAP measures used by the Company may not be comparable to similar measures presented by other companies. The Company uses these non-GAAP measures to evaluate its performance. The non-GAAP measures should not be considered an alternative to or more meaningful than net earnings (loss) and cash flows from operating activities, as determined in accordance with IFRS, as an indication of the Company's performance. The non-GAAP measures adjusted net earnings (loss) from operations and funds flow from operations are reconciled to net earnings (loss), as determined in accordance with IFRS, in the "Financial Highlights" section of this MD&A. The non-GAAP measure funds flow from operations is also reconciled to cash flows from operating activities in this section. The derivation of adjusted cash production costs and adjusted depreciation, depletion and amortization are included in the "Operating Highlights – Oil Sands Mining and Upgrading" section of this MD&A. The Company also presents certain non-GAAP financial ratios and their derivation in the "Liquidity and Capital Resources" section of this MD&A.

A Barrel of Oil Equivalent ("BOE") is derived by converting six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of crude oil (6 Mcf:1 bbl). This conversion may be misleading, particularly if used in isolation, since the 6 Mcf:1 bbl ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In comparing the value ratio using current crude oil prices relative to natural gas prices, the 6 Mcf:1 bbl conversion ratio may be misleading as an indication of value. In addition, for the purposes of this MD&A, crude oil is defined to include the following commodities: light and medium crude oil, primary heavy crude oil, Pelican Lake heavy crude oil, bitumen (thermal oil), and SCO.

Production volumes and per unit statistics are presented throughout this MD&A on a "before royalty" or "gross" basis, and realized prices are net of blending and feedstock costs and exclude the effect of risk management activities. Production on an "after royalty" or "net" basis is also presented for information purposes only.

The following discussion and analysis refers primarily to the Company's financial results for the three and nine months ended September 30, 2017 in relation to the comparable periods in 2016 and the second quarter of 2017. The accompanying tables form an integral part of this MD&A. Additional information relating to the Company, including its Annual Information Form for the year ended December 31, 2016, is available on SEDAR at [www.sedar.com](http://www.sedar.com), and on EDGAR at [www.sec.gov](http://www.sec.gov). This MD&A is dated November 1, 2017.

## FINANCIAL HIGHLIGHTS

(\$ millions, except per common share amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Product sales	\$ 4,547	\$ 3,927	\$ 2,477	\$ 12,346	\$ 7,426
Net earnings (loss)	\$ 684	\$ 1,072	\$ (326)	\$ 2,001	\$ (770)
Per common share – basic	\$ 0.56	\$ 0.93	\$ (0.29)	\$ 1.72	\$ (0.70)
– diluted	\$ 0.56	\$ 0.93	\$ (0.29)	\$ 1.71	\$ (0.70)
Adjusted net earnings (loss) from operations <sup>(1)</sup>	\$ 229	\$ 332	\$ (355)	\$ 838	\$ (1,108)
Per common share – basic	\$ 0.19	\$ 0.29	\$ (0.32)	\$ 0.72	\$ (1.01)
– diluted	\$ 0.19	\$ 0.29	\$ (0.32)	\$ 0.72	\$ (1.01)
Funds flow from operations <sup>(2)</sup>	\$ 1,675	\$ 1,726	\$ 1,021	\$ 5,040	\$ 2,616
Per common share – basic	\$ 1.38	\$ 1.50	\$ 0.93	\$ 4.34	\$ 2.38
– diluted	\$ 1.37	\$ 1.49	\$ 0.92	\$ 4.32	\$ 2.38
Net capital expenditures	\$ 2,094	\$ 13,046	\$ 1,185	\$ 15,986	\$ 3,383

(1) Adjusted net earnings (loss) from operations is a non-GAAP measure that represents net earnings (loss) as presented in the Company's consolidated Statements of Earnings (Loss), adjusted for certain items of a non-operational nature. The Company evaluates its performance based on adjusted net earnings (loss) from operations. The reconciliation "Adjusted Net Earnings (Loss) from Operations" presents the after-tax effects of certain items of a non-operational nature that are included in the Company's financial results. Adjusted net earnings (loss) from operations may not be comparable to similar measures presented by other companies.

(2) Funds flow from operations is a non-GAAP measure that represents net earnings (loss) as presented in the Company's consolidated Statements of Earnings (Loss), adjusted for certain non-cash items and current income tax on disposition of properties. The Company evaluates its performance based on funds flow from operations. The Company considers funds flow from operations a key measure as it demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The reconciliation "Funds Flow from Operations, as Reconciled to Net Earnings (Loss)" presented in this MD&A, includes certain non-cash items that are disclosed in the Company's financial results as presented in the Company's consolidated Statements of Cash Flows. Funds flow from operations may not be comparable to similar measures presented by other companies.

Funds flow from operations can also be derived by adjusting the GAAP measure Cash Flows from Operating Activities presented in the Company's consolidated Statements of Cash Flows for the net change in non-cash working capital, and abandonment and other expenditures. Accordingly, the Company has provided a second reconciliation, "Funds Flow from Operations, as Reconciled to Cash Flows from Operating Activities" in this MD&A.

## Adjusted Net Earnings (Loss) from Operations

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net earnings (loss) as reported	\$ 684	\$ 1,072	\$ (326)	\$ 2,001	\$ (770)
Share-based compensation, net of tax <sup>(1)</sup>	114	(104)	74	37	313
Unrealized risk management (gain) loss, net of tax <sup>(2)</sup>	(6)	2	11	(35)	28
Unrealized foreign exchange (gain) loss, net of tax <sup>(3)</sup>	(404)	(355)	39	(819)	(255)
Gain from investments, net of tax <sup>(4) (5)</sup>	(76)	(27)	(46)	(7)	(193)
Gain on acquisition, disposition and revaluation of properties, net of tax <sup>(6)</sup>	(83)	(256)	—	(339)	(23)
Derecognition of exploration and evaluation assets, net of tax <sup>(7)</sup>	—	—	—	—	13
Effect of statutory tax rate and other legislative changes on deferred income tax liabilities <sup>(8)</sup>	—	—	(107)	—	(221)
<b>Adjusted net earnings (loss) from operations</b>	<b>\$ 229</b>	<b>\$ 332</b>	<b>\$ (355)</b>	<b>\$ 838</b>	<b>\$ (1,108)</b>

(1) The Company's employee stock option plan provides for a cash payment option. Accordingly, the fair value of the outstanding vested options is recorded as a liability on the Company's balance sheets and periodic changes in the fair value are recognized in net earnings (loss) or are charged to (recovered from) Oil Sands Mining and Upgrading.

(2) Derivative financial instruments are recorded at fair value on the Company's balance sheets, with changes in the fair value of non-designated hedges recognized in net earnings (loss). The amounts ultimately realized may be materially different than reflected in the financial statements due to changes in prices of the underlying items hedged, primarily crude oil, natural gas and foreign exchange.

(3) Unrealized foreign exchange gains and losses result primarily from the translation of US dollar denominated long-term debt to period-end exchange rates, partially offset by the impact of cross currency swaps, and are recognized in net earnings (loss).

(4) The Company's investment in the 50% owned North West Redwater Partnership ("Redwater Partnership") is accounted for using the equity method of accounting. Included in the non-cash (gain) loss from investments is the Company's pro rata share of the Redwater Partnership's accounting (gain) loss for the period.

(5) The Company's investments in PrairieSky Royalty Ltd. ("PrairieSky") and Inter Pipeline Ltd. ("Inter Pipeline") have been accounted for at fair value through profit and loss and are remeasured each period with changes in fair value recognized in net earnings (loss).

(6) During the third quarter of 2017, the Company recorded a pre-tax revaluation gain of \$114 million (\$83 million after-tax) related to a previously held joint interest in a pipeline system. During the second quarter of 2017, the Company recorded a before and after-tax gain of \$230 million on the acquisition of a direct and indirect 70% interest in AOSP and other assets from Shell Canada Limited and certain subsidiaries ("Shell") and an affiliate of Marathon Oil Corporation ("Marathon"), and a pre-tax gain of \$35 million (\$26 million after-tax) on the disposition of certain exploration and evaluation assets in the North America segment. During the first quarter of 2016, the Company recorded a pre-tax gain of \$32 million (\$23 million after-tax) on the disposition of certain exploration and evaluation assets.

(7) In connection with the Company's notice of withdrawal from Block CI-12 in Côte d'Ivoire, Offshore Africa in the second quarter of 2016, the Company derecognized \$18 million (\$13 million after-tax) of exploration and evaluation assets through depletion, depreciation and amortization expense.

(8) In the third quarter of 2016, the UK government enacted legislation to reduce the supplementary charge on oil and gas profits from 20% to 10% effective January 1, 2016, resulting in a decrease in the Company's deferred corporate income tax liability of \$107 million. During the first quarter of 2016, the UK government enacted tax rate reductions relating to Petroleum Revenue Tax ("PRT"), resulting in a decrease in the Company's net deferred income tax liability of \$114 million.

**Funds Flow from Operations, as Reconciled to Net Earnings (Loss) <sup>(1)</sup>**

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net earnings (loss)	\$ 684	\$ 1,072	\$ (326)	\$ 2,001	\$ (770)
Non-cash items:					
Depletion, depreciation and amortization	1,271	1,210	1,216	3,780	3,609
Share-based compensation	114	(104)	74	37	313
Asset retirement obligation accretion	44	39	36	119	107
Unrealized risk management loss (gain)	8	(6)	10	(38)	32
Unrealized foreign exchange (gain) loss	(404)	(355)	39	(819)	(255)
Gain from investments	(76)	(27)	(46)	(7)	(193)
Deferred income tax expense (recovery)	148	162	18	346	(195)
Gain on acquisition, disposition and revaluation of properties	(114)	(265)	—	(379)	(32)
<b>Funds flow from operations</b>	<b>\$ 1,675</b>	<b>\$ 1,726</b>	<b>\$ 1,021</b>	<b>\$ 5,040</b>	<b>\$ 2,616</b>

(1) Funds flow from operations was previously referred to as cash flow from operations.

**Funds Flow from Operations, as Reconciled to Cash Flows from Operating Activities**

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Cash flows from operating activities	\$ 2,522	\$ 1,631	\$ 899	\$ 5,824	\$ 2,197
Net change in non-cash working capital	(918)	(39)	14	(1,008)	225
Abandonment expenditures	65	105	122	211	232
Other	6	29	(14)	13	(38)
<b>Funds flow from operations</b>	<b>\$ 1,675</b>	<b>\$ 1,726</b>	<b>\$ 1,021</b>	<b>\$ 5,040</b>	<b>\$ 2,616</b>



## SUMMARY OF CONSOLIDATED NET EARNINGS (LOSS) AND FUNDS FLOW FROM OPERATIONS

Net earnings for the nine months ended September 30, 2017 were \$2,001 million compared with a net loss of \$770 million for the nine months ended September 30, 2016. Net earnings for the nine months ended September 30, 2017 included net after-tax income of \$1,163 million compared with net after-tax income of \$338 million for the nine months ended September 30, 2016 related to the effects of share-based compensation, risk management activities, fluctuations in foreign exchange rates, gain from investments, gain on acquisition, disposition and revaluation of properties, the derecognition of exploration and evaluation assets and the impact of statutory tax rate and other legislative changes on deferred income tax liabilities. Excluding these items, adjusted net earnings from operations for the nine months ended September 30, 2017 were \$838 million compared with an adjusted net loss of \$1,108 million for the nine months ended September 30, 2016.

Net earnings for the third quarter of 2017 were \$684 million compared with a net loss of \$326 million for the third quarter of 2016 and net earnings of \$1,072 million for the second quarter of 2017. Net earnings for the third quarter of 2017 included net after-tax income of \$455 million compared with net after-tax income of \$29 million for the third quarter of 2016 and net after-tax income of \$740 million for the second quarter of 2017 related to the effects of share-based compensation, risk management activities, fluctuations in foreign exchange rates, gain from investments, gain on acquisition, disposition and revaluation of properties and the impact of statutory tax rate and other legislative changes on deferred income tax liabilities. Excluding these items, adjusted net earnings from operations for the third quarter of 2017 were \$229 million compared with an adjusted net loss of \$355 million for the third quarter of 2016 and adjusted net earnings of \$332 million for the second quarter of 2017.

The increase in adjusted net earnings (loss) for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 was primarily due to:

- higher SCO sales volumes in the Oil Sands Mining and Upgrading segment, due to volumes associated with both the acquisition of AOSP and Phase 2B sales volumes at Horizon;
- higher realized SCO prices in the Oil Sands Mining and Upgrading segment; and
- higher crude oil and NGLs netbacks in the Exploration and Production segments;

partially offset by:

- higher depletion, depreciation and amortization;
- higher realized risk management losses;
- higher interest and financing expense; and
- the strengthening of the Canadian dollar relative to the US dollar.

The increase in adjusted net earnings (loss) for the third quarter of 2017 from the third quarter of 2016 was primarily due to:

- higher SCO sales volumes in the Oil Sands Mining and Upgrading segment, due to volumes associated with both the acquisition of AOSP and Phase 2B sales volumes at Horizon;
- higher crude oil and NGLs netbacks in the Exploration and Production segments; and
- higher crude oil and NGLs sales volumes in the Exploration and Production segments;

partially offset by:

- higher realized risk management losses;
- lower natural gas netbacks in the North America Exploration and Production segment;
- higher interest and financing expense; and
- the strengthening of the Canadian dollar relative to the US dollar.

The decrease in adjusted net earnings for the third quarter of 2017 from the second quarter of 2017 was primarily due to:

- lower natural gas netbacks in the Exploration and Production segments;
- higher realized risk management losses;
- higher depletion, depreciation and amortization in the Oil Sands Mining and Upgrading segment;
- higher interest and financing expense; and
- the strengthening of the Canadian dollar relative to the US dollar;

partially offset by:

- higher SCO sales volumes in the Oil Sands Mining and Upgrading segment; and
- higher crude oil and NGLs sales volumes in the Exploration and Production segments.

The impacts of share-based compensation, risk management activities and fluctuations in foreign exchange rates are expected to continue to contribute to significant volatility in consolidated net earnings (loss) and are discussed in detail in the relevant sections of this MD&A.

Funds flow from operations for the nine months ended September 30, 2017 was \$5,040 million compared with \$2,616 million for the nine months ended September 30, 2016. Funds flow from operations for the third quarter of 2017 was \$1,675 million compared with \$1,021 million for the third quarter of 2016 and \$1,726 million for the second quarter of 2017. The fluctuations in funds flow from operations from the comparable periods were primarily due to the factors noted above relating to the fluctuations in adjusted net earnings (loss), as well as due to the impact of fluctuations in cash taxes.

Total production before royalties for the third quarter of 2017 increased 41% to 1,036,499 BOE/d from 735,212 BOE/d for the third quarter of 2016 and increased 14% from 913,171 BOE/d for the second quarter of 2017.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's quarterly results for the eight most recently completed quarters:

(\$ millions, except per common share amounts)	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016
Product sales	\$ 4,547	\$ 3,927	\$ 3,872	\$ 3,672
Net earnings (loss)	\$ 684	\$ 1,072	\$ 245	\$ 566
Net earnings (loss) per common share				
– basic	\$ 0.56	\$ 0.93	\$ 0.22	\$ 0.51
– diluted	\$ 0.56	\$ 0.93	\$ 0.22	\$ 0.51
(\$ millions, except per common share amounts)	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
Product sales	\$ 2,477	\$ 2,686	\$ 2,263	\$ 2,963
Net earnings (loss)	\$ (326)	\$ (339)	\$ (105)	\$ 131
Net earnings (loss) per common share				
– basic	\$ (0.29)	\$ (0.31)	\$ (0.10)	\$ 0.12
– diluted	\$ (0.29)	\$ (0.31)	\$ (0.10)	\$ 0.12

Volatility in the quarterly net earnings (loss) over the eight most recently completed quarters was primarily due to:

- **Crude oil pricing** – The impact of shale oil production in North America, fluctuating global supply/demand including crude oil production levels from the Organization of the Petroleum Exporting Countries (“OPEC”) and its impact on world supply, the impact of geopolitical uncertainties on worldwide benchmark pricing, the impact of the Western Canadian Select (“WCS”) Heavy Differential from the West Texas Intermediate reference location at Cushing, Oklahoma (“WTI”) in North America and the impact of the differential between WTI and Brent benchmark pricing in the North Sea and Offshore Africa.
- **Natural gas pricing** – The impact of fluctuations in both the demand for natural gas and inventory storage levels, third party pipeline maintenance and the impact of shale gas production in the US.
- **Crude oil and NGLs sales volumes** – Fluctuations in production due to the cyclic nature of the Company’s Primrose thermal projects, production from Kirby South, the results from the Pelican Lake water and polymer flood projects, fluctuations in the Company’s drilling program in North America, the impact and timing of acquisitions, including the acquisition of AOSP and other assets, increased production from Horizon Phase 2B, the impact of turnarounds at Horizon, and the impact of the drilling program in Côte d’Ivoire in Offshore Africa. Sales volumes also reflected fluctuations due to timing of liftings and maintenance activities in the International segments.
- **Natural gas sales volumes** – Fluctuations in production due to the Company’s allocation of capital to higher return crude oil projects, natural decline rates, an outage at a third party processing facility, shut-in production due to third party pipeline restrictions and related pricing impacts, shut-in production due to low commodity prices, and the impact and timing of acquisitions.
- **Production expense** – Fluctuations primarily due to the impact of the demand and cost for services, fluctuations in product mix and production, the impact of seasonal costs that are dependent on weather, cost optimizations across all segments, the impact and timing of acquisitions, including the acquisition of AOSP and other assets, turnarounds at Horizon and maintenance activities in the International segments.
- **Depletion, depreciation and amortization** – Fluctuations due to changes in sales volumes including the impact and timing of acquisitions and dispositions, proved reserves, asset retirement obligations, finding and development costs associated with crude oil and natural gas exploration, estimated future costs to develop the Company’s proved undeveloped reserves, fluctuations in International sales volumes subject to higher depletion rates, fluctuations in depletion, depreciation and amortization expense in the North Sea due to the cessation of production at the Ninian North platform in the second quarter of 2017, and the impact of turnarounds at Horizon.
- **Share-based compensation** – Fluctuations due to the determination of fair market value based on the Black-Scholes valuation model of the Company’s share-based compensation liability.
- **Risk management** – Fluctuations due to the recognition of gains and losses from the mark - to - market and subsequent settlement of the Company’s risk management activities.
- **Foreign exchange rates** – Fluctuations in the Canadian dollar relative to the US dollar, which impacted the realized price the Company received for its crude oil and natural gas sales, as sales prices are based predominantly on US dollar denominated benchmarks. Fluctuations in realized and unrealized foreign exchange gains and losses are also recorded with respect to US dollar denominated debt, partially offset by the impact of cross currency swap hedges.
- **Income tax expense** – Fluctuations in income tax expense include statutory tax rate and other legislative changes substantively enacted in the various periods.
- **Gain on acquisition, disposition and revaluation of properties and gains/losses on investments** – Fluctuations due to the recognition of gains on the acquisition of AOSP and other assets, the disposition and revaluation of properties in the various periods, and fair value changes in the investments in PrairieSky and Inter Pipeline shares.

## BUSINESS ENVIRONMENT

(Average for the period)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
WTI benchmark price (US\$/bbl)	\$ 48.19	\$ 48.29	\$ 44.94	\$ 49.43	\$ 41.37
Dated Brent benchmark price (US\$/bbl)	\$ 51.76	\$ 50.24	\$ 45.76	\$ 52.01	\$ 41.84
WCS blend differential from WTI (US\$/bbl)	\$ 9.94	\$ 11.11	\$ 13.49	\$ 11.86	\$ 13.68
SCO price (US\$/bbl)	\$ 48.83	\$ 49.83	\$ 45.63	\$ 50.03	\$ 42.27
Condensate benchmark price (US\$/bbl)	\$ 47.96	\$ 48.44	\$ 43.05	\$ 49.52	\$ 40.54
NYMEX benchmark price (US\$/MMBtu)	\$ 3.00	\$ 3.18	\$ 2.81	\$ 3.16	\$ 2.27
AECO benchmark price (C\$/GJ)	\$ 1.94	\$ 2.63	\$ 2.08	\$ 2.45	\$ 1.75
US/Canadian dollar average exchange rate (US\$)	\$ 0.7983	\$ 0.7436	\$ 0.7663	\$ 0.7649	\$ 0.7565

Substantially all of the Company's production is sold based on US dollar benchmark pricing. Specifically, crude oil is marketed based on WTI and Dated Brent ("Brent") indices. Canadian natural gas pricing is primarily based on Alberta AECO reference pricing, which is derived from the NYMEX reference pricing and adjusted for its basis or location differential to the NYMEX delivery point at Henry Hub. The Company's realized prices are highly sensitive to fluctuations in foreign exchange rates. Product revenue continued to be impacted by the volatility in the Canadian dollar as the Canadian dollar sales price the Company received for its crude oil and natural gas sales is based on US dollar denominated benchmarks.

Crude oil sales contracts in the North America segment are typically based on WTI benchmark pricing. WTI averaged US\$49.43 per bbl for the nine months ended September 30, 2017, an increase of 19% from US\$41.37 per bbl for the nine months ended September 30, 2016. WTI averaged US\$48.19 per bbl for the third quarter of 2017, an increase of 7% from US\$44.94 per bbl for the third quarter of 2016, and comparable with the second quarter of 2017.

Crude oil sales contracts for the Company's North Sea and Offshore Africa segments are typically based on Brent pricing, which is representative of international markets and overall world supply and demand. Brent averaged US\$52.01 per bbl for the nine months ended September 30, 2017, an increase of 24% from US\$41.84 per bbl for the nine months ended September 30, 2016. Brent averaged US\$51.76 per bbl for the third quarter of 2017, an increase of 13% from US\$45.76 per bbl for the third quarter of 2016, and an increase of 3% from US\$50.24 per bbl for the second quarter of 2017.

WTI and Brent pricing for the three and nine months ended September 30, 2017 continued to reflect volatility in supply and demand factors and geopolitical events.

The WCS Heavy Differential averaged US\$11.86 per bbl for the nine months ended September 30, 2017, a decrease of 13% from US\$13.68 per bbl for the nine months ended September 30, 2016. The WCS Heavy Differential averaged US\$9.94 per bbl for the third quarter of 2017, a decrease of 26% from US\$13.49 per bbl for the third quarter of 2016, and a decrease of 11% from US\$11.11 per bbl for the second quarter of 2017. The WCS Heavy Differential reflects US Gulf Coast pricing, adjusted for transportation costs. The narrowing of the differential for the third quarter of 2017 compared with the second quarter of 2017 also reflected seasonality.

The SCO price averaged US\$50.03 per bbl for the nine months ended September 30, 2017, an increase of 18% from US\$42.27 per bbl for the nine months ended September 30, 2016. The SCO price averaged US\$48.83 per bbl for the third quarter of 2017, an increase of 7% from US\$45.63 per bbl for the third quarter of 2016, and comparable with the second quarter of 2017. The fluctuations in SCO pricing for the three and nine months ended September 30, 2017 from the comparable periods were primarily due to changes in WTI benchmark pricing.

NYMEX natural gas prices averaged US\$3.16 per MMBtu for the nine months ended September 30, 2017, an increase of 39% from US\$2.27 per MMBtu for the nine months ended September 30, 2016. NYMEX natural gas prices averaged US\$3.00 per MMBtu for the third quarter of 2017, an increase of 7% from US\$2.81 per MMBtu for the third quarter of 2016, and a decrease of 6% from US\$3.18 per MMBtu for the second quarter of 2017.

AECO natural gas prices averaged \$2.45 per GJ for the nine months ended September 30, 2017, an increase of 40% from \$1.75 per GJ for the nine months ended September 30, 2016. AECO natural gas prices averaged \$1.94 per GJ for the third quarter of 2017, a decrease of 7% from \$2.08 per GJ for the third quarter of 2016, and a decrease of 26% from \$2.63 per GJ for the second quarter of 2017.

The increase in benchmark natural gas prices for the nine months ended September 30, 2017 compared with the comparable period in 2016 primarily reflected the rebalancing of natural gas storage inventory to historically normal levels and colder weather in the 2016/2017 winter season as compared with the previous year.

The decrease in AECO benchmark natural gas prices in the third quarter of 2017 compared with the third quarter of 2016 and second quarter of 2017 reflected third party pipeline maintenance, reducing flow capability of natural gas to discretionary storage and export markets.

### DAILY PRODUCTION, before royalties

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (bbl/d)</b>					
North America – Exploration and Production	<b>361,216</b>	332,802	343,779	<b>351,331</b>	347,469
Oil Sands Mining and Upgrading – Horizon <sup>(1)</sup>	<b>156,465</b>	190,837	67,586	<b>179,799</b>	104,865
Oil Sands Mining and Upgrading – AOSP	<b>197,900</b>	66,704	—	<b>88,926</b>	—
North Sea	<b>24,832</b>	26,304	23,450	<b>24,733</b>	23,376
Offshore Africa	<b>18,776</b>	20,480	26,171	<b>20,610</b>	27,576
	<b>759,189</b>	637,127	460,986	<b>665,399</b>	503,286
<b>Natural gas (MMcf/d)</b>					
North America	<b>1,593</b>	1,603	1,567	<b>1,602</b>	1,637
North Sea	<b>46</b>	37	50	<b>40</b>	36
Offshore Africa	<b>25</b>	16	28	<b>22</b>	34
	<b>1,664</b>	1,656	1,645	<b>1,664</b>	1,707
<b>Total barrels of oil equivalent (BOE/d)</b>	<b>1,036,499</b>	913,171	735,212	<b>942,776</b>	787,718
<b>Product mix</b>					
Light and medium crude oil and NGLs	<b>13%</b>	15%	19%	<b>14%</b>	18%
Pelican Lake heavy crude oil	<b>5%</b>	5%	7%	<b>5%</b>	6%
Primary heavy crude oil	<b>10%</b>	10%	14%	<b>10%</b>	14%
Bitumen (thermal oil)	<b>11%</b>	12%	14%	<b>13%</b>	13%
Synthetic crude oil	<b>34%</b>	28%	9%	<b>29%</b>	13%
Natural gas	<b>27%</b>	30%	37%	<b>29%</b>	36%
<b>Percentage of gross revenue <sup>(1) (2)</sup></b> (excluding Midstream revenue)					
Crude oil and NGLs	<b>92%</b>	88%	83%	<b>89%</b>	85%
Natural gas	<b>8%</b>	12%	17%	<b>11%</b>	15%

(1) During the third quarter of 2017, no SCO production was consumed internally as diesel (second quarter 2017 – 438 bbl/d; third quarter 2016 – 1,464 bbl/d; nine months ended September 30, 2017 – 287 bbl/d; nine months ended September 30, 2016 – 2,083 bbl/d).

(2) Net of blending costs and excluding risk management activities.

## DAILY PRODUCTION, net of royalties

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (bbl/d)</b>					
North America – Exploration and Production	<b>310,497</b>	291,716	305,189	<b>305,084</b>	309,706
Oil Sands Mining and Upgrading – Horizon	<b>154,757</b>	187,315	67,008	<b>176,958</b>	104,261
Oil Sands Mining and Upgrading – AOSP	<b>190,310</b>	64,308	—	<b>85,570</b>	—
North Sea	<b>24,784</b>	26,246	23,404	<b>24,683</b>	23,316
Offshore Africa	<b>17,735</b>	19,231	25,061	<b>19,543</b>	26,428
	<b>698,083</b>	588,816	420,662	<b>611,838</b>	463,711
<b>Natural gas (MMcf/d)</b>					
North America	<b>1,543</b>	1,528	1,497	<b>1,525</b>	1,586
North Sea	<b>46</b>	37	50	<b>40</b>	36
Offshore Africa	<b>22</b>	15	27	<b>19</b>	32
	<b>1,611</b>	1,580	1,574	<b>1,584</b>	1,654
Total barrels of oil equivalent (BOE/d)	<b>966,528</b>	852,170	682,944	<b>875,831</b>	739,374

The Company's business approach is to maintain large project inventories and production diversification among each of the commodities it produces; namely light and medium crude oil and NGLs, primary heavy crude oil, Pelican Lake heavy crude oil, bitumen (thermal oil), SCO and natural gas.

Crude oil and NGLs production for the nine months ended September 30, 2017 increased 32% to 665,399 bbl/d from 503,286 bbl/d for the nine months ended September 30, 2016. Crude oil and NGLs production for the third quarter of 2017 of 759,189 bbl/d increased 65% from 460,986 bbl/d for the third quarter of 2016, and increased 19% from 637,127 bbl/d in the second quarter of 2017. The increase in crude oil and NGLs production for the three and nine months ended September 30, 2017 from the comparable periods was primarily due to the acquisition of AOSP and other assets on May 31, 2017, Phase 2B production, utilization of Phase 3 infrastructure and continued high reliability at Horizon, and strong thermal oil production, partially offset by the impact of the commencement of the planned major turnaround at Horizon in September 2017.

Third quarter 2017 crude oil and NGLs production was within the Company's previously issued guidance of 740,000 to 778,000 bbl/d. Fourth quarter 2017 crude oil and NGLs production guidance is targeted to average between 736,000 and 772,000 bbl/d. Annual crude oil and NGLs production guidance for 2017 is targeted to average between 663,000 and 717,000 bbl/d.

Natural gas production for the nine months ended September 30, 2017 decreased 3% to 1,664 MMcf/d from 1,707 MMcf/d for the nine months ended September 30, 2016. Natural gas production for the third quarter of 2017 averaged 1,664 MMcf/d, comparable with 1,645 MMcf/d for the third quarter of 2016 and 1,656 MMcf/d in the second quarter of 2017. The decrease in natural gas production for the nine months ended September 30, 2017 from the comparable period was primarily due to shut-in production volumes of approximately 27 MMcf/d related to low natural gas prices and 41 MMcf/d related to the impact of reliability issues at a third party facility. Natural gas production at the third party facility restarted at the end of July, with plant operations reinstated to near full capacity in the latter half of August, and for the month of September the plant was operating near full capacity.

Third quarter natural gas production was within the Company's previously issued guidance of 1,650 to 1,710 MMcf/d. Fourth quarter 2017 natural gas production guidance is targeted to average between 1,700 and 1,750 MMcf/d. Annual natural gas production guidance for 2017 is targeted to average between 1,655 and 1,705 MMcf/d.

## **North America - Exploration and Production**

North America crude oil and NGLs production for the nine months ended September 30, 2017 averaged 351,331 bbl/d, comparable with 347,469 bbl/d for the nine months ended September 30, 2016. North America crude oil and NGLs production for the third quarter of 2017 increased 5% to 361,216 bbl/d from 343,779 bbl/d for the third quarter of 2016, and increased 9% from 332,802 bbl/d for the second quarter of 2017. The increase in production for the third quarter of 2017 from the third quarter of 2016 and the second quarter of 2017 was primarily due to strong thermal oil production due to the successful completion of planned turnarounds at the Primrose and Kirby South plants, increased heavy oil production due to higher drilling activity, and additional production volumes from the acquisition of the other assets on May 31, 2017.

Third quarter 2017 crude oil and NGLs production was within the Company's previously issued guidance of 358,000 to 372,000 bbl/d. Fourth quarter 2017 crude oil and NGLs production guidance is targeted to average between 377,000 and 391,000 bbl/d. Annual crude oil and NGLs production guidance for 2017 is targeted to average between 348,000 and 368,000 bbl/d.

Natural gas production for the nine months ended September 30, 2017 averaged 1,602 MMcf/d, comparable with 1,637 MMcf/d for the nine months ended September 30, 2016. Natural gas production for the third quarter of 2017 averaged 1,593 MMcf/d, comparable with 1,567 MMcf/d for the third quarter of 2016 and 1,603 MMcf/d in the second quarter of 2017. Natural gas production for the nine months ended September 30, 2017 reflected shut-in production volumes of approximately 27 MMcf/d related to low natural gas prices and 41 MMcf/d related to the impact of reliability issues at a third party facility. Natural gas production at the third party facility restarted at the end of July, with plant operations reinstated to near full capacity in the latter half of August, and for the month of September the plant was operating near full capacity.

### **Horizon**

Horizon SCO production for the nine months ended September 30, 2017 of 179,799 bbl/d increased 71% from 104,865 bbl/d for the nine months ended September 30, 2016. Horizon SCO production for the third quarter of 2017 increased 132% to average 156,465 bbl/d from 67,586 bbl/d for the third quarter of 2016 and decreased 18% from 190,837 bbl/d for the second quarter of 2017. The increase in production for the three and nine months ended September 30, 2017 from the comparable periods in 2016 primarily reflected Phase 2B production at Horizon, the utilization of Phase 3 infrastructure and continued high reliability in the mining and upgrading operations. Third quarter production volumes reflected the impact of the planned major turnaround which commenced in September 2017.

Third quarter 2017 Horizon SCO production was within the Company's previously issued guidance of 148,000 to 160,000 bbl/d. Fourth quarter 2017 Horizon SCO production guidance is targeted to average between 140,000 and 150,000 bbl/d, reflecting the impact of Phase 3 startup and the planned major turnaround which commenced in September 2017. Annual Horizon SCO production guidance for 2017 is targeted to average between 170,000 and 184,000 bbl/d.

### **Athabasca Oil Sands Project**

AOSP SCO production for the third quarter of 2017 averaged 197,900 bbl/d, reflecting a full quarter of production for the Company's 70% interest in the project.

Third quarter 2017 AOSP SCO production was within the Company's previously issued guidance of 193,000 to 201,000 bbl/d. Fourth quarter 2017 AOSP SCO production guidance is targeted to average between 178,000 and 186,000 bbl/d, reflecting the impact of planned pitstops in the Albian mines for the fourth quarter. Annual AOSP SCO production guidance for 2017 is targeted to average between 102,000 and 116,000 bbl/d.

### **North Sea**

North Sea crude oil production for the nine months ended September 30, 2017 increased 6% to 24,733 bbl/d from 23,376 bbl/d for the nine months ended September 30, 2016. North Sea crude oil production for the third quarter of 2017 increased 6% to 24,832 bbl/d from 23,450 bbl/d for the third quarter of 2016 and decreased 6% from 26,304 bbl/d for the second quarter of 2017. The increase in production for the three and nine months ended September 30, 2017 from comparable periods in 2016 was due to new wells at Ninian and successful production optimization, partially offset by the impact of the shut-in of the Ninian North platform in May 2017. The decrease in production for the third quarter of 2017 from the second quarter of 2017 primarily reflected the shut-in of the Ninian North platform in May 2017.

## Offshore Africa

Offshore Africa crude oil production for the nine months ended September 30, 2017 decreased 25% to 20,610 bbl/d from 27,576 bbl/d for the nine months ended September 30, 2016. Offshore Africa crude oil production for the third quarter of 2017 decreased 28% to 18,776 bbl/d from 26,171 bbl/d for the third quarter of 2016 and decreased 8% from 20,480 bbl/d for the second quarter of 2017. The decrease in production for the three and nine months ended September 30, 2017 from comparable periods in 2016 primarily reflected natural field declines. The decrease for the third quarter of 2017 from the second quarter of 2017 primarily reflected the planned turnaround at Baobab during the third quarter of 2017 and natural field declines.

## INTERNATIONAL GUIDANCE

Third quarter international crude oil production of 43,608 bbl/d was within the Company's previously issued guidance of 41,000 to 45,000 bbl/d. Fourth quarter 2017 international crude oil production guidance is targeted to average between 41,000 and 45,000 bbl/d. Annual international crude oil production guidance for 2017 is targeted to average between 43,000 and 49,000 bbl/d.

## International Crude Oil Inventory Volumes

The Company recognizes revenue on its crude oil production when title transfers to the customer and delivery has taken place. Revenue has not been recognized in the International business segments on crude oil volumes that were stored in various storage facilities or FPSOs, as follows:

(bbl)	Sep 30 2017	Jun 30 2017	Sep 30 2016
North Sea	506,748	528,705	940,089
Offshore Africa	639,622	1,510,446	1,587,341
	<b>1,146,370</b>	2,039,151	2,527,430



## OPERATING HIGHLIGHTS – EXPLORATION AND PRODUCTION

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (\$/bbl) <sup>(1)</sup></b>					
Sales price <sup>(2)</sup>	\$ 46.33	\$ 47.12	\$ 39.66	\$ 46.82	\$ 34.14
Transportation	2.81	3.06	2.51	2.79	2.60
Realized sales price, net of transportation	43.52	44.06	37.15	44.03	31.54
Royalties	5.33	4.83	3.48	5.03	2.97
Production expense	14.71	15.51	13.85	14.84	14.03
Netback	\$ 23.48	\$ 23.72	\$ 19.82	\$ 24.16	\$ 14.54
<b>Natural gas (\$/Mcf) <sup>(1)</sup></b>					
Sales price <sup>(2)</sup>	\$ 2.29	\$ 2.97	\$ 2.44	\$ 2.83	\$ 2.06
Transportation	0.33	0.34	0.40	0.37	0.34
Realized sales price, net of transportation	1.96	2.63	2.04	2.46	1.72
Royalties	0.07	0.12	0.09	0.12	0.06
Production expense	1.22	1.25	1.08	1.25	1.18
Netback	\$ 0.67	\$ 1.26	\$ 0.87	\$ 1.09	\$ 0.48
<b>Barrels of oil equivalent (\$/BOE) <sup>(1)</sup></b>					
Sales price <sup>(2)</sup>	\$ 33.27	\$ 33.94	\$ 29.39	\$ 34.40	\$ 25.24
Transportation	2.51	2.67	2.51	2.59	2.44
Realized sales price, net of transportation	30.76	31.27	26.88	31.81	22.80
Royalties	3.36	3.09	2.27	3.28	1.89
Production expense	11.73	12.11	10.83	11.83	11.13
Netback	\$ 15.67	\$ 16.07	\$ 13.78	\$ 16.70	\$ 9.78

(1) Amounts expressed on a per unit basis are based on sales volumes.

(2) Net of blending costs and excluding risk management activities.

## PRODUCT PRICES – EXPLORATION AND PRODUCTION

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (\$/bbl) <sup>(1)(2)</sup></b>					
North America	\$ 43.56	\$ 44.78	\$ 36.84	\$ 44.16	\$ 31.45
North Sea	\$ 66.07	\$ 64.37	\$ 60.00	\$ 67.04	\$ 53.23
Offshore Africa	\$ 64.14	\$ 69.93	\$ 58.30	\$ 64.78	\$ 52.81
Company average	\$ 46.33	\$ 47.12	\$ 39.66	\$ 46.82	\$ 34.14
<b>Natural gas (\$/Mcf) <sup>(1)(2)</sup></b>					
North America	\$ 2.07	\$ 2.84	\$ 2.30	\$ 2.66	\$ 1.88
North Sea	\$ 7.73	\$ 6.89	\$ 5.27	\$ 7.76	\$ 6.16
Offshore Africa	\$ 6.56	\$ 6.84	\$ 5.39	\$ 6.52	\$ 6.23
Company average	\$ 2.29	\$ 2.97	\$ 2.44	\$ 2.83	\$ 2.06
<b>Company average (\$/BOE) <sup>(1)(2)</sup></b>	\$ 33.27	\$ 33.94	\$ 29.39	\$ 34.40	\$ 25.24

(1) Amounts expressed on a per unit basis are based on sales volumes.

(2) Net of blending costs and excluding risk management activities.

### North America

North America realized crude oil prices increased 40% to \$44.16 per bbl for the nine months ended September 30, 2017 from \$31.45 per bbl for the nine months ended September 30, 2016. North America realized crude oil prices averaged \$43.56 per bbl for the third quarter of 2017, an increase of 18% compared with \$36.84 per bbl for the third quarter of 2016 and a decrease of 3% compared with \$44.78 per bbl for the second quarter of 2017. The increase in realized crude oil prices for the three and nine months ended September 30, 2017 from the comparable periods in 2016 was primarily due to higher WTI benchmark pricing and the narrowing of the heavy differential. The decrease in realized crude oil prices for the third quarter of 2017 from the second quarter of 2017 was primarily due to the strengthening of the Canadian dollar relative to the US dollar. The Company continues to focus on its crude oil blending marketing strategy and in the third quarter of 2017, contributed approximately 196,500 bbl/d of heavy crude oil blends to the WCS stream.

North America realized natural gas prices increased 41% to average \$2.66 per Mcf for the nine months ended September 30, 2017 from \$1.88 per Mcf for the nine months ended September 30, 2016. North America realized natural gas prices decreased 10% to average \$2.07 per Mcf for the third quarter of 2017 compared with \$2.30 per Mcf for the third quarter of 2016, and decreased 27% compared with \$2.84 per Mcf for the second quarter of 2017. The increase in natural gas prices per Mcf for the nine months ended September 30, 2017 from the comparable period in 2016 reflected the rebalancing of natural gas storage inventory to historically normal levels and colder weather in the 2016/2017 winter season as compared with the previous year.

The decrease in realized natural gas prices for the third quarter of 2017 compared with the third quarter of 2016 and second quarter of 2017 reflected third party pipeline maintenance reducing flow capability of natural gas to discretionary storage and export markets.

Comparisons of the prices received in North America Exploration and Production by product type were as follows:

(Quarterly Average)	Sep 30 2017	Jun 30 2017	Sep 30 2016
<b>Wellhead Price</b> <sup>(1) (2)</sup>			
Light and medium crude oil and NGLs (\$/bbl)	\$ 43.27	\$ 46.44	\$ 38.16
Pelican Lake heavy crude oil (\$/bbl)	\$ 45.67	\$ 47.64	\$ 37.57
Primary heavy crude oil (\$/bbl)	\$ 45.55	\$ 45.92	\$ 38.52
Bitumen (thermal oil) (\$/bbl)	\$ 41.38	\$ 41.15	\$ 33.68
Natural gas (\$/Mcf)	\$ 2.07	\$ 2.84	\$ 2.30

(1) Amounts expressed on a per unit basis are based on sales volumes.

(2) Net of blending costs and excluding risk management activities.

## North Sea

North Sea realized crude oil prices increased 26% to average \$67.04 per bbl for the nine months ended September 30, 2017 from \$53.23 per bbl for the nine months ended September 30, 2016. North Sea realized crude oil prices increased 10% to average \$66.07 per bbl for the third quarter of 2017 from \$60.00 per bbl for the third quarter of 2016 and increased 3% from \$64.37 per bbl for the second quarter of 2017. Realized crude oil prices per bbl in any particular period are dependent on the terms of the various sales contracts, the frequency and timing of liftings of each field, and prevailing crude oil prices and foreign exchange rates at the time of lifting. The fluctuations in realized crude oil prices for the three and nine months ended September 30, 2017 from the comparable periods reflected prevailing Brent benchmark pricing at the time of liftings, together with the impact of movements in the Canadian dollar.

## Offshore Africa

Offshore Africa realized crude oil prices increased 23% to average \$64.78 per bbl for the nine months ended September 30, 2017 from \$52.81 per bbl for the nine months ended September 30, 2016. Offshore Africa realized crude oil prices increased 10% to average \$64.14 per bbl for the third quarter of 2017 from \$58.30 per bbl for the third quarter of 2016 and decreased 8% from \$69.93 per bbl for the second quarter of 2017. Realized crude oil prices per bbl in any particular year are dependent on the terms of the various sales contracts, the frequency and timing of liftings of each field, and prevailing crude oil prices and foreign exchange rates at the time of lifting. The fluctuations in realized crude oil prices for the three and nine months ended September 30, 2017 from the comparable periods reflected prevailing Brent benchmark pricing at the time of liftings, together with the impact of movements in the Canadian dollar.

## ROYALTIES – EXPLORATION AND PRODUCTION

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (\$/bbl)</b> <sup>(1)</sup>					
North America	\$ 5.84	\$ 5.19	\$ 3.81	\$ 5.50	\$ 3.22
North Sea	\$ 0.13	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.13
Offshore Africa	\$ 3.56	\$ 4.26	\$ 2.47	\$ 3.37	\$ 2.17
Company average	\$ 5.33	\$ 4.83	\$ 3.48	\$ 5.03	\$ 2.97
<b>Natural gas (\$/Mcf)</b> <sup>(1)</sup>					
North America	\$ 0.05	\$ 0.12	\$ 0.09	\$ 0.12	\$ 0.06
Offshore Africa	\$ 0.95	\$ 0.51	\$ 0.24	\$ 0.73	\$ 0.28
Company average	\$ 0.07	\$ 0.12	\$ 0.09	\$ 0.12	\$ 0.06
Company average (\$/BOE) <sup>(1)</sup>	\$ 3.36	\$ 3.09	\$ 2.27	\$ 3.28	\$ 1.89

(1) Amounts expressed on a per unit basis are based on sales volumes.

## North America

North America crude oil and natural gas royalties for the three and nine months ended September 30, 2017 and the comparable periods reflected movements in benchmark commodity prices. North America crude oil royalties also reflected fluctuations in the WCS Heavy Differential.

Crude oil and NGLs royalties averaged approximately 13% of product sales for the nine months ended September 30, 2017 compared with 11% of product sales for the nine months ended September 30, 2016. Crude oil and NGLs royalties averaged approximately 14% of product sales for the third quarter of 2017 compared with 11% for the third quarter of 2016 and 13% for the second quarter of 2017. The increase in royalties for the three and nine months ended September 30, 2017 from the comparable periods was primarily due to higher expected annualized crude oil prices. North America crude oil and NGLs royalties per bbl are anticipated to average 12% to 13% of product sales for 2017.

Natural gas royalties averaged approximately 5% of product sales for the nine months ended September 30, 2017 compared with 3% of product sales for the nine months ended September 30, 2016. Natural gas royalties averaged approximately 3% of product sales for the third quarter of 2017 compared with 4% for the third quarter of 2016 and 5% for the second quarter of 2017. The increase in natural gas royalties for the nine months ended September 30, 2017 from the comparable period in 2016 reflected higher realized natural gas prices. The decrease in natural gas royalties in the third quarter of 2017 from the third quarter of 2016 and second quarter of 2017 primarily reflected lower realized natural gas prices. North America natural gas royalties are anticipated to average 5% to 7% of product sales for 2017.

## Offshore Africa

Under the terms of the various Production Sharing Contracts, royalty rates fluctuate based on realized commodity pricing, capital and operating costs, the status of payouts, and the timing of liftings from each field.

Royalty rates as a percentage of product sales averaged approximately 6% for the nine months ended September 30, 2017, compared with 4% of product sales for the nine months ended September 30, 2016. Royalty rates as a percentage of product sales averaged approximately 6% for the third quarter of 2017, compared with 4% of product sales for the third quarter of 2016 and 6% for the second quarter of 2017. Royalties as a percentage of product sales reflected the timing of liftings and the status of payout in the various fields. Offshore Africa royalty rates are anticipated to average 7% to 9% of product sales for 2017.

## PRODUCTION EXPENSE – EXPLORATION AND PRODUCTION

	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Crude oil and NGLs (\$/bbl) <sup>(1)</sup></b>					
North America	\$ 12.10	\$ 13.74	\$ 11.69	\$ 12.66	\$ 11.80
North Sea	\$ 35.72	\$ 28.86	\$ 39.41	\$ 34.06	\$ 42.75
Offshore Africa	\$ 29.24	\$ 32.39	\$ 16.32	\$ 26.39	\$ 18.29
Company average	\$ 14.71	\$ 15.51	\$ 13.85	\$ 14.84	\$ 14.03
<b>Natural gas (\$/Mcf) <sup>(1)</sup></b>					
North America	\$ 1.15	\$ 1.17	\$ 1.04	\$ 1.17	\$ 1.13
North Sea	\$ 3.09	\$ 3.40	\$ 2.15	\$ 3.18	\$ 2.98
Offshore Africa	\$ 2.32	\$ 3.88	\$ 1.68	\$ 3.13	\$ 1.58
Company average	\$ 1.22	\$ 1.25	\$ 1.08	\$ 1.25	\$ 1.18
<b>Company average (\$/BOE) <sup>(1)</sup></b>	\$ 11.73	\$ 12.11	\$ 10.83	\$ 11.83	\$ 11.13

(1) Amounts expressed on a per unit basis are based on sales volumes.

## North America

North America crude oil and NGLs production expense for the nine months ended September 30, 2017 increased 7% to \$12.66 per bbl from \$11.80 per bbl for the nine months ended September 30, 2016. North America crude oil and NGLs production expense for the third quarter of 2017 of \$12.10 per bbl increased 4% from \$11.69 per bbl in the third quarter of 2016 and decreased 12% from \$13.74 per bbl for the second quarter of 2017. The Company continues to focus on cost control and achieving efficiencies across the asset base. Production expense per barrel for the nine months ended September 30, 2017 reflected higher maintenance activities. The decrease in production expense per barrel in the third quarter of 2017 from the second quarter of 2017 was primarily due to lower fuel costs in the Company's thermal areas. North America crude oil and NGLs production expense is anticipated to average \$11.50 to \$13.50 per bbl for 2017.

North America natural gas production expense for the nine months ended September 30, 2017 averaged \$1.17 per Mcf, an increase of 4% from \$1.13 per Mcf for the nine months ended September 30, 2016. North America natural gas production expense for the third quarter of 2017 increased 11% to \$1.15 per Mcf from \$1.04 per Mcf for the third quarter of 2016 and decreased 2% from \$1.17 per Mcf for the second quarter of 2017. The Company continues to focus on cost control and achieving efficiencies across the asset base. North America natural gas production expense is anticipated to average \$1.00 to \$1.20 per Mcf for 2017.

## North Sea

North Sea crude oil production expense for the nine months ended September 30, 2017 decreased 20% to \$34.06 per bbl from \$42.75 per bbl for the nine months ended September 30, 2016. North Sea crude oil production expense for the third quarter of 2017 decreased 9% to \$35.72 per bbl from \$39.41 per bbl for the third quarter of 2016 and increased 24% from \$28.86 per bbl in the second quarter of 2017. The decrease for the three and nine months ended September 30, 2017 from the comparable periods in 2016 reflected the Company's continuous focus on cost control, efficiencies and production optimization. The increase in production expense in the third quarter of 2017 from the second quarter of 2017 primarily reflected the impact of one-time recoveries realized in the second quarter. Production expense also reflected fluctuations in the Canadian dollar and the UK pound sterling. North Sea crude oil production expense is anticipated to average \$33.00 to \$36.00 per bbl for 2017.

## Offshore Africa

Offshore Africa crude oil production expense of \$26.39 per bbl for the nine months ended September 30, 2017 included production expense of \$12.49 per bbl relating to the Baobab and Espoir fields in Côte d'Ivoire. Production expense of \$29.24 per bbl for the third quarter of 2017 included production expense of \$12.51 per bbl relating to the Baobab and Espoir fields in Côte d'Ivoire. Total Offshore Africa crude oil production expense for the three and nine months ended September 30, 2017 primarily reflected the timing of liftings from various fields, including the Olowi field, which have different cost structures, fluctuating production volumes on a relatively fixed cost base, the planned turnaround at Baobab in the third quarter of 2017 and fluctuations in the Canadian dollar. Offshore Africa production expense related to Côte d'Ivoire is anticipated to average \$10.50 to \$12.50 per bbl for 2017.

## DEPLETION, DEPRECIATION AND AMORTIZATION – EXPLORATION AND PRODUCTION

(\$ millions, except per BOE amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense	\$ 945	\$ 971	\$ 1,031	\$ 3,018	\$ 3,136
\$/BOE <sup>(1)</sup>	\$ 14.87	\$ 16.38	\$ 16.84	\$ 16.30	\$ 16.82

(1) Amounts expressed on a per unit basis are based on sales volumes.

Depletion, depreciation and amortization on a per barrel basis for the nine months ended September 30, 2017 decreased 3% to \$16.30 per BOE from \$16.82 per BOE for the nine months ended September 30, 2016. Depletion, depreciation and amortization expense on a per barrel basis for the third quarter of 2017 decreased 12% to \$14.87 per BOE from \$16.84 per BOE for the third quarter of 2016 and decreased 9% from \$16.38 per BOE for the second quarter of 2017.

The decrease in depletion, depreciation and amortization expense on a per BOE basis for the nine months ended September 30, 2017 from the comparable period in 2016 was primarily due to a lower depletable base in North America, partially offset by additional depletion, depreciation and amortization of \$225 million in the North Sea related to the abandonment of the Ninian North platform. The decrease for the three months ended September 30, 2017 from the comparable period in 2016 was primarily due to a lower depletable base in North America and the North Sea. The decrease from the second quarter of 2017 primarily reflected depletion of \$74 million in the North Sea during the second quarter of 2017 related to the abandonment of the Ninian North platform.

## ASSET RETIREMENT OBLIGATION ACCRETION – EXPLORATION AND PRODUCTION

(\$ millions, except per BOE amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense	\$ 29	\$ 29	\$ 28	\$ 86	\$ 85
\$/BOE <sup>(1)</sup>	\$ 0.47	\$ 0.48	\$ 0.46	\$ 0.47	\$ 0.45

(1) Amounts expressed on a per unit basis are based on sales volumes.

Asset retirement obligation accretion expense represents the increase in the carrying amount of the asset retirement obligation due to the passage of time.

Asset retirement obligation accretion expense for the nine months ended September 30, 2017 increased 4% to \$0.47 per BOE from \$0.45 per BOE for the nine months ended September 30, 2016. Asset retirement obligation accretion expense for the third quarter of 2017 increased 2% to \$0.47 per BOE from \$0.46 per BOE for the third quarter of 2016, and decreased 2% from \$0.48 per BOE for the second quarter of 2017.

### OPERATING HIGHLIGHTS – OIL SANDS MINING AND UPGRADING

On May 31, 2017 the Company completed the acquisition of a direct and indirect 70% interest in AOSP, including a 70% interest in the mining and extraction operations north of Fort McMurray, Alberta and 70% of the Scotford Upgrader and Quest Carbon Capture and Storage ("CCS") project. The acquisition strengthens the Company's portfolio of long life no decline synthetic crude oil assets. Effective May 31, 2017, the Oil Sands Mining and Upgrading segment of this MD&A reflects the mining, extraction and upgrading operations at both Horizon and AOSP.

The Company continues to focus on reliable and efficient operations. The Oil Sands Mining and Upgrading segment achieved production during the third quarter of 2017 averaging 354,365 bbl/d following the addition of production volumes from the acquisition of and successful integration of the Company's interest in AOSP, partially offset by the impact of the planned major turnaround at Horizon which commenced September 2017.

#### Horizon Operations Update

Horizon achieved SCO production averaging 156,465 bbl/d during the third quarter of 2017, reflecting the planned major turnaround. Through the Company's continuous focus on cost control and efficiencies, high utilization rates and reliability, together with additional production from Phase 2B and utilization of available Phase 3 infrastructure, adjusted cash production costs averaging \$20.24 per bbl were achieved during the quarter.

The Horizon Phase 3 expansion, which is anticipated to add 80,000 bbl/d of SCO production, is on schedule and within cost, with commissioning and startup targeted in the fourth quarter of 2017 bringing total targeted plant capacity to 250,000 bbl/d.

#### AOSP Operations Update

AOSP SCO production averaged 197,900 bbl/d during the third quarter of 2017, reflecting a full quarter of production and high reliability of operations. Due to the Company's continuous focus on cost control and efficiencies, high utilization rates and reliability of AOSP operations, cash production costs of \$24.60 per bbl were achieved during the quarter.

The planned pit stops at both the Jackpine and Muskeg River Mines were successfully completed in the fourth quarter of 2017.

## PRODUCT PRICES, ROYALTIES AND TRANSPORTATION – OIL SANDS MINING AND UPGRADING

(\$/bbl) <sup>(1)</sup>	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Sales Price <sup>(2) (3)</sup>	\$ 56.55	\$ 63.39	\$ 58.61	\$ 61.33	\$ 55.13
Bitumen value for royalty purposes <sup>(4)</sup>	\$ 40.69	\$ 39.99	\$ 30.16	\$ 39.45	\$ 22.89
Bitumen Royalties <sup>(5)</sup>	\$ 1.39	\$ 1.38	\$ 0.62	\$ 1.33	\$ 0.34
Transportation	\$ 1.61	\$ 1.32	\$ 3.40	\$ 1.42	\$ 2.09

(1) Amounts expressed on a per unit basis are based on sales volumes excluding turnaround periods.

(2) The realized sales price for the periods presented in 2017 reflects the weighted average price of Horizon SCO and AOSP SCO while the realized sales price for the comparable periods in 2016 reflects the Horizon SCO price only. The Horizon realized sales price reflects a premium light sweet SCO compared to the blend at AOSP.

(3) Net of blending and feedstock costs.

(4) Calculated as the quarterly average of the bitumen valuation methodology price.

(5) Calculated based on bitumen royalties expensed during the period; divided by the corresponding sales volumes.

The realized SCO sales price for the Oil Sands Mining and Upgrading segment averaged \$61.33 per bbl for the nine months ended September 30, 2017, an increase of 11% from \$55.13 per bbl for the nine months ended September 30, 2016. For the third quarter of 2017, the realized sales price decreased 4% to \$56.55 per bbl from \$58.61 per bbl for the third quarter of 2016 and decreased 11% from \$63.39 per bbl for the second quarter of 2017. The fluctuations in realized sales prices for the three and nine months ended September 30, 2017 from the comparable periods primarily reflected WTI benchmark pricing, together with the impact of AOSP SCO sales volumes.

The realized SCO sales price for Horizon averaged \$65.49 per bbl for the nine months ended September 30, 2017, an increase of 19% from \$55.13 per bbl for the nine months ended September 30, 2016. For the third quarter of 2017, the realized sales price increased 4% to \$60.84 per bbl from \$58.61 per bbl for the third quarter of 2016 and decreased 9% from \$67.04 per bbl for the second quarter of 2017.

The realized SCO sales price for AOSP averaged \$53.24 per bbl for the three months ended September 30, 2017, an increase of 2% from \$52.35 per bbl for the month of June 2017.

## CASH PRODUCTION COSTS – OIL SANDS MINING AND UPGRADING

The following tables are reconciled to the Oil Sands Mining and Upgrading production costs disclosed in note 17 to the Company's unaudited interim consolidated financial statements.

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Cash production costs	\$ 829	\$ 553	\$ 326	\$ 1,754	\$ 916
Less: costs incurred during turnaround periods	(79)	—	(151)	(79)	(151)
Adjusted cash production costs	\$ 750	\$ 553	\$ 175	\$ 1,675	\$ 765
Adjusted cash production costs, excluding natural gas costs	\$ 717	\$ 515	\$ 161	\$ 1,571	\$ 721
Adjusted natural gas costs	33	38	14	104	44
Adjusted cash production costs	\$ 750	\$ 553	\$ 175	\$ 1,675	\$ 765

(\$/bbl) <sup>(1)</sup>	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Adjusted cash production costs, excluding natural gas costs	\$ 21.68	\$ 21.85	\$ 24.92	\$ 21.37	\$ 25.22
Natural gas costs	1.01	1.59	2.13	1.42	1.55
Adjusted cash production costs	\$ 22.69	\$ 23.44	\$ 27.05	\$ 22.79	\$ 26.77
Sales (bbl/d)	359,748	259,033	70,005	269,317	104,221

(1) Amounts expressed on a per unit basis are based on sales volumes.

Adjusted cash production costs for the nine months ended September 30, 2017 decreased 15% to \$22.79 per bbl from \$26.77 per bbl for the nine months ended September 30, 2016. Adjusted cash production costs for the third quarter of 2017 averaged \$22.69 per bbl, a decrease of 16% from \$27.05 per bbl for the third quarter of 2016 and a 3% decrease from \$23.44 per bbl for the second quarter of 2017. The decrease in adjusted cash production costs on a per barrel basis for the three and nine months ended September 30, 2017 from the comparable periods in 2016 primarily reflected the Company's continuous focus on cost control and efficiencies and high utilization rates and reliability, together with additional capacity from Phase 2B and Phase 3 infrastructure, partially offset by the impact of the acquisition of AOSP.

Horizon adjusted cash production costs for the nine months ended September 30, 2017 decreased 20% to \$21.54 per bbl from \$26.77 per bbl for the nine months ended September 30, 2016. Adjusted cash production costs for the third quarter of 2017 averaged \$20.24 per bbl, a decrease of 25% from \$27.05 per bbl for the third quarter of 2016 and an 8% decrease from \$22.09 per bbl for the second quarter of 2017. For 2017, Horizon cash production costs are anticipated to average \$24.00 to \$27.00 per bbl, including turnaround costs.

AOSP cash production costs for the third quarter of 2017 averaged \$24.60 per bbl, a decrease of 11% from \$27.50 per bbl for the month of June 2017. For 2017, AOSP cash production costs are anticipated to average \$27.00 to \$31.00 per bbl.



## DEPLETION, DEPRECIATION AND AMORTIZATION – OIL SANDS MINING AND UPGRADING

(\$ millions, except per bbl amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense	\$ 324	\$ 237	\$ 182	\$ 756	\$ 464
Less: depreciation incurred during turnaround period	(25)	—	(99)	(25)	(99)
Adjusted depletion, depreciation and amortization	\$ 299	\$ 237	\$ 83	\$ 731	\$ 365
\$/bbl <sup>(1)</sup>	\$ 9.03	\$ 10.05	\$ 12.96	\$ 9.94	\$ 12.77

(1) Amounts expressed on a per unit basis are based on sales volumes.

Adjusted depletion, depreciation and amortization expense on a per barrel basis for the Oil Sands Mining and Upgrading segment for the nine months ended September 30, 2017 decreased 22% to \$9.94 per bbl from \$12.77 per bbl for the nine months ended September 30, 2016. Adjusted depletion, depreciation and amortization expense on a per barrel basis for the third quarter of 2017 decreased 30% to \$9.03 per bbl from \$12.96 per bbl for the third quarter of 2016 and decreased 10% from \$10.05 per bbl for the second quarter of 2017.

Adjusted depletion, depreciation and amortization expense per barrel for the three and nine months ended September 30, 2017 decreased from the comparable periods primarily due to the impact of AOSP, which has a lower depletion rate.

## ASSET RETIREMENT OBLIGATION ACCRETION – OIL SANDS MINING AND UPGRADING

(\$ millions, except per bbl amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense	\$ 15	\$ 10	\$ 8	\$ 33	\$ 22
\$/bbl <sup>(1)</sup>	\$ 0.45	\$ 0.42	\$ 1.13	\$ 0.45	\$ 0.76

(1) Amounts expressed on a per unit basis are based on sales volumes.

Asset retirement obligation accretion expense represents the increase in the carrying amount of the asset retirement obligation due to the passage of time.

Asset retirement obligation accretion expense for the nine months ended September 30, 2017 decreased 41% to \$0.45 per bbl from \$0.76 per bbl for the nine months ended September 30, 2016. Asset retirement obligation accretion expense of \$0.45 per bbl for the third quarter of 2017 decreased 60% from \$1.13 per bbl for the third quarter of 2016 and increased 7% from \$0.42 per bbl for the second quarter of 2017, primarily due to higher overall sales volumes.

## MIDSTREAM

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Revenue	\$ 26	\$ 23	\$ 31	\$ 74	\$ 88
Production expense	4	4	7	12	20
Midstream cash flow	22	19	24	62	68
Depreciation	2	2	3	6	9
Equity (gain) loss on investments	(20)	(10)	4	(32)	(19)
Gain on revaluation of properties <sup>(1)</sup>	(114)	—	—	(114)	—
Segment earnings before taxes	\$ 154	\$ 27	\$ 17	\$ 202	\$ 78

(1) During the third quarter of 2017, the Company recorded a pre-tax revaluation gain of \$114 million (\$83 million after-tax) related to a previously held joint interest in a pipeline system.

The Company has a 50% interest in the Redwater Partnership. Redwater Partnership has entered into agreements to construct and operate a 50,000 barrel per day bitumen upgrader and refinery (the "Project") under processing agreements that target 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 ("APMC"), an agent of the Government of Alberta, under a 30 year fee-for-service tolling agreement.

During 2013, the Company along with APMC, initially committed each to provide funding up to \$350 million by each party by January 2016 in the form of subordinated debt bearing interest at prime plus 6%, based on a facility capital cost ("FCC") budget at \$8,500 million, which was subsequently increased by approximately 11% to approximately \$9,400 million. A higher than expected USD/CAD exchange rate, scope changes, and productivity challenges during construction have resulted in upward budgetary pressures. The cumulative effect of these changes may result in a further increase in FCC of 1% to 2%. Partially offsetting these FCC increases are lower than budgeted interest rates which the Redwater Partnership has been able to lock in to date.

The Company and APMC have agreed, each with a 50% interest, to provide additional subordinated debt as required for Project costs in excess of the FCC of \$8,500 million to reflect an agreed debt to equity ratio of 80/20 and, subject to the Company being able to meet certain funding conditions, to fund any shortfall in available third party commercial lending required to attain Project completion, which is currently targeted for mid-2018. For the nine months ended September 30, 2017, the Company and APMC each contributed an additional \$44 million. The Company's share of any additional subordinated debt financing resulting from the increase in the FCC in excess of \$8,500 million is not expected to be significant. To September 30, 2017, each party has provided \$368 million of subordinated debt, together with accrued interest thereon of \$88 million, for a Company total of \$456 million.

During the second quarter of 2017, Redwater Partnership issued \$750 million of 2.80% series J senior secured bonds due June 2027 and \$750 million of 3.65% series K senior secured bonds due June 2035.

As at September 30, 2017, Redwater Partnership had additional borrowings of \$1,351 million under its secured \$3,500 million syndicated credit facility.

Under its processing agreement, beginning on the earlier of the commercial operations date of the refinery and June 1, 2018, the Company is unconditionally obligated to pay its 25% pro rata share of the debt portion of the monthly cost of service toll, including interest, fees and principal repayments, of the syndicated credit facility and bonds, over the tolling period of 30 years.

Redwater Partnership has entered into various agreements related to the engineering, procurement and construction of the Project. These contracts can be cancelled by Redwater Partnership upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.

## ADMINISTRATION EXPENSE

(\$ millions, except per BOE amounts)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense	\$ 73	\$ 75	\$ 82	\$ 235	\$ 259
\$/BOE <sup>(1)</sup>	\$ 0.75	\$ 0.90	\$ 1.21	\$ 0.91	\$ 1.21

(1) Amounts expressed on a per unit basis are based on sales volumes.

Administration expense on a per BOE basis for the nine months ended September 30, 2017 decreased 25% to \$0.91 per BOE from \$1.21 per BOE for the nine months ended September 30, 2016. Administration expense for the third quarter of 2017 of \$0.75 per BOE decreased 38% from \$1.21 per BOE for the third quarter of 2016 and decreased 17% from \$0.90 per BOE for the second quarter of 2017. Administration expense per BOE decreased for the three and nine months ended September 30, 2017 from comparable periods primarily due to higher overhead recoveries and higher sales volumes.

## SHARE-BASED COMPENSATION

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense (Recovery)	\$ 114	\$ (104)	\$ 74	\$ 37	\$ 313

The Company's Stock Option Plan provides current employees with the right to receive common shares or a cash payment in exchange for stock options surrendered.

The Company recorded a \$37 million share-based compensation expense for the nine months ended September 30, 2017, primarily as a result of remeasurement of the fair value of outstanding stock options related to the impact of normal course graded vesting of stock options granted in prior periods, the impact of vested stock options exercised or surrendered during the period and changes in the Company's share price. For the nine months ended September 30, 2017, the Company charged \$2 million of share-based compensation costs to the Oil Sands Mining and Upgrading segment (September 30, 2016 – \$61 million costs charged).

## INTEREST AND OTHER FINANCING EXPENSE

(\$ millions, except per BOE amounts and interest rates)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Expense, gross	\$ 204	\$ 166	\$ 157	\$ 526	\$ 463
Less: capitalized interest	21	21	67	64	195
Expense, net	\$ 183	\$ 145	\$ 90	\$ 462	\$ 268
\$/BOE <sup>(1)</sup>	\$ 1.90	\$ 1.74	\$ 1.34	\$ 1.79	\$ 1.25
Average effective interest rate	3.7%	3.9%	3.8%	3.8%	3.9%

(1) Amounts expressed on a per unit basis are based on sales volumes.

Gross interest and other financing expense for the three and nine months ended September 30, 2017 increased from the comparable periods primarily due to the impact of higher average debt levels as a result of the acquisition of AOSP and other assets. Capitalized interest of \$64 million for the nine months ended September 30, 2017 was related to the Horizon Phase 3 expansion and the Kirby North project.

Net interest and other financing expense on a per BOE basis for the nine months ended September 30, 2017 increased 43% to \$1.79 per BOE from \$1.25 per BOE for the nine months ended September 30, 2016. Net interest and other financing expense on a per BOE basis for the third quarter of 2017 increased 42% to \$1.90 per BOE from \$1.34 per BOE for the third quarter of 2016 and increased 9% from \$1.74 per BOE for the second quarter of 2017. The increase for the three and nine months ended September 30, 2017 from the comparable periods in 2016 was primarily due to higher average debt levels as a result of the acquisition of AOSP and other assets, and lower capitalized interest related to the completion of Horizon Phase 2B.

The Company's average effective interest rate for the three and nine months ended September 30, 2017 was consistent with the comparable periods.

## RISK MANAGEMENT ACTIVITIES

The Company utilizes various derivative financial instruments to manage its commodity price, interest rate and foreign currency exposures. These derivative financial instruments are not intended for trading or speculative purposes.

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Crude oil and NGLs financial instruments	\$ (14)	\$ (17)	\$ —	\$ (32)	\$ —
Natural gas financial instruments	(4)	(1)	—	(5)	—
Foreign currency contracts	114	5	(23)	108	22
Realized loss (gain)	96	(13)	(23)	71	22
Crude oil and NGLs financial instruments	66	(30)	—	(7)	—
Natural gas financial instruments	1	(1)	(2)	(8)	(2)
Foreign currency contracts	(59)	25	12	(23)	34
Unrealized loss (gain)	8	(6)	10	(38)	32
Net loss (gain)	\$ 104	\$ (19)	\$ (13)	\$ 33	\$ 54

During the nine months ended September 30, 2017, net realized risk management losses were primarily related to the settlement of foreign currency contracts, partially offset by the settlement of crude oil price collars. The Company recorded a net unrealized gain of \$38 million (\$35 million after-tax) on its risk management activities for the nine months ended September 30, 2017, including an unrealized loss of \$8 million (\$6 million gain after-tax) for the third quarter of 2017 (June 30, 2017 – unrealized gain of \$6 million, \$2 million loss after-tax; September 30, 2016 – unrealized loss of \$10 million, \$11 million after-tax).

Further details related to outstanding derivative financial instruments at September 30, 2017 are disclosed in note 15 to the Company's unaudited interim consolidated financial statements.

## FOREIGN EXCHANGE

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net realized loss	\$ 37	\$ 8	\$ 12	\$ 49	\$ 40
Net unrealized (gain) loss	(404)	(355)	39	(819)	(255)
Net (gain) loss <sup>(1)</sup>	\$ (367)	\$ (347)	\$ 51	\$ (770)	\$ (215)

(1) Amounts are reported net of the hedging effect of cross currency swaps.

The net realized foreign exchange loss for the nine months ended September 30, 2017 was primarily due to foreign exchange rate fluctuations on settlement of working capital items denominated in US dollars or UK pounds sterling. The net unrealized foreign exchange gain for the nine months ended September 30, 2017 was primarily related to the impact of a stronger Canadian dollar with respect to outstanding US dollar debt. The net unrealized gain for each of the periods presented included the impact of cross currency swaps (three months ended September 30, 2017 – unrealized loss of \$50 million, June 30, 2017 – unrealized loss of \$208 million, September 30, 2016 – unrealized loss of \$23 million; nine months ended September 30, 2017 – unrealized loss of \$281 million, September 30, 2016 – unrealized loss of \$362 million). The US/Canadian dollar exchange rate at September 30, 2017 was US\$0.7994 (June 30, 2017 – US\$0.7703, September 30, 2016 – US\$0.7624).

## INCOME TAXES

(\$ millions, except income tax rates)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
North America <sup>(1)</sup>	\$ (43)	\$ (47)	\$ (168)	\$ (52)	\$ (355)
North Sea	11	30	(43)	47	(74)
Offshore Africa	14	7	5	28	17
PRT recovery – North Sea	(34)	(72)	(77)	(107)	(163)
Other taxes	2	3	2	8	6
Current income tax recovery	(50)	(79)	(281)	(76)	(569)
Deferred corporate income tax expense (recovery)	141	110	(32)	279	(51)
Deferred PRT expense (recovery) – North Sea	7	52	50	67	(144)
Deferred income tax expense (recovery)	148	162	18	346	(195)
	98	83	(263)	270	(764)
Income tax rate and other legislative changes <sup>(2)</sup>	—	—	107	—	221
	\$ 98	\$ 83	\$ (156)	\$ 270	\$ (543)
Effective income tax rate on adjusted net earnings (loss) from operations <sup>(3)</sup>	32%	20%	27%	24%	30%

(1) Includes North America Exploration and Production, Midstream, and Oil Sands Mining and Upgrading segments.

(2) During the third quarter of 2016, the UK government enacted legislation to reduce the supplementary charge on oil and gas profits from 20% to 10% effective January 1, 2016, resulting in a decrease in the Company's deferred corporate income tax liability of \$107 million. During the first quarter of 2016 the UK government enacted tax rate reductions relating to PRT, resulting in a decrease in the Company's net deferred income tax liability of \$114 million.

(3) Excludes the impact of current and deferred PRT expense and other current income tax expense.

The effective income tax rate for the three and nine months ended September 30, 2017 and the comparable periods included the impact of non-taxable items in North America and the North Sea and the impact of differences in jurisdictional income (loss) and tax rates in the countries in which the Company operates, in relation to net earnings (loss).

The current PRT recovery in the North Sea for the three and nine months ended September 30, 2017 and the comparable periods included the impact of carrybacks of abandonment expenditures related to the Murchison and Ninian North platforms.

The Company files income tax returns in the various jurisdictions in which it operates. These tax returns are subject to periodic examinations in the normal course by the applicable tax authorities. The tax returns as prepared may include filing positions that could be subject to differing interpretations of applicable tax laws and regulations, which may take several years to resolve. The Company does not believe the ultimate resolution of these matters will have a material impact upon the Company's results of operations, financial position or liquidity.

For 2017, the Company expects to recognize current income tax recoveries ranging from \$50 million to \$150 million in Canada and \$20 million to \$60 million in the North Sea and Offshore Africa.

## NET CAPITAL EXPENDITURES <sup>(1)</sup>

(\$ millions)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Exploration and Evaluation</b>					
Net expenditures (proceeds) <sup>(2) (3) (4)</sup>	\$ 66	\$ 30	\$ —	\$ 133	\$ (10)
<b>Property, Plant and Equipment</b>					
Net property acquisitions <sup>(2) (3) (4)</sup>	820	371	17	1,200	158
Well drilling, completion and equipping	241	208	186	789	512
Production and related facilities	241	194	104	602	319
Capitalized interest and other <sup>(5)</sup>	22	21	20	64	65
Net expenditures	1,324	794	327	2,655	1,054
Total Exploration and Production	1,390	824	327	2,788	1,044
<b>Horizon Oil Sands Mining and Upgrading</b>					
Horizon Phases 2/3 construction costs	252	182	400	573	1,405
Sustaining capital	150	77	151	294	303
Turnaround costs	73	10	103	84	138
Capitalized interest and other <sup>(5)</sup>	33	(3)	77	50	244
Total Horizon Oil Sands Mining and Upgrading	508	266	731	1,001	2,090
<b>Athabasca Oil Sands Project</b>					
Acquisitions of Exploration and Evaluation assets <sup>(2) (4)</sup>	—	219	—	219	—
Net property acquisitions <sup>(2) (4)</sup>	—	11,604	—	11,604	—
Sustaining capital	45	8	—	53	—
Turnaround costs	2	—	—	2	—
Total Athabasca Oil Sands Project	47	11,831	—	11,878	—
Total Oil Sands Mining and Upgrading	555	12,097	731	12,879	2,090
<b>Midstream</b>	76	1	2	78	4
<b>Abandonments</b> <sup>(6)</sup>	65	105	122	211	232
<b>Head office</b>	8	19	3	30	13
Total net capital expenditures	\$ 2,094	\$ 13,046	\$ 1,185	\$ 15,986	\$ 3,383
<b>By segment</b>					
North America <sup>(2) (3) (4)</sup>	\$ 1,327	\$ 765	\$ 259	\$ 2,612	\$ 827
North Sea	32	41	63	108	89
Offshore Africa	31	18	5	68	128
Oil Sands Mining and Upgrading <sup>(4)</sup>	555	12,097	731	12,879	2,090
Midstream	76	1	2	78	4
Abandonments <sup>(6)</sup>	65	105	122	211	232
Head office	8	19	3	30	13
Total	\$ 2,094	\$ 13,046	\$ 1,185	\$ 15,986	\$ 3,383

(1) Net capital expenditures exclude adjustments related to differences between carrying amounts and tax values and other fair value and revaluation adjustments, and include non-cash transfers of property, plant and equipment to inventory due to change in use.

(2) Includes Business Combinations.

(3) Includes proceeds from the Company's disposition of properties.

(4) Total purchase consideration for the acquisition of interests in AOSP of \$12,157 million includes \$26 million of exploration and evaluation assets and \$308 million of property, plant and equipment within the North America segment, and \$219 million of exploration and evaluation assets and \$11,604 million of property, plant and equipment within the Oil Sands Mining and Upgrading segment.

(5) Capitalized interest and other includes expenditures related to land acquisition and retention, seismic, and other adjustments.

(6) Abandonments represent expenditures to settle asset retirement obligations and have been reflected as capital expenditures in this table.

The Company's strategy is focused on building a diversified asset base that is balanced among various products. In order to facilitate efficient operations, the Company concentrates its activities in core areas. The Company focuses on maintaining its land inventories to enable the continuous exploitation of play types and geological trends, greatly reducing overall exploration risk. By owning associated infrastructure, the Company is able to maximize utilization of its production facilities, thereby increasing control over production costs.

Net capital expenditures for the nine months ended September 30, 2017 were \$15,986 million compared with \$3,383 million for the nine months ended September 30, 2016. Net capital expenditures for the third quarter of 2017 were \$2,094 million, compared with \$1,185 million for the third quarter of 2016 and \$13,046 million for the second quarter of 2017.

Included in net capital expenditures for the nine months ended September 30, 2017 was \$12,157 million related to the acquisition of AOSP and other assets in the second quarter of 2017 and \$921 million related to the acquisition of assets in the Greater Pelican Lake region and other miscellaneous assets in the third quarter of 2017.

## Drilling Activity

(number of net wells)	Three Months Ended			Nine Months Ended	
	Sep 30 2017	Jun 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net successful natural gas wells	3	5	—	19	5
Net successful crude oil wells <sup>(1)</sup>	154	61	85	370	93
Dry wells	1	2	4	4	4
Stratigraphic test / service wells	6	6	6	238	206
Total	164	74	95	631	308
Success rate (excluding stratigraphic test / service wells)	99%	97%	96%	99%	96%

(1) Includes bitumen wells.

## North America

North America, excluding Oil Sands Mining and Upgrading, accounted for approximately 17% of the total net capital expenditures for the nine months ended September 30, 2017 compared with approximately 26% for the nine months ended September 30, 2016.

During the third quarter of 2017, the Company targeted 3 net natural gas wells in Northwest Alberta. The Company also targeted 155 net crude oil wells. The majority of these wells were concentrated in the Company's Northern Plains region where 136 primary heavy crude oil wells, 6 Pelican Lake heavy crude oil wells and 10 bitumen (thermal oil) wells were drilled. Another 3 wells targeting light crude oil were drilled outside the Northern Plains region.

Overall thermal oil production for the third quarter of 2017 averaged approximately 122,400 bbl/d compared with approximately 103,500 bbl/d for the third quarter of 2016 and approximately 105,700 bbl/d for the second quarter of 2017. Production volumes in the third quarter of 2017 primarily reflected strong thermal oil production following the successful turnarounds at Primrose and Kirby South plants in the second quarter of 2017 and added production volumes as a result of the acquisition of the other assets on May 31, 2017.

Pelican Lake production for the third quarter of 2017 averaged approximately 47,600 bbl/d, comparable with 47,600 bbl/d in the third quarter of 2016 and 46,900 bbl/d in the second quarter of 2017.

## Horizon Oil Sands Mining and Upgrading

Horizon Phase 3 expansion work continued with field construction of the combined hydrotreater and sulphur recovery units and completion of all major tie-ins. Phase 3 expansion is on schedule and within cost, with commissioning and startup targeted in the fourth quarter of 2017.

## North Sea

During the third quarter of 2017, the Company continued to progress the abandonment of the Murchison and Ninian North platforms.

## Offshore Africa

During the third quarter of 2017, the Company successfully completed the 18 day turnaround at Baobab ahead of schedule.

## LIQUIDITY AND CAPITAL RESOURCES

(\$ millions, except ratios)	Sep 30 2017	Jun 30 2017	Dec 31 2016	Sep 30 2016
Working capital <sup>(1)</sup>	\$ 205	\$ 876	\$ 1,056	\$ 489
Long-term debt <sup>(2) (3)</sup>	\$ 22,921	\$ 23,276	\$ 16,805	\$ 17,292
Share capital	\$ 8,844	\$ 8,771	\$ 4,671	\$ 4,367
Retained earnings	22,552	22,203	21,526	21,237
Accumulated other comprehensive (loss) income	(57)	12	70	40
Shareholders' equity	\$ 31,339	\$ 30,986	\$ 26,267	\$ 25,644
Debt to book capitalization <sup>(3) (4)</sup>	42%	43%	39%	40%
Debt to market capitalization <sup>(3) (5)</sup>	31%	34%	26%	27%
After-tax return on average common shareholders' equity <sup>(6)</sup>	9%	6%	(1)%	(2)%
After-tax return on average capital employed <sup>(3) (7)</sup>	6%	4%	0%	(1)%

(1) Calculated as current assets less current liabilities, excluding the current portion of long-term debt.

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

(3) Long-term debt is stated at its carrying value, net of fair value adjustments, original issue discounts and premiums and transaction costs.

(4) Calculated as current and long-term debt; divided by the book value of common shareholders' equity plus current and long-term debt.

(5) Calculated as current and long-term debt; divided by the market value of common shareholders' equity plus current and long-term debt.

(6) Calculated as net earnings (loss) for the twelve month trailing period; as a percentage of average common shareholders' equity for the period.

(7) Calculated as net earnings (loss) plus after-tax interest and other financing expense for the twelve month trailing period; as a percentage of average capital employed for the period.



At September 30, 2017, the Company's capital resources consisted primarily of funds flow from operations, available bank credit facilities and access to debt capital markets. Funds flow from operations and the Company's ability to renew existing bank credit facilities and raise new debt is dependent on factors discussed in the "Risks and Uncertainties" section of the Company's annual MD&A for the year ended December 31, 2016. In addition, the Company's ability to renew existing bank credit facilities and raise new debt reflects current credit ratings as determined by independent rating agencies, and the conditions of the market. The Company continues to believe that its internally generated funds flow from operations supported by the implementation of its ongoing hedge policy, the flexibility of its capital expenditure programs and multi-year financial plans, its existing bank credit facilities, and its ability to raise new debt on commercially acceptable terms will provide sufficient liquidity to sustain its operations in the short, medium and long term and support its growth strategy.

On an ongoing basis the Company continues to focus on its balance sheet strength and available liquidity by:

- Monitoring funds flow from operations, which is the primary source of funds;
- Actively managing the allocation of maintenance and growth capital to ensure it is expended in a prudent and appropriate manner with flexibility to adjust to market conditions. In response to the current commodity price environment, the Company continues to exercise its capital flexibility to address commodity price volatility and its impact on operating expenditures, capital commitments and long-term debt;
- Reviewing the Company's borrowing capacity:
  - During the second quarter of 2017, the Company extended \$2,095 million of the \$2,425 million revolving syndicated credit facility originally due June 2019 to June 2021. The remaining \$330 million outstanding under this facility continues under the previous terms and matures in June 2019. The other \$2,425 million revolving credit facility matures in June 2020. The revolving 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 these facilities may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans.
  - During the second quarter of 2017, the \$1,500 million non-revolving term credit facility was increased to \$2,200 million and the maturity date was extended to October 2019 from April 2018. Borrowings under the \$2,200 million non-revolving credit facility may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans. As at September 30, 2017, the \$2,200 million facility was fully drawn.
  - Borrowings under the \$750 million and \$125 million non-revolving credit facilities may be made by way of pricing referenced to Canadian dollar bankers' acceptances or Canadian prime loans. As at September 30, 2017, the \$750 million and \$125 million facilities were each fully drawn.
  - In addition to the credit facilities described above, during the second quarter of 2017, the Company entered into a \$3,000 million non-revolving term loan facility to finance the acquisition of AOSP and other assets. This facility matures in May 2020 and is subject to annual amortization of 5% of the original balance. Borrowings under the term loan facility may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans. The facility also supports a US\$375 million letter of credit relating to the deferred purchase consideration payable to Marathon in March 2018. As at September 30, 2017, the \$3,000 million facility was fully drawn.
  - During the second quarter of 2017, the Company issued \$900 million of 2.05% medium-term notes due June 2020, \$600 million of 3.42% medium-term notes due December 2026 and \$300 million of 4.85% medium-term notes due May 2047. Proceeds from the securities were used to finance the acquisition of AOSP and other assets. In July 2017, 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 2019. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market condition at the time of issuance.
  - During the second quarter of 2017, the Company repaid US\$1,100 million of 5.70% notes. In addition, the Company issued US\$1,000 million of 2.95% notes due January 2023, US\$1,250 million of 3.85% notes due June 2027 and US\$750 million of 4.95% notes due June 2047. Proceeds from the debt securities were used to finance the acquisition of AOSP and other assets. In July 2017, the Company filed a 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 2019. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market condition at the time of issuance.

- The Company's borrowings under its US commercial paper program are authorized up to a maximum of US \$2,500 million. The Company reserves capacity under its bank credit facilities for amounts outstanding under this program.
- Reviewing bank credit facilities and public debt indentures to ensure they are in compliance with applicable covenant packages; and
- Monitoring exposure to individual customers, contractors, suppliers and joint venture partners on a regular basis and when appropriate, ensuring parental guarantees or letters of credit are in place, and as applicable, taking other mitigating actions to minimize the impact in the event of a default.

As at September 30, 2017, the Company had in place bank credit facilities of \$11,050 million, of which \$3,636 million was available, resulting in liquidity of \$3,948 million, including cash and cash equivalents. This excludes certain other dedicated credit facilities supporting letters of credit.

At September 30, 2017, the Company had total US dollar denominated debt with a carrying amount of \$13,555 million (US\$10,837 million), before transaction costs and original issue discounts. This included \$4,047 million (US\$3,237 million) hedged by way of cross currency swaps (US\$1,050 million) and foreign currency forwards (US\$2,187 million). The fixed repayment amount of these hedging instruments is \$3,869 million, resulting in a notional reduction of the carrying amount of the Company's US dollar denominated debt by approximately \$178 million to \$13,377 million as at September 30, 2017.

Long-term debt was \$22,921 million at September 30, 2017, resulting in a debt to book capitalization ratio of 42% (December 31, 2016 – 39%, September 30, 2016 – 40%); this ratio is within the 25% to 45% internal range utilized by management. 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 funds flow from operations is greater than current investment activities. The Company remains committed to maintaining a strong balance sheet, adequate available liquidity and a flexible capital structure. In connection with the acquisition of AOSP and other assets, the Company arranged acquisition financing of \$1.8 billion of medium-term notes in Canada, US\$3 billion of long-term notes in the United States and a \$3 billion term loan facility. See note 8 in the unaudited interim consolidated financial statements.

Further details related to the Company's long-term debt at September 30, 2017 are discussed in note 8 to the Company's unaudited interim consolidated financial statements.

The Company's commodity hedge policy reduces the risk of volatility in commodity prices and supports the Company's cash flow for its capital expenditure programs. This policy currently allows for the hedging of up to 60% of the near 12 months budgeted production and up to 40% of the following 13 to 24 months estimated production. For the purpose of this policy, the purchase of put options is in addition to the above parameters. At September 30, 2017, 50,000 GJ/d of currently forecasted natural gas volumes were hedged using AECO swaps for October 2017 and 67,500 bbl/d of currently forecasted crude oil volumes were hedged using WTI collars for October 2017 to December 2017. Further details related to the Company's commodity derivative financial instruments at September 30, 2017 are discussed in note 15 to the Company's unaudited interim consolidated financial statements.

### **Share Capital**

As at September 30, 2017, there were 1,216,863,000 common shares outstanding (December 31, 2016 – 1,110,952,000 common shares) and 55,617,000 stock options outstanding. As at October 31, 2017, the Company had 1,218,140,000 common shares outstanding and 54,073,000 stock options outstanding.

On March 1, 2017, the Board of Directors approved an increase in the quarterly dividend to \$0.275 per common share, beginning with the dividend payable on April 1, 2017. On November 2, 2016, the Board of Directors approved an increase in the quarterly dividend to \$0.25 per common share (previous quarterly dividend rate of \$0.23 per common share), beginning with the dividend payable on January 1, 2017. The dividend policy undergoes periodic review by the Board of Directors and is subject to change.

On May 16, 2017, 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 27,931,135 common shares, over a 12 month period commencing May 23, 2017 and ending May 22, 2018. For the nine months ended September 30, 2017, the Company did not purchase any common shares for cancellation.

## COMMITMENTS AND OFF BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company has entered into various commitments that will have an impact on the Company's future operations. In connection with the acquisition of AOSP and other assets, the Company also assumed certain pipeline and other commitments. The following table summarizes the Company's commitments as at September 30, 2017:

(\$ millions)	Remaining 2017	2018	2019	2020	2021	Thereafter
Product transportation and pipeline	\$ 172	\$ 648	\$ 499	\$ 476	\$ 445	\$ 4,065
Offshore equipment operating leases and offshore drilling	\$ 54	\$ 181	\$ 92	\$ 69	\$ 68	\$ 8
Long-term debt <sup>(1)</sup>	\$ 625	\$ 1,401	\$ 4,280	\$ 4,506	\$ 910	\$ 11,344
Interest and other financing expense <sup>(2)</sup>	\$ 181	\$ 815	\$ 751	\$ 638	\$ 560	\$ 5,893
Office leases	\$ 12	\$ 45	\$ 43	\$ 42	\$ 40	\$ 152
Other	\$ 33	\$ 45	\$ 40	\$ 39	\$ 39	\$ 359

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

(2) Interest and other financing expense amounts represent the scheduled fixed rate and variable rate cash interest payments related to long-term debt. Interest on variable rate long-term debt was estimated based upon prevailing interest rates and foreign exchange rates as at September 30, 2017.

In addition to the commitments disclosed above, the Company has entered into various agreements related to the engineering, procurement and construction of Horizon and Kirby North. 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.

## LEGAL PROCEEDINGS AND OTHER CONTINGENCIES

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.

## CHANGES IN ACCOUNTING POLICIES

For the impact of new accounting standards, refer to the audited consolidated financial statements for the year ended December 31, 2016 and the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2017.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the Company to make estimates, assumptions and judgements in the application of IFRS that have a significant impact on the financial results of the Company. Actual results could differ from estimated amounts, and those differences may be material. A comprehensive discussion of the Company's significant accounting estimates is contained in the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2016.

## CONSOLIDATED BALANCE SHEETS

As at (millions of Canadian dollars, unaudited)	Note	Sep 30 2017	Dec 31 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 312	\$ 17
Accounts receivable		1,481	1,434
Current income taxes receivable		184	851
Inventory		877	689
Prepays and other		291	149
Investments	6	888	913
Current portion of other long-term assets	7	88	283
		4,121	4,336
<b>Exploration and evaluation assets</b>	3	<b>2,638</b>	2,382
<b>Property, plant and equipment</b>	4	<b>65,135</b>	50,910
<b>Other long-term assets</b>	7	<b>1,094</b>	1,020
		\$ 72,988	\$ 58,648
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable		\$ 794	\$ 595
Accrued liabilities		2,292	2,222
Current portion of long-term debt	8	1,875	1,812
Current portion of other long-term liabilities	9	830	463
		5,791	5,092
<b>Long-term debt</b>	8	<b>21,046</b>	14,993
<b>Other long-term liabilities</b>	9	<b>4,129</b>	3,223
<b>Deferred income taxes</b>		<b>10,683</b>	9,073
		41,649	32,381
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b>	11	<b>8,844</b>	4,671
<b>Retained earnings</b>		<b>22,552</b>	21,526
<b>Accumulated other comprehensive income (loss)</b>	12	<b>(57)</b>	70
		31,339	26,267
		\$ 72,988	\$ 58,648

Commitments and contingencies (note 16).

Approved by the Board of Directors on November 1, 2017.

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(millions of Canadian dollars, except per common share amounts, unaudited)	Note	Three Months Ended		Nine Months Ended	
		Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Product sales		\$ 4,547	\$ 2,477	\$ 12,346	\$ 7,426
Less: royalties		(259)	(142)	(705)	(361)
<b>Revenue</b>		<b>4,288</b>	<b>2,335</b>	<b>11,641</b>	<b>7,065</b>
<b>Expenses</b>					
Production		1,577	994	3,951	3,007
Transportation, blending and feedstock		705	444	1,930	1,445
Depletion, depreciation and amortization	4	1,271	1,216	3,780	3,609
Administration		73	82	235	259
Share-based compensation	9	114	74	37	313
Asset retirement obligation accretion	9	44	36	119	107
Interest and other financing expense		183	90	462	268
Risk management activities	15	104	(13)	33	54
Foreign exchange (gain) loss		(367)	51	(770)	(215)
Gain on acquisition, disposition and revaluation of properties	3, 4, 5	(114)	—	(379)	(32)
Gain from investments	6, 7	(84)	(50)	(28)	(216)
		<b>3,506</b>	<b>2,924</b>	<b>9,370</b>	<b>8,599</b>
<b>Earnings (loss) before taxes</b>		<b>782</b>	<b>(589)</b>	<b>2,271</b>	<b>(1,534)</b>
Current income tax recovery	10	(50)	(281)	(76)	(569)
Deferred income tax expense (recovery)	10	148	18	346	(195)
<b>Net earnings (loss)</b>		<b>\$ 684</b>	<b>\$ (326)</b>	<b>\$ 2,001</b>	<b>\$ (770)</b>
<b>Net earnings (loss) per common share</b>					
Basic	14	\$ 0.56	\$ (0.29)	\$ 1.72	\$ (0.70)
Diluted	14	\$ 0.56	\$ (0.29)	\$ 1.71	\$ (0.70)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(millions of Canadian dollars, unaudited)	Three Months Ended		Nine Months Ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Net earnings (loss)</b>	<b>\$ 684</b>	<b>\$ (326)</b>	<b>\$ 2,001</b>	<b>\$ (770)</b>
<b>Items that may be reclassified subsequently to net earnings (loss)</b>				
<b>Net change in derivative financial instruments designated as cash flow hedges</b>				
Unrealized income (loss) during the period, net of taxes of				
\$3 million (2016 – \$1 million) – three months ended;				
\$9 million (2016 – \$1 million) – nine months ended	21	(5)	60	(4)
Reclassification to net earnings (loss), net of taxes of				
\$1 million (2016 – \$1 million) – three months ended;				
\$4 million (2016 – \$nil) – nine months ended	(7)	(10)	(29)	(3)
	14	(15)	31	(7)
<b>Foreign currency translation adjustment</b>				
Translation of net investment	(83)	19	(158)	(28)
<b>Other comprehensive income (loss), net of taxes</b>	<b>(69)</b>	<b>4</b>	<b>(127)</b>	<b>(35)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 615</b>	<b>\$ (322)</b>	<b>\$ 1,874</b>	<b>\$ (805)</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars, unaudited)	Note	Nine Months Ended	
		Sep 30 2017	Sep 30 2016
<b>Share capital</b>	11		
Balance – beginning of period		\$ 4,671	\$ 4,541
Issued for the acquisition of AOSP and other assets <sup>(1)</sup>	5, 11	3,818	—
Issued upon exercise of stock options		280	321
Previously recognized liability on stock options exercised for common shares		75	51
Return of capital on PrairieSky Royalty Ltd. share distribution		—	(546)
Balance – end of period		8,844	4,367
<b>Retained earnings</b>			
Balance – beginning of period		21,526	22,765
Net earnings (loss)		2,001	(770)
Dividends on common shares	11	(975)	(758)
Balance – end of period		22,552	21,237
<b>Accumulated other comprehensive income (loss)</b>	12		
Balance – beginning of period		70	75
Other comprehensive loss, net of taxes		(127)	(35)
Balance – end of period		(57)	40
<b>Shareholders' equity</b>		\$ 31,339	\$ 25,644

(1) In connection with the acquisition of direct and indirect interests in the Athabasca Oil Sands Project ("AOSP") and other assets, the Company issued non-cash share consideration of \$3,818 million in the second quarter of 2017. See note 5.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars, unaudited)	Note	Three Months Ended		Nine Months Ended	
		Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
<b>Operating activities</b>					
Net earnings (loss)		\$ 684	\$ (326)	\$ 2,001	\$ (770)
Non-cash items					
Depletion, depreciation and amortization		1,271	1,216	3,780	3,609
Share-based compensation		114	74	37	313
Asset retirement obligation accretion		44	36	119	107
Unrealized risk management loss (gain)		8	10	(38)	32
Unrealized foreign exchange (gain) loss		(404)	39	(819)	(255)
Gain from investments	6, 7	(76)	(46)	(7)	(193)
Deferred income tax expense (recovery)		148	18	346	(195)
Gain on acquisition, disposition and revaluation of properties	3, 4, 5	(114)	—	(379)	(32)
Other		(6)	14	(13)	38
Abandonment expenditures		(65)	(122)	(211)	(232)
Net change in non-cash working capital		918	(14)	1,008	(225)
		<b>2,522</b>	<b>899</b>	<b>5,824</b>	<b>2,197</b>
<b>Financing activities</b>					
(Repayment) issue of bank credit facilities and commercial paper, net	8	(22)	(684)	2,612	1,048
Issue of medium-term notes, net	8	—	998	1,791	998
(Repayment) issue of US dollar debt securities, net	8	—	(279)	2,733	(834)
Issue of common shares on exercise of stock options		56	170	280	321
Dividends on common shares		(334)	(252)	(917)	(504)
		<b>(300)</b>	<b>(47)</b>	<b>6,499</b>	<b>1,029</b>
<b>Investing activities</b>					
Net (expenditures) proceeds on exploration and evaluation assets		(67)	—	(108)	10
Net expenditures on property, plant and equipment		(1,962)	(1,063)	(3,510)	(3,161)
Acquisition of AOSP and other assets, net of cash acquired <sup>(1)</sup>	5	—	—	(8,630)	—
Investment in other long-term assets		(21)	—	(44)	(99)
Net change in non-cash working capital		90	206	264	(26)
		<b>(1,960)</b>	<b>(857)</b>	<b>(12,028)</b>	<b>(3,276)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>262</b>	<b>(5)</b>	<b>295</b>	<b>(50)</b>
<b>Cash and cash equivalents – beginning of period</b>		<b>50</b>	<b>24</b>	<b>17</b>	<b>69</b>
<b>Cash and cash equivalents – end of period</b>		<b>\$ 312</b>	<b>\$ 19</b>	<b>\$ 312</b>	<b>\$ 19</b>
<b>Interest paid, net</b>		<b>\$ 218</b>	<b>\$ 194</b>	<b>\$ 540</b>	<b>\$ 499</b>
<b>Income taxes received</b>		<b>\$ (479)</b>	<b>\$ (327)</b>	<b>\$ (804)</b>	<b>\$ (440)</b>

(1) The acquisition of AOSP in the second quarter of 2017 includes net working capital of \$291 million and excludes non-cash share consideration of \$3,818 million. See note 5.

## 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, Gabon, 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, the Company maintains certain midstream activities that include pipeline operations, an electricity co-generation system and an investment in the North West Redwater Partnership ("Redwater Partnership"), a general partnership formed 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, 2016. 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, 2016.

### 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

In June 2017, the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments". The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes where IAS 12 is unclear. The interpretation is effective January 1, 2019. The Company is assessing the impact of this interpretation on its consolidated financial statements.

### 3. EXPLORATION AND EVALUATION ASSETS

	Exploration and Production			Oil Sands Mining and Upgrading	Total
	North America	North Sea	Offshore Africa		
<b>Cost</b>					
At December 31, 2016	\$ 2,306	\$ —	\$ 76	\$ —	2,382
Additions	133	—	10	—	143
Acquisition of AOSP and other assets (note 5)	31	—	—	259	290
Transfers to property, plant and equipment	(176)	—	—	—	(176)
Disposals/derecognitions	(1)	—	—	—	(1)
At September 30, 2017	\$ 2,293	\$ —	\$ 86	\$ 259	2,638

On May 31, 2017, the Company completed the acquisition of AOSP and other assets in the Oil Sands Mining and Upgrading and North America Exploration and Production segments, including exploration and evaluation assets of \$290 million. Refer to note 5 regarding the acquisition of AOSP and other assets.

During the nine months ended September 30, 2017, the Company disposed of certain North America exploration and evaluation assets with a net book value of \$1 million for consideration of \$36 million, resulting in a pre-tax cash gain on sale of properties of \$35 million.



#### 4. PROPERTY, PLANT AND EQUIPMENT

	Exploration and Production			Oil Sands Mining and Upgrading	Midstream	Head Office	Total
	North America	North Sea	Offshore Africa				
<b>Cost</b>							
At December 31, 2016	\$ 61,647	\$ 7,380	\$ 5,132	\$ 27,038	\$ 234	\$ 395	\$ 101,826
Additions <sup>(1)</sup>	2,390	128	62	1,025	192	30	3,827
Acquisition of AOSP and other assets (note 5)	349	—	—	13,832	—	—	14,181
Transfers from E&E assets	176	—	—	—	—	—	176
Disposals/derecognitions	(279)	—	—	(58)	—	—	(337)
Foreign exchange adjustments and other	—	(511)	(356)	—	—	—	(867)
At September 30, 2017	\$ 64,283	\$ 6,997	\$ 4,838	\$ 41,837	\$ 426	\$ 425	\$ 118,806
<b>Accumulated depletion and depreciation</b>							
At December 31, 2016	\$ 38,311	\$ 5,584	\$ 3,797	\$ 2,828	\$ 115	\$ 281	\$ 50,916
Expense	2,375	473	153	756	6	17	3,780
Disposals/derecognitions	(279)	—	—	(58)	—	—	(337)
Foreign exchange adjustments and other	(5)	(429)	(272)	18	—	—	(688)
At September 30, 2017	\$ 40,402	\$ 5,628	\$ 3,678	\$ 3,544	\$ 121	\$ 298	\$ 53,671
<b>Net book value</b>							
- at September 30, 2017	\$ 23,881	\$ 1,369	\$ 1,160	\$ 38,293	\$ 305	\$ 127	\$ 65,135
- at December 31, 2016	\$ 23,336	\$ 1,796	\$ 1,335	\$ 24,210	\$ 119	\$ 114	\$ 50,910

(1) Additions in Midstream include the revaluation of a previously held joint interest in certain pipeline system assets.

Project costs not subject to depletion and depreciation	Sep 30 2017	Dec 31 2016
Kirby Thermal Oil Sands – North	\$ 902	\$ 846

On May 31, 2017, the Company completed the acquisition of AOSP and other assets in the Oil Sands Mining and Upgrading and North America Exploration and Production segments, including property, plant and equipment of \$14,181 million. Refer to note 5 regarding the acquisition of AOSP and other assets.

During the nine months ended September 30, 2017, the Company acquired a number of other producing crude oil and natural gas properties in the North America Exploration and Production segment, including exploration and evaluation assets of \$27 million, along with the remaining interest in certain pipeline system assets in the Midstream segment, for net cash consideration of \$994 million. These transactions were accounted for using the acquisition method of accounting. In connection with these acquisitions, the Company assumed associated asset retirement obligations of \$62 million. No net deferred income tax liabilities were recognized on these acquisitions.

Further, in connection with the acquisition of pipeline system assets in the Midstream segment, the Company recognized a pre-tax revaluation gain of \$114 million (\$83 million after-tax) related to a previously held joint interest in the pipeline.

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, 2017, pre-tax interest of \$64 million (September 30, 2016 – \$195 million) was capitalized to property, plant and equipment using a weighted average capitalization rate of 3.8% (September 30, 2016 – 3.9%).

## 5. ACQUISITION OF INTERESTS IN THE ATHABASCA OIL SANDS PROJECT AND OTHER ASSETS

On May 31, 2017, the Company completed the acquisition of a direct and indirect 70% interest in AOSP from Shell Canada Limited and certain subsidiaries ("Shell") and an affiliate of Marathon Oil Corporation ("Marathon"), including a 70% interest in the mining and extraction operations north of Fort McMurray, Alberta, 70% of the Scotford Upgrader and Quest Carbon Capture and Storage ("CCS") project, and a 100% working interest in the Peace River thermal in situ operations and Cliffdale heavy oil field, as well as other oil sands leases. The Company also assumed certain pipeline and other commitments (see note 16). The Company consolidates its direct and indirect interest in the assets, liabilities, revenue and expenses of AOSP and other assets in proportion to the Company's interests.

Total purchase consideration of \$12,541 million, subject to closing adjustments, was comprised of cash payments of \$8,217 million, approximately 97.6 million common shares of the Company issued to Shell with a fair value of approximately \$3,818 million, and deferred purchase consideration of \$506 million (US\$375 million) payable to Marathon in March 2018. The fair value of the Company's common shares was determined using the market price of the shares as at the acquisition date.

In connection with the acquisition of AOSP and other assets, the Company arranged acquisition financing of \$1.8 billion of medium-term notes in Canada, US\$3 billion of long-term notes in the United States and a \$3 billion non-revolving term loan facility (see note 8).

The acquisition has been accounted for as a business combination using the acquisition method of accounting. The allocation of the purchase price was based on management's best estimates of the fair value of the assets and liabilities acquired as at the acquisition date. Key assumptions used in the determination of estimated fair value were future commodity prices, expected production volumes, quantity of reserves, asset retirement obligations, future development and operating costs, discount rates, income taxes and foreign exchange rates. The fair value of accounts receivable, inventory, accounts payable and accrued liabilities approximate their carrying values due to the liquid nature of the assets and liabilities.

The following provides a summary of the net assets acquired and (liabilities) assumed relating to the acquisition:

Cash	\$	93
Other working capital		291
Property, plant and equipment		14,181
Exploration and evaluation assets		290
Asset retirement obligations		(721)
Other long-term liabilities		(73)
Deferred income taxes		(1,287)
Net assets acquired	\$	12,774
<hr/>		
Total purchase consideration		12,541
Gain on acquisition before transaction costs	\$	233

The Company recognized a gain of \$230 million, net of transaction costs of \$3 million, representing the excess of the fair value of the net assets acquired compared to total purchase consideration. The above amounts are estimates, and may be subject to change based on the receipt of new information.

As a result of the acquisitions, revenue increased by \$1,536 million to \$11,641 million and net operating income (comprised of revenue less production, and transportation, blending, and feedstock expense) increased by \$620 million to \$5,760 million for the nine months ended September 30, 2017. If the acquisitions had occurred on January 1, 2017, the Company estimates that pro forma revenue would have increased by \$2,181 million to \$13,822 million and pro forma net operating income would have increased by \$735 million to \$6,495 million for the nine months ended September 30, 2017. Readers are cautioned that pro forma revenue and pro forma net operating income are not necessarily indicative of the results of operations that would have resulted had the acquisition actually occurred on January 1, 2017, or of future results. Actual results would have been different and those differences may have been material in comparison to the pro forma information provided. Pro forma results are based on available historical information for the assets as provided to the Company and do not include any synergies that have or may arise subsequent to the acquisition date.

## 6. INVESTMENTS

As at September 30, 2017, the Company had the following investments:

	Sep 30 2017	Dec 31 2016
Investment in PrairieSky Royalty Ltd.	\$ 722	\$ 723
Investment in Inter Pipeline Ltd.	166	190
	<b>\$ 888</b>	<b>\$ 913</b>

### Investment in PrairieSky Royalty Ltd.

The Company's investment of 22.6 million common shares of PrairieSky Royalty Ltd. ("PrairieSky") does not constitute significant influence, and is accounted for at fair value through profit or loss, remeasured at each reporting date. As at September 30, 2017, the Company's investment in PrairieSky was classified as a current asset.

The gain from the investment in PrairieSky was comprised as follows:

	Three Months Ended		Nine Months Ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Fair value (gain) loss from PrairieSky	\$ (53)	\$ (50)	\$ 1	\$ (174)
Dividend income from PrairieSky	(5)	(4)	(13)	(23)
	<b>\$ (58)</b>	<b>\$ (54)</b>	<b>\$ (12)</b>	<b>\$ (197)</b>

### Investment in Inter Pipeline Ltd.

The Company's investment of 6.4 million common shares of Inter Pipeline Ltd. ("Inter Pipeline") does not constitute significant influence, and is accounted for at fair value through profit or loss, remeasured at each reporting date. As at September 30, 2017, the Company's investment in Inter Pipeline was classified as a current asset.

The (gain) loss from the investment in Inter Pipeline was comprised as follows:

	Three Months Ended		Nine Months Ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Fair value (gain) loss from Inter Pipeline	\$ (3)	\$ —	\$ 24	\$ —
Dividend income from Inter Pipeline	(3)	—	(8)	—
	<b>\$ (6)</b>	<b>\$ —</b>	<b>\$ 16</b>	<b>\$ —</b>

## 7. OTHER LONG-TERM ASSETS

	Sep 30 2017	Dec 31 2016
Investment in North West Redwater Partnership	\$ 293	\$ 261
North West Redwater Partnership subordinated debt <sup>(1)</sup>	456	385
Risk management (note 15)	279	489
Other	154	168
	<b>1,182</b>	1,303
Less: current portion	88	283
	<b>\$ 1,094</b>	<b>\$ 1,020</b>

(1) Includes accrued interest.

### Investment in North West Redwater Partnership

The Company's 50% interest in Redwater Partnership is accounted for using the equity method based on Redwater Partnership's voting and decision-making structure and legal form. Redwater Partnership has entered into agreements to construct and operate a 50,000 barrel per day bitumen upgrader and refinery (the "Project") under processing agreements that target 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 ("APMC"), an agent of the Government of Alberta, under a 30 year fee-for-service tolling agreement.

During 2013, the Company along with APMC, initially committed each to provide funding up to \$350 million by each party by January 2016 in the form of subordinated debt bearing interest at prime plus 6%, based on a facility capital cost ("FCC") budget at \$8,500 million, which was subsequently increased by approximately 11% to approximately \$9,400 million. As a result, the Company and APMC have agreed, each with a 50% interest, to provide additional subordinated debt as required for Project costs in excess of the FCC of \$8,500 million to reflect an agreed debt to equity ratio of 80/20 and, subject to the Company being able to meet certain funding conditions, to fund any shortfall in available third party commercial lending required to attain Project completion, which is currently targeted for mid-2018. For the nine months ended September 30, 2017, the Company and APMC each contributed an additional \$44 million. The Company's share of any additional subordinated debt financing resulting from the increase in the FCC in excess of \$8,500 million is not expected to be significant. To September 30, 2017, each party has provided \$368 million of subordinated debt, together with accrued interest thereon of \$88 million, for a Company total of \$456 million.

During the second quarter of 2017, Redwater Partnership issued \$750 million of 2.80% series J senior secured bonds due June 2027 and \$750 million of 3.65% series K senior secured bonds due June 2035.

As at September 30, 2017, Redwater Partnership had additional borrowings of \$1,351 million under its secured \$3,500 million syndicated credit facility.

Under its processing agreement, beginning on the earlier of the commercial operations date of the refinery and June 1, 2018, the Company is unconditionally obligated to pay its 25% pro rata share of the debt portion of the monthly cost of service toll, including interest, fees and principal repayments, of the syndicated credit facility and bonds, over the tolling period of 30 years.

During the three months ended September 30, 2017, the Company recognized an equity gain from Redwater Partnership of \$20 million (three months ended September 30, 2016 – loss of \$4 million; nine months ended September 30, 2017 – gain of \$32 million; nine months ended September 30, 2016 – gain of \$19 million).

Redwater Partnership has entered into various agreements related to the engineering, procurement and construction of the Project. These contracts can be cancelled by Redwater Partnership upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.

## 8. LONG-TERM DEBT

	Sep 30 2017	Dec 31 2016
<b>Canadian dollar denominated debt, unsecured</b>		
Bank credit facilities	\$ 4,211	\$ 2,758
Medium-term notes	5,300	3,500
	<b>9,511</b>	<b>6,258</b>
<b>US dollar denominated debt, unsecured</b>		
Bank credit facilities (September 30, 2017 - US\$1,687 million; December 31, 2016 - US\$905 million)	2,109	1,213
Commercial paper (September 30, 2017 - US\$500 million; December 31, 2016 - US\$250 million)	625	336
US dollar debt securities (September 30, 2017 - US\$8,650 million; December 31, 2016 - US\$6,750 million)	10,821	9,063
	<b>13,555</b>	<b>10,612</b>
Long-term debt before transaction costs and original issue discounts, net	23,066	16,870
Less: original issue discounts, net <sup>(1)</sup>	(18)	(10)
transaction costs <sup>(1)(2)</sup>	(127)	(55)
	<b>22,921</b>	<b>16,805</b>
Less: current portion of commercial paper	625	336
current portion of other long-term debt <sup>(1)(2)</sup>	1,250	1,476
	<b>\$ 21,046</b>	<b>\$ 14,993</b>

(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.

### Bank Credit Facilities and Commercial Paper

As at September 30, 2017, the Company had in place bank credit facilities of \$11,050 million, as described below, of which \$3,636 million was available. This excludes certain other dedicated credit facilities supporting letters of credit.

- a \$100 million demand credit facility;
- a \$750 million non-revolving term credit facility maturing February 2019;
- a \$125 million non-revolving term credit facility maturing February 2019;
- a \$2,200 million non-revolving term credit facility maturing October 2019;
- a \$3,000 million non-revolving term credit facility maturing May 2020;
- a \$2,425 million revolving syndicated credit facility maturing June 2020;
- a \$2,425 million revolving syndicated credit facility with \$330 million maturing in June 2019 and \$2,095 million maturing June 2021; and
- a £15 million demand credit facility related to the Company's North Sea operations.

During the second quarter of 2017, the Company extended \$2,095 million of the \$2,425 million revolving syndicated credit facility originally due June 2019 to June 2021. The remaining \$330 million outstanding under this facility continues under the previous terms and matures in June 2019. The other \$2,425 million revolving credit facility matures in June 2020. The revolving 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 these facilities may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans.

During the second quarter of 2017, the \$1,500 million non-revolving term credit facility was increased to \$2,200 million and the maturity date was extended to October 2019 from April 2018. Borrowings under the \$2,200 million non-revolving credit facility may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans. As at September 30, 2017, the \$2,200 million facility was fully drawn.

Borrowings under the \$750 million and \$125 million non-revolving credit facilities may be made by way of pricing referenced to Canadian dollar bankers' acceptances or Canadian prime loans. As at September 30, 2017, the \$750 million and \$125 million facilities were each fully drawn.

In addition to the credit facilities described above, during the second quarter of 2017, the Company entered into a \$3,000 million non-revolving term loan facility to finance the acquisition of AOSP and other assets. This facility matures in May 2020 and is subject to annual amortization of 5% of the original balance. Borrowings under the term loan facility may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans. This facility also supports a US\$375 million letter of credit relating to the deferred purchase consideration payable to Marathon in March 2018. As at September 30, 2017, the \$3,000 million facility was fully drawn.

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 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, 2017 was 2.3% (September 30, 2016 – 1.9%), and on total long-term debt outstanding for the nine months ended September 30, 2017 was 3.8% (September 30, 2016 – 3.9%).

At September 30, 2017, letters of credit and guarantees aggregating \$883 million were outstanding, including letters of credit of \$651 million related to AOSP (including the deferred purchase consideration payable to Marathon in March 2018), a \$39 million financial guarantee related to Horizon and \$83 million of letters of credit related to North Sea operations.

### Medium-Term Notes

During the second quarter of 2017, the Company issued \$900 million of 2.05% medium-term notes due June 2020, \$600 million of 3.42% medium-term notes due December 2026 and \$300 million of 4.85% medium-term notes due May 2047. Proceeds from the securities were used to finance the acquisition of AOSP and other assets. In July 2017, 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 2019. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market condition at the time of issuance.

### US Dollar Debt Securities

During the second quarter of 2017, the Company repaid US\$1,100 million of 5.70% notes. In addition, the Company issued US\$1,000 million of 2.95% notes due January 2023, US\$1,250 million of 3.85% notes due June 2027 and US\$750 million of 4.95% notes due June 2047. Proceeds from the debt securities were used to finance the acquisition of AOSP and other assets. In July 2017, the Company filed a 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 2019. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market condition at the time of issuance.

## 9. OTHER LONG-TERM LIABILITIES

	Sep 30 2017	Dec 31 2016
Asset retirement obligations	\$ 4,007	\$ 3,243
Share-based compensation	388	426
Other <sup>(1)</sup>	564	17
	<b>4,959</b>	3,686
Less: current portion	830	463
	<b>\$ 4,129</b>	<b>\$ 3,223</b>

(1) Included in Other at September 30, 2017 is \$469 million (US\$375 million) of deferred purchase consideration payable to Marathon in March 2018.

## 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 have been discounted using a weighted average discount rate of 5.0% (December 31, 2016 – 5.2%). Reconciliations of the discounted asset retirement obligations were as follows:

	Sep 30 2017	Dec 31 2016
Balance – beginning of period	\$ 3,243	\$ 2,950
Liabilities incurred	9	3
Liabilities acquired, net	783	30
Liabilities settled	(211)	(267)
Asset retirement obligation accretion	119	142
Revision of cost, inflation rates and timing estimates	—	(68)
Change in discount rate	131	493
Foreign exchange adjustments	(67)	(40)
Balance – end of period	4,007	3,243
Less: current portion	84	95
	\$ 3,923	\$ 3,148

## Share-Based Compensation

As the Company's Option Plan provides current employees with the right to elect to receive common shares or a cash payment in exchange for stock options surrendered, a liability for potential cash settlements is recognized. The current portion represents the maximum amount of the liability payable within the next twelve month period if all vested stock options are surrendered for cash settlement.

	Sep 30 2017	Dec 31 2016
Balance – beginning of period	\$ 426	\$ 128
Share-based compensation expense	37	355
Cash payment for stock options surrendered	(2)	(7)
Transferred to common shares	(75)	(117)
Charged to (recovered from) Oil Sands Mining and Upgrading, net	2	67
Balance – end of period	388	426
Less: current portion	277	368
	\$ 111	\$ 58

## 10. INCOME TAXES

The provision for income tax was as follows:

Expense (recovery)	Three Months Ended		Nine Months Ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Current corporate income tax – North America	\$ (43)	\$ (168)	\$ (52)	\$ (355)
Current corporate income tax – North Sea	11	(43)	47	(74)
Current corporate income tax – Offshore Africa	14	5	28	17
Current PRT <sup>(1)</sup> – North Sea	(34)	(77)	(107)	(163)
Other taxes	2	2	8	6
Current income tax	(50)	(281)	(76)	(569)
Deferred corporate income tax	141	(32)	279	(51)
Deferred PRT <sup>(1)</sup> – North Sea	7	50	67	(144)
Deferred income tax	148	18	346	(195)
Income tax	\$ 98	\$ (263)	\$ 270	\$ (764)

(1) Petroleum Revenue Tax.

## 11. 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, 2017	
	Number of shares (thousands)	Amount
Balance – beginning of period	1,110,952	\$ 4,671
Issued for the acquisition of AOSP and other assets (note 5)	97,561	3,818
Issued upon exercise of stock options	8,350	280
Previously recognized liability on stock options exercised for common shares	—	75
Balance – end of period	1,216,863	\$ 8,844

### 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 1, 2017, the Board of Directors declared a quarterly dividend of \$0.275 per common share (\$0.25 per common share on November 2, 2016), beginning with the dividend payable on April 1, 2017.

### Normal Course Issuer Bid

On May 16, 2017, 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 27,931,135 common shares, over a 12 month period commencing May 23, 2017 and ending May 22, 2018. For the nine months ended September 30, 2017, the Company did not purchase any common shares for cancellation.



## Stock Options

The following table summarizes information relating to stock options outstanding at September 30, 2017:

	Nine Months Ended Sep 30, 2017	
	Stock options (thousands)	Weighted average exercise price
Outstanding – beginning of period	58,299	\$ 34.22
Granted	9,003	\$ 40.33
Surrendered for cash settlement	(345)	\$ 34.27
Exercised for common shares	(8,350)	\$ 33.55
Forfeited	(2,990)	\$ 37.59
Outstanding – end of period	55,617	\$ 35.13
Exercisable – end of period	14,824	\$ 33.82

The Option Plan is a "rolling 9%" plan, whereby the aggregate number of common shares that may be reserved for issuance under the plan shall not exceed 9% of the common shares outstanding from time to time.

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Sep 30 2017	Sep 30 2016
Derivative financial instruments designated as cash flow hedges	\$ 58	\$ 51
Foreign currency translation adjustment	(115)	(11)
	\$ (57)	\$ 40

### 13. CAPITAL DISCLOSURES

The Company does not have any externally imposed regulatory capital requirements for managing capital. 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 current and long-term debt divided by the sum of the carrying value of shareholders' equity plus 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, 2017, the ratio was within the target range at 42%.

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.

	<b>Sep 30 2017</b>	Dec 31 2016
Long-term debt <sup>(1)</sup>	\$ 22,921	\$ 16,805
Total shareholders' equity	\$ 31,339	\$ 26,267
Debt to book capitalization	42%	39%

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

### 14. NET EARNINGS (LOSS) PER COMMON SHARE

	Three Months Ended		Nine Months Ended	
	<b>Sep 30 2017</b>	Sep 30 2016	<b>Sep 30 2017</b>	Sep 30 2016
Weighted average common shares outstanding – basic (thousands of shares)	<b>1,215,616</b>	1,102,117	<b>1,160,006</b>	1,098,219
Effect of dilutive stock options (thousands of shares)	<b>6,312</b>	—	<b>7,520</b>	—
Weighted average common shares outstanding – diluted (thousands of shares)	<b>1,221,928</b>	1,102,117	<b>1,167,526</b>	1,098,219
Net earnings (loss)	\$ <b>684</b>	\$ (326)	\$ <b>2,001</b>	\$ (770)
Net earnings (loss) per common share – basic	\$ <b>0.56</b>	\$ (0.29)	\$ <b>1.72</b>	\$ (0.70)
– diluted	\$ <b>0.56</b>	\$ (0.29)	\$ <b>1.71</b>	\$ (0.70)

## 15. FINANCIAL INSTRUMENTS

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

Asset (liability)	Sep 30, 2017				
	Financial assets at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Accounts receivable	\$ 1,481	\$ —	\$ —	\$ —	\$ 1,481
Investments	—	888	—	—	888
Other long-term assets	456	38	241	—	735
Accounts payable	—	—	—	(794)	(794)
Accrued liabilities	—	—	—	(2,292)	(2,292)
Other long-term liabilities <sup>(1)</sup>	—	—	—	(469)	(469)
Long-term debt <sup>(2)</sup>	—	—	—	(22,921)	(22,921)
	\$ 1,937	\$ 926	\$ 241	\$ (26,476)	\$ (23,372)

Asset (liability)	Dec 31, 2016				
	Financial assets at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Accounts receivable	\$ 1,434	\$ —	\$ —	\$ —	\$ 1,434
Investments	—	913	—	—	913
Other long-term assets	385	4	485	—	874
Accounts payable	—	—	—	(595)	(595)
Accrued liabilities	—	—	—	(2,222)	(2,222)
Long-term debt <sup>(2)</sup>	—	—	—	(16,805)	(16,805)
	\$ 1,819	\$ 917	\$ 485	\$ (19,622)	\$ (16,401)

(1) Includes \$469 million (US\$375 million) of deferred purchase consideration payable to Marathon in March 2018.

(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 and fixed rate long-term debt are outlined below:

Asset (liability) <sup>(1) (2)</sup>	Sep 30, 2017			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
Investments <sup>(3)</sup>	\$ 888	\$ 888	\$ —	\$ —
Other long-term assets <sup>(4)</sup>	\$ 735	\$ —	\$ 279	\$ 456
Fixed rate long-term debt <sup>(5) (6)</sup>	\$ (15,976)	\$ (17,050)	\$ —	\$ —

Dec 31, 2016

Asset (liability) <sup>(1)(2)</sup>	Carrying amount		Fair value			
			Level 1	Level 2	Level 3	
Investments <sup>(3)</sup>	\$	913	\$	913	\$	—
Other long-term assets <sup>(4)</sup>	\$	874	\$	—	\$	489
Fixed rate long-term debt <sup>(5)(6)</sup>	\$	(12,498)	\$	(13,217)	\$	—

(1) Excludes financial assets and liabilities where the carrying amount approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and deferred purchase consideration payable to Marathon in March 2018).

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

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

(4) The fair value of North West Redwater Partnership subordinated debt is based on the present value of future cash receipts.

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

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

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 2017	Dec 31 2016
<b>Derivatives held for trading</b>		
Foreign currency forward contracts	\$ 29	\$ 10
Crude oil price collars	7	—
Natural gas AECO swaps	2	(6)
<b>Cash flow hedges</b>		
Foreign currency forward contracts	19	16
Cross currency swaps	222	469
	<b>\$ 279</b>	<b>\$ 489</b>
Included within:		
Current portion of other long-term assets	\$ 63	\$ 222
Other long-term assets	216	267
	<b>\$ 279</b>	<b>\$ 489</b>

For the nine months ended September 30, 2017, the Company recognized a gain of \$4 million (year ended December 31, 2016 – gain of \$7 million) related to ineffectiveness arising from cash flow hedges.

The estimated fair value 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 forward interest rate yield curves, and Canadian and United States 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.

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

Asset (liability)	Sep 30 2017	Dec 31 2016
Balance – beginning of period	\$ 489	\$ 854
Net change in fair value of outstanding derivative financial instruments recognized in:		
Risk management activities	38	(25)
Foreign exchange	(284)	(304)
Other comprehensive income (loss)	36	(36)
Balance – end of period	279	489
Less: current portion	63	222
	\$ 216	\$ 267

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

	Three Months Ended		Nine Months Ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net realized risk management loss (gain)	\$ 96	\$ (23)	\$ 71	\$ 22
Net unrealized risk management loss (gain)	8	10	(38)	32
	\$ 104	\$ (13)	\$ 33	\$ 54

## 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, 2017, the Company had the following derivative financial instruments outstanding to manage its commodity price risk:

Sales contracts

	Remaining term	Volume	Weighted average price	Index
<b>Crude Oil</b>				
Price collars	Oct 2017 - Dec 2017	67,500 bbl/d	US\$50.00 - US\$60.10	WTI
<b>Natural Gas</b>				
AECO swaps	Oct 2017	50,000 GJ/d	\$2.80	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, 2017, 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 contracts require the periodic exchange of payments with the exchange at maturity of notional principal amounts on which the payments are based. At September 30, 2017, the Company had the following cross currency swap contracts outstanding:

	Remaining term	Amount	Exchange rate (US\$/C\$)	Interest rate (US\$)	Interest rate (C\$)
<b>Cross currency</b>					
Swaps	Oct 2017 — Nov 2021	US\$500	1.022	3.45%	3.96%
	Oct 2017 — Mar 2038	US\$550	1.170	6.25%	5.76%

All cross currency swap derivative financial instruments were designated as hedges at September 30, 2017 and were classified as cash flow hedges.

In addition to the cross currency swap contracts noted above, at September 30, 2017, the Company had US\$3,566 million of foreign currency forward contracts outstanding, with original terms of up to 90 days, including US\$2,187 million designated as cash flow hedges.

### 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, 2017, 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, 2017, the Company had net risk management assets of \$279 million with specific counterparties related to derivative financial instruments (December 31, 2016 – \$489 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 for financial liabilities were as follows:

	Less than 1 year	1 to less than 2 years	2 to less than 5 years	Thereafter
Accounts payable	\$ 794	\$ —	\$ —	\$ —
Accrued liabilities	\$ 2,292	\$ —	\$ —	\$ —
Other long-term liabilities <sup>(1)</sup>	\$ 469	\$ —	\$ —	\$ —
Long-term debt <sup>(2)</sup>	\$ 2,026	\$ 1,569	\$ 9,127	\$ 10,344

(1) Includes \$469 million (US\$375 million) of deferred purchase consideration payable to Marathon in March 2018.

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

## 16. COMMITMENTS AND CONTINGENCIES

The Company has committed to certain payments as follows:

	Remaining 2017	2018	2019	2020	2021	Thereafter
Product transportation and pipeline	\$ 172	\$ 648	\$ 499	\$ 476	\$ 445	\$ 4,065
Offshore equipment operating leases and offshore drilling	\$ 54	\$ 181	\$ 92	\$ 69	\$ 68	\$ 8
Office leases	\$ 12	\$ 45	\$ 43	\$ 42	\$ 40	\$ 152
Other	\$ 33	\$ 45	\$ 40	\$ 39	\$ 39	\$ 359

In addition to the commitments disclosed above, the Company has entered into various agreements related to the engineering, procurement and construction of Horizon and Kirby North. These contracts can be canceled 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.

## 17. 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	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	Sep 30	Sep 30	Sep 30	Sep 30	
(millions of Canadian dollars, unaudited)	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	
<b>Segmented product sales</b>	1,779	6,569	4,968	185	171	569	402	196	134	448	440	2,477	7,586
Less: royalties	(132)	(581)	(332)	—	—	(1)	(1)	(12)	(6)	(25)	(18)	(213)	(607)
<b>Segmented revenue</b>	1,647	5,988	4,636	185	171	568	401	184	128	423	422	2,264	6,979
<b>Segmented expenses</b>													
Production	518	1,730	1,630	95	107	281	299	82	38	180	147	746	2,191
Transportation, blending and feedstock	422	1,626	1,395	8	15	26	37	—	1	1	2	480	1,653
Depletion, depreciation and amortization	854	2,393	2,606	71	117	472	315	53	60	153	215	945	3,018
Asset retirement obligation accretion	17	59	50	7	8	21	26	2	3	6	9	29	86
Realized risk management activities	(23)	71	22	—	—	—	—	—	—	—	—	96	71
Gain on acquisition, disposition and revaluation of properties	—	(35)	(32)	—	—	—	—	—	—	—	—	—	(35)
(Gain) loss from investments	(54)	4	(197)	—	—	—	—	—	—	—	—	(64)	4
<b>Total segmented expenses</b>	1,734	5,848	5,474	181	247	800	677	137	102	340	373	2,232	6,988
<b>Segmented earnings (loss) before the following</b>	(87)	140	(838)	4	(76)	(232)	(276)	47	26	83	49	32	(9)
<b>Non-segmented expenses</b>													
Administration													
Share-based compensation													
Interest and other financing expense													
Unrealized risk management activities													
Foreign exchange (gain) loss													
<b>Total non-segmented expenses</b>													
<b>Earnings (loss) before taxes</b>													
Current income tax recovery													
Deferred income tax expense (recovery)													
<b>Net earnings (loss)</b>													



**Oil Sands Mining and Upgrading      Midstream      Inter-segment elimination and other      Total**

	Three Months Ended Sep 30		Nine Months Ended Sep 30		Three Months Ended Sep 30		Nine Months Ended Sep 30		Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
(millions of Canadian dollars, unaudited)												
<b>Segmented product sales</b>	<b>2,067</b>	<b>380</b>	<b>4,749</b>	<b>1,578</b>	<b>26</b>	<b>31</b>	<b>74</b>	<b>88</b>	<b>(23)</b>	<b>(18)</b>	<b>(63)</b>	<b>(50)</b>
Less: royalties	(46)	(4)	(98)	(10)	—	—	—	—	—	—	—	—
<b>Segmented revenue</b>	<b>2,021</b>	<b>376</b>	<b>4,651</b>	<b>1,568</b>	<b>26</b>	<b>31</b>	<b>74</b>	<b>88</b>	<b>(23)</b>	<b>(18)</b>	<b>(63)</b>	<b>(50)</b>
<b>Segmented expenses</b>												
Production	829	326	1,754	916	4	7	12	20	(2)	(2)	(6)	(5)
Transportation, blending and feedstock	246	22	340	60	—	—	—	—	(21)	(16)	(63)	(49)
Depletion, depreciation and amortization	324	182	756	464	2	3	6	9	—	—	—	—
Asset retirement obligation accretion	15	8	33	22	—	—	—	—	—	—	—	—
Realized risk management activities	—	—	—	—	—	—	—	—	—	—	—	—
Gain on acquisition, disposition and revaluation of properties	—	—	(230)	—	(114)	—	(114)	—	—	—	—	—
(Gain) loss from investments	—	—	—	—	(20)	4	(32)	(19)	—	—	—	—
<b>Total segmented expenses</b>	<b>1,414</b>	<b>538</b>	<b>2,653</b>	<b>1,462</b>	<b>(128)</b>	<b>14</b>	<b>(128)</b>	<b>10</b>	<b>(23)</b>	<b>(18)</b>	<b>(69)</b>	<b>(54)</b>
<b>Segmented earnings (loss) before the following</b>	<b>607</b>	<b>(162)</b>	<b>1,998</b>	<b>106</b>	<b>154</b>	<b>17</b>	<b>202</b>	<b>78</b>	<b>—</b>	<b>—</b>	<b>6</b>	<b>4</b>
<b>Non-segmented expenses</b>												
Administration												
Share-based compensation												
Interest and other financing expense												
Unrealized risk management activities												
Foreign exchange (gain) loss												
<b>Total non-segmented expenses</b>												
<b>Earnings (loss) before taxes</b>												
Current income tax recovery												
Deferred income tax expense (recovery)												
<b>Net earnings (loss)</b>												

## Capital Expenditures <sup>(1)</sup>

	Nine Months Ended					
	Sep 30, 2017			Sep 30, 2016		
	Net <sup>(2)</sup> expenditures	Non-cash and fair value changes <sup>(2) (3)</sup>	Capitalized costs	Net expenditures	Non-cash and fair value changes <sup>(3)</sup>	Capitalized costs
<b>Exploration and evaluation assets</b>						
Exploration and Production						
North America <sup>(4)</sup>	\$ 149	\$ (162)	\$ (13)	\$ 17	\$ (167)	\$ (150)
North Sea	—	—	—	—	—	—
Offshore Africa	10	—	10	5	(18)	(13)
Oil Sands Mining and Upgrading	142	117	259	—	—	—
	\$ 301	\$ (45)	\$ 256	\$ 22	\$ (185)	\$ (163)
<b>Property, plant and equipment</b>						
Exploration and Production						
North America	\$ 2,382	\$ 254	\$ 2,636	\$ 842	\$ (134)	\$ 708
North Sea	108	20	128	89	—	89
Offshore Africa	58	4	62	123	—	123
	2,548	278	2,826	1,054	(134)	920
Oil Sands Mining and Upgrading <sup>(5)</sup>	9,035	5,764	14,799	2,090	(120)	1,970
Midstream <sup>(6)</sup>	78	114	192	4	—	4
Head office	30	—	30	13	—	13
	\$ 11,691	\$ 6,156	\$ 17,847	\$ 3,161	\$ (254)	\$ 2,907

(1) This table provides a reconciliation of capitalized costs including derecognitions and does not include the impact of foreign exchange adjustments.

(2) Net expenditures on exploration and evaluation assets and property, plant and equipment for the nine months ended September 30, 2017 exclude non-cash share consideration of \$3,818 million issued on the acquisition of AOSP and other assets. This non-cash consideration is included in non-cash and other fair value changes.

(3) Asset retirement obligations, deferred income tax adjustments related to differences between carrying amounts and tax values, transfers of exploration and evaluation assets, transfers of property, plant and equipment to inventory due to change in use, and other fair value adjustments.

(4) The above noted figures for 2017 do not include the impact of a pre-tax cash gain of \$35 million (2016 - \$32 million pre-tax cash gain) on the disposition of certain exploration and evaluation assets.

(5) Net expenditures for Oil Sands Mining and Upgrading include capitalized interest and share-based compensation.

(6) The above noted figures for 2017 include the impact of a pre-tax non-cash revaluation gain of \$114 million (\$83 million after-tax) related to a previously held joint interest in a pipeline system.

## Segmented Assets

	Sep 30 2017	Dec 31 2016
Exploration and Production		
North America	\$ 28,883	\$ 28,892
North Sea	1,663	2,269
Offshore Africa	1,325	1,580
Other	63	29
Oil Sands Mining and Upgrading	39,739	24,852
Midstream	1,188	912
Head office	127	114
	\$ 72,988	\$ 58,648

## 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 2017. 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, 2017:

---

Interest coverage (times)	
Net earnings <sup>(1)</sup>	5.0x
Funds flow from operations <sup>(2)</sup>	10.8x

---

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

(2) *Funds flow from operations plus current income taxes and interest expense excluding current PRT expense and other taxes; divided by the sum of interest expense and capitalized interest.*

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## Corporate Information

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### Stock Listing

Toronto Stock Exchange

Trading Symbol - CNQ

New York Stock Exchange

Trading Symbol - CNQ

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