

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## Condensed Consolidated Balance Sheets

| <i>(millions of Canadian dollars)</i>                      | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| <b>Assets</b>  |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents                                  | 1,607                 | 2,025                |
| Accounts receivable <i>(note 3)</i>                        | 1,402                 | 1,345                |
| Income taxes receivable                                    | 179                   | 323                  |
| Inventories  | 2,146                 | 1,736                |
| Prepaid expenses   | 90                    | 64                   |
|  | <b>5,424</b>          | <b>5,493</b>         |
| Exploration and evaluation assets <i>(note 3 &amp; 4)</i>  | 1,059                 | 773                  |
| Property, plant and equipment, net <i>(note 3 &amp; 5)</i> | 28,865                | 27,354               |
| Goodwill   | 680                   | 663                  |
| Contribution receivable                                    | 246                   | 607                  |
| Investment in joint ventures <i>(note 3)</i>               | 150                   | 132                  |
| Other assets <i>(note 3)</i>                               | 176                   | 139                  |
| <b>Total Assets</b>  | <b>36,600</b>         | <b>35,161</b>        |
| <b>Liabilities and Shareholders' Equity</b>                |                       |                      |
| Current liabilities  |                       |                      |
| Accounts payable and accrued liabilities <i>(note 3)</i>   | 3,168                 | 2,985                |
| Asset retirement obligations <i>(note 9)</i>               | 158                   | 107                  |
| Long-term debt due within one year <i>(note 7)</i>         | 771                   | —                    |
|  | <b>4,097</b>          | <b>3,092</b>         |
| Long-term debt <i>(note 7)</i>                             | 3,240                 | 3,918                |
| Other long-term liabilities <i>(note 3)</i>                | 278                   | 328                  |
| Contribution payable                                       | 1,378                 | 1,336                |
| Deferred tax liabilities <i>(note 3)</i>                   | 4,856                 | 4,640                |
| Asset retirement obligations <i>(note 9)</i>               | 2,677                 | 2,686                |
| <b>Total Liabilities</b>                                   | <b>16,526</b>         | <b>16,000</b>        |
| Shareholders' equity                                       |                       |                      |
| Common shares <i>(note 10)</i>                             | 6,971                 | 6,939                |
| Preferred shares   | 291                   | 291                  |
| Retained earnings  | 12,716                | 11,950               |
| Other reserves   | 96                    | (19)                 |
| <b>Total Shareholders' Equity</b>                          | <b>20,074</b>         | <b>19,161</b>        |
| <b>Total Liabilities and Shareholders' Equity</b>          | <b>36,600</b>         | <b>35,161</b>        |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## Condensed Consolidated Statements of Income

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |              |
|--|-------------------------------------|------------|------------------------------------|--------------|
| <i>(millions of Canadian dollars, except share data)</i>                 | 2013                                | 2012       | 2013                               | 2012         |
| Gross revenues   | 6,019                               | 5,331      | 17,813                             | 16,872       |
| Royalties  | (237)                               | (145)      | (649)                              | (504)        |
| Marketing and other  | 17                                  | 120        | 236                                | 311          |
| Revenues, net of royalties   | 5,799                               | 5,306      | 17,400                             | 16,679       |
| Expenses   |                                     |            |                                    |              |
| Purchases of crude oil and products                                      | 3,443                               | 3,047      | 10,163                             | 10,120       |
| Production and operating expenses  | 724                                 | 632        | 2,097                              | 1,907        |
| Selling, general and administrative expenses                             | 141                                 | 112        | 399                                | 342          |
| Depletion, depreciation and amortization <i>(note 5)</i>                 | 718                                 | 629        | 2,087                              | 1,842        |
| Exploration and evaluation expenses                                      | 56                                  | 59         | 218                                | 187          |
| Other – net  | (3)                                 | 30         | —                                  | (19)         |
|  | 5,079                               | 4,509      | 14,964                             | 14,379       |
| Earnings from operating activities                                       | 720                                 | 797        | 2,436                              | 2,300        |
| Share of equity investment <i>(note 3)</i>                               | 1                                   | —          | (5)                                | —            |
| Financial items <i>(note 8)</i>  |                                     |            |                                    |              |
| Net foreign exchange gains   | 6                                   | 16         | 8                                  | 15           |
| Finance income   | 11                                  | 22         | 36                                 | 72           |
| Finance expenses   | (42)                                | (55)       | (135)                              | (195)        |
|  | (25)                                | (17)       | (91)                               | (108)        |
| Earnings before income taxes   | 696                                 | 780        | 2,340                              | 2,192        |
| Provisions for income taxes  |                                     |            |                                    |              |
| Current  | 114                                 | 149        | 496                                | 475          |
| Deferred   | 70                                  | 105        | 192                                | 169          |
|  | 184                                 | 254        | 688                                | 644          |
| <b>Net earnings</b>  | <b>512</b>                          | <b>526</b> | <b>1,652</b>                       | <b>1,548</b> |
| Earnings per share <i>(note 10)</i>                                      |                                     |            |                                    |              |
| Basic  | 0.52                                | 0.53       | 1.67                               | 1.58         |
| Diluted  | 0.52                                | 0.53       | 1.66                               | 1.57         |
| Weighted average number of common shares<br>outstanding <i>(note 10)</i> |                                     |            |                                    |              |
| Basic <i>(millions)</i>  | 983.3                               | 981.8      | 982.9                              | 973.7        |
| Diluted <i>(millions)</i>  | 983.8                               | 981.9      | 983.5                              | 973.8        |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## Condensed Consolidated Statements of Comprehensive Income

| <i>(millions of Canadian dollars)</i>                             | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |              |
|---|-------------------------------------|------------|------------------------------------|--------------|
|   | 2013                                | 2012       | 2013                               | 2012         |
| Net earnings  | 512                                 | 526        | 1,652                              | 1,548        |
| Other comprehensive income (loss)                                 |                                     |            |                                    |              |
| Items that will not be reclassified into earnings,<br>net of tax: |                                     |            |                                    |              |
| Remeasurements of pension plans, net of tax                       | —                                   | —          | —                                  | 3            |
| Items that may be reclassified into earnings, net<br>of tax:      |                                     |            |                                    |              |
| Derivatives designated as cash flow hedges<br>(note 11)           | (2)                                 | (1)        | 27                                 | 1            |
| Exchange differences on translation of foreign<br>operations      | (124)                               | (164)      | 171                                | (153)        |
| Hedge of net investment (note 11)                                 | 54                                  | 56         | (83)                               | 42           |
| Other comprehensive income (loss)                                 | (72)                                | (109)      | 115                                | (107)        |
| <b>Comprehensive income</b>                                       | <b>440</b>                          | <b>417</b> | <b>1,767</b>                       | <b>1,441</b> |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## Condensed Consolidated Statements of Changes in Shareholders' Equity

| <i>(millions of Canadian dollars)</i>   | Attributable to Equity Holders |                  |                   |                              |           |               | Total Shareholders' Equity |
|---|--------------------------------|------------------|-------------------|------------------------------|-----------|---------------|----------------------------|
|   | Common Shares                  | Preferred Shares | Retained Earnings | Other Reserves               |           |               |                            |
|   |                                |                  |                   | Foreign Currency Translation | Hedging   |               |                            |
| Balance as at December 31, 2011   | 6,327                          | 291              | 11,097            | 60                           | (2)       | 17,773        |                            |
| Net earnings  | —                              | —                | 1,548             | —                            | —         | 1,548         |                            |
| Other comprehensive income (loss)   |                                |                  |                   |                              |           |               |                            |
| Remeasurements of pension plans (net of tax of \$1 million)                             | —                              | —                | 3                 | —                            | —         | 3             |                            |
| Derivatives designated as cash flow hedges (net of tax of \$1 million) <i>(note 11)</i> | —                              | —                | —                 | —                            | 1         | 1             |                            |
| Exchange differences on translation of foreign operations (net of tax of \$17 million)  | —                              | —                | —                 | (153)                        | —         | (153)         |                            |
| Hedge of net investment (net of tax of \$6 million) <i>(note 11)</i>                    | —                              | —                | —                 | 42                           | —         | 42            |                            |
| Total comprehensive income (loss)   | —                              | —                | 1,551             | (111)                        | 1         | 1,441         |                            |
| Transactions with owners recognized directly in equity:                                 |                                |                  |                   |                              |           |               |                            |
| Stock dividends paid <i>(note 10)</i>   | 606                            | —                | —                 | —                            | —         | 606           |                            |
| Dividends declared on common shares <i>(note 10)</i>                                    | —                              | —                | (876)             | —                            | —         | (876)         |                            |
| Dividends declared on preferred shares <i>(note 10)</i>                                 | —                              | —                | (10)              | —                            | —         | (10)          |                            |
| Balance as at September 30, 2012  | 6,933                          | 291              | 11,762            | (51)                         | (1)       | 18,934        |                            |
| Balance as at December 31, 2012   | 6,939                          | 291              | 11,950            | (20)                         | 1         | 19,161        |                            |
| Net earnings  | —                              | —                | 1,652             | —                            | —         | 1,652         |                            |
| Other comprehensive income (loss)   |                                |                  |                   |                              |           |               |                            |
| Derivatives designated as cash flow hedges (net of tax of \$9 million) <i>(note 11)</i> | —                              | —                | —                 | —                            | 27        | 27            |                            |
| Exchange differences on translation of foreign operations (net of tax of \$25 million)  | —                              | —                | —                 | 171                          | —         | 171           |                            |
| Hedge of net investment (net of tax of \$12 million) <i>(note 11)</i>                   | —                              | —                | —                 | (83)                         | —         | (83)          |                            |
| Total comprehensive income  | —                              | —                | 1,652             | 88                           | 27        | 1,767         |                            |
| Transactions with owners recognized directly in equity:                                 |                                |                  |                   |                              |           |               |                            |
| Stock dividends paid <i>(note 10)</i>   | 6                              | —                | —                 | —                            | —         | 6             |                            |
| Stock options exercised <i>(note 10)</i>  | 26                             | —                | —                 | —                            | —         | 26            |                            |
| Dividends declared on common shares <i>(note 10)</i>                                    | —                              | —                | (885)             | —                            | —         | (885)         |                            |
| Dividends declared on preferred shares <i>(note 10)</i>                                 | —                              | —                | (10)              | —                            | —         | (10)          |                            |
| Change in accounting policy <i>(note 3)</i>   | —                              | —                | 9                 | —                            | —         | 9             |                            |
| <b>Balance as at September 30, 2013</b>   | <b>6,971</b>                   | <b>291</b>       | <b>12,716</b>     | <b>68</b>                    | <b>28</b> | <b>20,074</b> |                            |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## Condensed Consolidated Statements of Cash Flows

| <i>(millions of Canadian dollars)</i>                      | Three months ended<br>September 30, |                | Nine months ended<br>September 30, |                |
|--|-------------------------------------|----------------|------------------------------------|----------------|
|  | 2013                                | 2012           | 2013                               | 2012           |
| <b>Operating activities</b>                                |                                     |                |                                    |                |
| Net earnings   | 512                                 | 526            | 1,652                              | 1,548          |
| Items not affecting cash:                                  |                                     |                |                                    |                |
| Accretion <i>(note 8)</i>                                  | 31                                  | 24             | 94                                 | 73             |
| Depletion, depreciation and amortization <i>(note 5)</i>   | 718                                 | 629            | 2,087                              | 1,842          |
| Exploration and evaluation expenses <i>(note 4)</i>        | 4                                   | 1              | 8                                  | 2              |
| Deferred income taxes                                      | 70                                  | 105            | 192                                | 169            |
| Foreign exchange   | (13)                                | (16)           | 9                                  | (32)           |
| Stock-based compensation <i>(note 10)</i>                  | 30                                  | 9              | 32                                 | 21             |
| Loss (gain) on sale of assets                              | (4)                                 | —              | (24)                               | 3              |
| Other  | (1)                                 | (7)            | 29                                 | (30)           |
| Settlement of asset retirement obligations <i>(note 9)</i> | (29)                                | (28)           | (92)                               | (85)           |
| Income taxes (paid) refunded                               | 21                                  | (83)           | (352)                              | (488)          |
| Interest received  | 6                                   | 5              | 14                                 | 24             |
| Change in non-cash working capital <i>(note 6)</i>         | (69)                                | 188            | 167                                | 845            |
| <b>Cash flow – operating activities</b>                    | <b>1,276</b>                        | <b>1,353</b>   | <b>3,816</b>                       | <b>3,892</b>   |
| <b>Financing activities</b>                                |                                     |                |                                    |                |
| Long-term debt issuance                                    | —                                   | —              | —                                  | 500            |
| Long-term debt repayment <i>(note 7)</i>                   | —                                   | —              | —                                  | (410)          |
| Settlement of cross currency swaps                         | —                                   | —              | —                                  | (89)           |
| Debt issue costs   | —                                   | (2)            | —                                  | (8)            |
| Proceeds from exercise of stock options                    | 4                                   | —              | 26                                 | —              |
| Dividends on common shares <i>(note 10)</i>                | (293)                               | (89)           | (879)                              | (264)          |
| Dividends on preferred shares <i>(note 10)</i>             | (7)                                 | (4)            | (10)                               | (10)           |
| Interest paid  | (43)                                | (45)           | (161)                              | (173)          |
| Contribution receivable payment                            | 176                                 | 386            | 401                                | 386            |
| Other  | 16                                  | (233)          | 41                                 | 16             |
| Change in non-cash working capital <i>(note 6)</i>         | (7)                                 | 17             | (7)                                | 74             |
| <b>Cash flow – financing activities</b>                    | <b>(154)</b>                        | <b>30</b>      | <b>(589)</b>                       | <b>22</b>      |
| <b>Investing activities</b>                                |                                     |                |                                    |                |
| Capital expenditures                                       | (1,407)                             | (1,252)        | (3,491)                            | (3,228)        |
| Proceeds from asset sales                                  | 4                                   | 1              | 32                                 | 5              |
| Contribution payable payment                               | (24)                                | (97)           | (64)                               | (97)           |
| Other  | (3)                                 | 50             | (23)                               | (32)           |
| Change in non-cash working capital <i>(note 6)</i>         | 150                                 | 111            | (92)                               | (125)          |
| <b>Cash flow – investing activities</b>                    | <b>(1,280)</b>                      | <b>(1,187)</b> | <b>(3,638)</b>                     | <b>(3,477)</b> |
| Increase (decrease) in cash and cash equivalents           | (158)                               | 196            | (411)                              | 437            |
| Effect of exchange rates on cash and cash equivalents      | (5)                                 | (5)            | (7)                                | (13)           |
| Cash and cash equivalents at beginning of period           | 1,770                               | 2,074          | 2,025                              | 1,841          |
| <b>Cash and cash equivalents at end of period</b>          | <b>1,607</b>                        | <b>2,265</b>   | <b>1,607</b>                       | <b>2,265</b>   |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these statements.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Note 1 Description of Business and Segmented Disclosures

Management has identified segments for the business of Husky Energy Inc. (“Husky” or “the Company”) based on differences in products, services and management responsibility. The Company’s business is conducted predominantly through two major business segments – Upstream and Downstream.

**Upstream** includes exploration for, and development and production of, crude oil, bitumen, natural gas and natural gas liquids (Exploration and Production) and marketing of the Company’s and other producers’ crude oil, natural gas, natural gas liquids, sulphur and petroleum coke, pipeline transportation and blending of crude oil and natural gas and storage of crude oil, diluent and natural gas (Infrastructure and Marketing). The Company’s Upstream operations are located primarily in Western Canada, offshore East Coast of Canada, offshore Greenland, offshore China, offshore Indonesia and offshore Taiwan.

**Downstream** includes upgrading of heavy crude oil feedstock into synthetic crude oil (Upgrading), refining in Canada of crude oil and marketing of refined petroleum products including gasoline, diesel, ethanol blended fuels, asphalt and ancillary products, and production of ethanol (Canadian Refined Products) and refining in the U.S. of primarily crude oil to produce and market gasoline, jet fuel and diesel fuels that meet U.S. clean fuels standards (U.S. Refining and Marketing).

## Segmented Financial Information

| (\$ millions)  | Upstream                                  |             |                              |             |             |             | Downstream  |             |                           |             |                             |             |             |             | Corporate and Eliminations <sup>(2)</sup> |             | Total       |             |
|--|---|-------------|------------------------------|-------------|-------------|-------------|-------------|-------------|---------------------------|-------------|-----------------------------|-------------|-------------|-------------|---|-------------|-------------|-------------|
|  | Exploration and Production <sup>(1)</sup> |             | Infrastructure and Marketing |             | Total       |             | Upgrading   |             | Canadian Refined Products |             | U.S. Refining and Marketing |             | Total       |             | 2013                                      | 2012        | 2013        | 2012        |
|  | 2013                                      | 2012        | 2013                         | 2012        | 2013        | 2012        | 2013        | 2012        | 2013                      | 2012        | 2013                        | 2012        | 2013        | 2012        |   |             |             |             |
| <b>Three months ended September 30,</b>                          | <b>2013</b>                               | <b>2012</b> | <b>2013</b>                  | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b>               | <b>2012</b> | <b>2013</b>                 | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b>                               | <b>2012</b> | <b>2013</b> | <b>2012</b> |
| Gross revenues   | 2,111                                     | 1,430       | 646                          | 377         | 2,757       | 1,807       | 437         | 576         | 993                       | 1,067       | 2,405                       | 2,477       | 3,835       | 4,120       | (573)                                     | (596)       | 6,019       | 5,331       |
| Royalties  | (237)                                     | (145)       | —                            | —           | (237)       | (145)       | —           | —           | —                         | —           | —                           | —           | —           | —           | —   | —           | (237)       | (145)       |
| Marketing and other  | —   | —           | 17                           | 120         | 17          | 120         | —           | —           | —                         | —           | —                           | —           | —           | —           | —   | —           | 17          | 120         |
| Revenues, net of royalties                                       | 1,874                                     | 1,285       | 663                          | 497         | 2,537       | 1,782       | 437         | 576         | 993                       | 1,067       | 2,405                       | 2,477       | 3,835       | 4,120       | (573)                                     | (596)       | 5,799       | 5,306       |
| Expenses   |   |             |                              |             |             |             |             |             |                           |             |                             |             |             |             |   |             |             |             |
| Purchases of crude oil and products                              | 17  | 15          | 609                          | 335         | 626         | 350         | 341         | 423         | 875                       | 849         | 2,174                       | 2,021       | 3,390       | 3,293       | (573)                                     | (596)       | 3,443       | 3,047       |
| Production and operating expenses                                | 528                                       | 446         | 3                            | 16          | 531         | 462         | 38          | 33          | 50                        | 45          | 105                         | 91          | 193         | 169         | —   | 1           | 724         | 632         |
| Selling, general and administrative expenses                     | 60  | 55          | 4                            | 5           | 64          | 60          | 2           | —           | 16                        | 14          | 4                           | 4           | 22          | 18          | 55  | 34          | 141         | 112         |
| Depletion, depreciation and amortization                         | 594                                       | 515         | 6                            | 5           | 600         | 520         | 24          | 25          | 23                        | 21          | 58                          | 52          | 105         | 98          | 13  | 11          | 718         | 629         |
| Exploration and evaluation expenses                              | 56  | 59          | —                            | —           | 56          | 59          | —           | —           | —                         | —           | —                           | —           | —           | —           | —   | —           | 56          | 59          |
| Other – net  | 11  | 28          | —                            | —           | 11          | 28          | (2)         | —           | (3)                       | (2)         | (1)                         | —           | (6)         | (2)         | (8)                                       | 4           | (3)         | 30          |
| Earnings (loss) from operating activities                        | 608                                       | 167         | 41                           | 136         | 649         | 303         | 34          | 95          | 32                        | 140         | 65                          | 309         | 131         | 544         | (60)                                      | (50)        | 720         | 797         |
| Share of equity investment                                       | 1   | —           | —                            | —           | 1           | —           | —           | —           | —                         | —           | —                           | —           | —           | —           | —   | —           | 1           | —           |
| Financial items  |   |             |                              |             |             |             |             |             |                           |             |                             |             |             |             |   |             |             |             |
| Net foreign exchange gains (losses)                              | (1)                                       | —           | —                            | —           | (1)         | —           | —           | —           | —                         | —           | —                           | —           | —           | —           | 7   | 16          | 6           | 16          |
| Finance income   | —   | 5           | —                            | —           | —           | 5           | —           | —           | —                         | —           | —                           | —           | —           | —           | 11  | 17          | 11          | 22          |
| Finance expenses   | (28)                                      | (21)        | —                            | —           | (28)        | (21)        | (2)         | (3)         | (1)                       | (2)         | (1)                         | (1)         | (4)         | (6)         | (10)                                      | (28)        | (42)        | (55)        |
| Earnings (loss) before income taxes                              | 580                                       | 151         | 41                           | 136         | 621         | 287         | 32          | 92          | 31                        | 138         | 64                          | 308         | 127         | 538         | (52)                                      | (45)        | 696         | 780         |
| Provisions for (recovery of) income taxes                        |   |             |                              |             |             |             |             |             |                           |             |                             |             |             |             |   |             |             |             |
| Current  | 86  | (44)        | (3)                          | 54          | 83          | 10          | 6           | 24          | 17                        | 32          | (25)                        | 48          | (2)         | 104         | 33  | 35          | 114         | 149         |
| Deferred   | 64  | 85          | 14                           | (19)        | 78          | 66          | 2           | —           | (9)                       | 3           | 47                          | 65          | 40          | 68          | (48)                                      | (29)        | 70          | 105         |
| Total income tax provision (recovery)                            | 150                                       | 41          | 11                           | 35          | 161         | 76          | 8           | 24          | 8                         | 35          | 22                          | 113         | 38          | 172         | (15)                                      | 6           | 184         | 254         |
| Net earnings (loss)  | 430                                       | 110         | 30                           | 101         | 460         | 211         | 24          | 68          | 23                        | 103         | 42                          | 195         | 89          | 366         | (37)                                      | (51)        | 512         | 526         |
| Intersegment revenues  | 552                                       | 514         | —                            | —           | 552         | 514         | 21          | 39          | —                         | 43          | —                           | —           | 21          | 82          | —   | —           | 573         | 596         |
| Expenditures on exploration and evaluation assets <sup>(3)</sup> | 202                                       | 95          | —                            | —           | 202         | 95          | —           | —           | —                         | —           | —                           | —           | —           | —           | —   | —           | 202         | 95          |
| Expenditures on property, plant and equipment <sup>(3)</sup>     | 933                                       | 990         | 27                           | 14          | 960         | 1,004       | 129         | 13          | 24                        | 32          | 52                          | 92          | 205         | 137         | 40  | 16          | 1,205       | 1,157       |

<sup>(1)</sup> Includes allocated depletion, depreciation and amortization related to assets in Infrastructure and Marketing as these assets provide a service to Exploration and Production.

<sup>(2)</sup> Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices.

<sup>(3)</sup> Excludes capitalized costs related to asset retirement obligations and capitalized interest incurred during the period. Includes assets acquired through acquisitions.

## Segmented Financial Information

| (\$ millions)  | Upstream                                  |             |                              |             |             |             | Downstream  |             |                           |             |                             |             | Corporate and Eliminations <sup>(2)</sup> |             | Total       |             |             |             |
|--|---|-------------|------------------------------|-------------|-------------|-------------|-------------|-------------|---------------------------|-------------|-----------------------------|-------------|---|-------------|-------------|-------------|-------------|-------------|
|  | Exploration and Production <sup>(1)</sup> |             | Infrastructure and Marketing |             | Total       |             | Upgrading   |             | Canadian Refined Products |             | U.S. Refining and Marketing |             | Total                                     |             | 2013        | 2012        | 2013        | 2012        |
|  | 2013                                      | 2012        | 2013                         | 2012        | 2013        | 2012        | 2013        | 2012        | 2013                      | 2012        | 2013                        | 2012        | 2013                                      | 2012        |             |             |             |             |
| <b>Nine months ended September 30,</b>   | <b>2013</b>                               | <b>2012</b> | <b>2013</b>                  | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b>               | <b>2012</b> | <b>2013</b>                 | <b>2012</b> | <b>2013</b>                               | <b>2012</b> | <b>2013</b> | <b>2012</b> | <b>2013</b> | <b>2012</b> |
| Gross revenues   | 5,599                                     | 4,783       | 1,677                        | 1,624       | 7,276       | 6,407       | 1,539       | 1,629       | 2,449                     | 2,915       | 8,038                       | 7,626       | 12,026                                    | 12,170      | (1,489)     | (1,705)     | 17,813      | 16,872      |
| Royalties  | (649)                                     | (504)       | —                            | —           | (649)       | (504)       | —           | —           | —                         | —           | —                           | —           | —   | —           | —           | —           | (649)       | (504)       |
| Marketing and other  | —   | —           | 236                          | 311         | 236         | 311         | —           | —           | —                         | —           | —                           | —           | —   | —           | —           | —           | 236         | 311         |
| Revenues, net of royalties   | 4,950                                     | 4,279       | 1,913                        | 1,935       | 6,863       | 6,214       | 1,539       | 1,629       | 2,449                     | 2,915       | 8,038                       | 7,626       | 12,026                                    | 12,170      | (1,489)     | (1,705)     | 17,400      | 16,679      |
| Expenses   |   |             |                              |             |             |             |             |             |                           |             |                             |             |   |             |             |             |             |             |
| Purchases of crude oil and products  | 62  | 53          | 1,566                        | 1,517       | 1,628       | 1,570       | 1,016       | 1,219       | 2,005                     | 2,414       | 7,003                       | 6,622       | 10,024                                    | 10,255      | (1,489)     | (1,705)     | 10,163      | 10,120      |
| Production and operating expenses  | 1,514                                     | 1,332       | 13                           | 42          | 1,527       | 1,374       | 116         | 110         | 144                       | 135         | 310                         | 283         | 570                                       | 528         | —           | 5           | 2,097       | 1,907       |
| Selling, general and administrative expenses                                   | 196                                       | 157         | 15                           | 15          | 211         | 172         | 5           | 2           | 44                        | 43          | 12                          | 10          | 61  | 55          | 127         | 115         | 399         | 342         |
| Depletion, depreciation and amortization                                       | 1,724                                     | 1,507       | 18                           | 16          | 1,742       | 1,523       | 71          | 75          | 67                        | 62          | 173                         | 155         | 311                                       | 292         | 34          | 27          | 2,087       | 1,842       |
| Exploration and evaluation expenses  | 218                                       | 187         | —                            | —           | 218         | 187         | —           | —           | —                         | —           | —                           | —           | —   | —           | —           | —           | 218         | 187         |
| Other – net  | 28  | (33)        | (1)                          | —           | 27          | (33)        | (4)         | —           | (6)                       | (2)         | —                           | —           | (10)                                      | (2)         | (17)        | 16          | —           | (19)        |
| Earnings (loss) from operating activities                                      | 1,208                                     | 1,076       | 302                          | 345         | 1,510       | 1,421       | 335         | 223         | 195                       | 263         | 540                         | 556         | 1,070                                     | 1,042       | (144)       | (163)       | 2,436       | 2,300       |
| Share of equity investment   | (5)                                       | —           | —                            | —           | (5)         | —           | —           | —           | —                         | —           | —                           | —           | —   | —           | —           | —           | (5)         | —           |
| Financial items  |   |             |                              |             |             |             |             |             |                           |             |                             |             |   |             |             |             |             |             |
| Net foreign exchange gains (losses)  | (1)                                       | —           | —                            | —           | (1)         | —           | —           | —           | —                         | —           | —                           | —           | —   | —           | 9           | 15          | 8           | 15          |
| Finance income   | 2   | 5           | —                            | —           | 2           | 5           | —           | —           | —                         | —           | —                           | —           | —   | —           | 34          | 67          | 36          | 72          |
| Finance expenses   | (80)                                      | (59)        | —                            | —           | (80)        | (59)        | (6)         | (9)         | (4)                       | (5)         | (2)                         | (4)         | (12)                                      | (18)        | (43)        | (118)       | (135)       | (195)       |
| Earnings (loss) before income taxes  | 1,124                                     | 1,022       | 302                          | 345         | 1,426       | 1,367       | 329         | 214         | 191                       | 258         | 538                         | 552         | 1,058                                     | 1,024       | (144)       | (199)       | 2,340       | 2,192       |
| Provisions for (recovery of) income taxes                                      |   |             |                              |             |             |             |             |             |                           |             |                             |             |   |             |             |             |             |             |
| Current  | 108                                       | 118         | 179                          | 121         | 287         | 239         | 13          | 32          | 54                        | 73          | 61                          | 48          | 128                                       | 153         | 81          | 83          | 496         | 475         |
| Deferred   | 182                                       | 149         | (102)                        | (33)        | 80          | 116         | 72          | 24          | (5)                       | (7)         | 127                         | 154         | 194                                       | 171         | (82)        | (118)       | 192         | 169         |
| Total income tax provision (recovery)  | 290                                       | 267         | 77                           | 88          | 367         | 355         | 85          | 56          | 49                        | 66          | 188                         | 202         | 322                                       | 324         | (1)         | (35)        | 688         | 644         |
| Net earnings (loss)  | 834                                       | 755         | 225                          | 257         | 1,059       | 1,012       | 244         | 158         | 142                       | 192         | 350                         | 350         | 736                                       | 700         | (143)       | (164)       | 1,652       | 1,548       |
| Intersegment revenues  | 1,444                                     | 1,483       | —                            | —           | 1,444       | 1,483       | 31          | 99          | 14                        | 123         | —                           | —           | 45  | 222         | —           | —           | 1,489       | 1,705       |
| Expenditures on exploration and evaluation assets <sup>(3)</sup>               | 426                                       | 217         | —                            | —           | 426         | 217         | —           | —           | —                         | —           | —                           | —           | —   | —           | —           | —           | 426         | 217         |
| Expenditures on property, plant and equipment <sup>(3)</sup>                   | 2,558                                     | 2,647       | 55                           | 35          | 2,613       | 2,682       | 162         | 30          | 77                        | 64          | 121                         | 200         | 360                                       | 294         | 92          | 35          | 3,065       | 3,011       |
| <b>As at September 30, 2013 and December 31, 2012</b>                          |   |             |                              |             |             |             |             |             |                           |             |                             |             |   |             |             |             |             |             |
| Total exploration and evaluation assets and property, plant and equipment, net | 23,170                                    | 21,625      | 545                          | 520         | 23,715      | 22,145      | 1,147       | 1,056       | 1,231                     | 1,222       | 3,605                       | 3,536       | 5,983                                     | 5,814       | 226         | 168         | 29,924      | 28,127      |
| Total assets   | 24,058                                    | 22,774      | 1,766                        | 1,506       | 25,824      | 24,280      | 1,214       | 1,242       | 1,704                     | 1,646       | 5,665                       | 5,326       | 8,583                                     | 8,214       | 2,193       | 2,667       | 36,600      | 35,161      |

<sup>(1)</sup> Includes allocated depletion, depreciation and amortization related to assets in Infrastructure and Marketing as these assets provide a service to Exploration and Production.

<sup>(2)</sup> Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices.

<sup>(3)</sup> Excludes capitalized costs related to asset retirement obligations and capitalized interest incurred during the period. Includes assets acquired through acquisitions.



## Note 2 Basis of Presentation

The condensed interim consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s 2012 Annual Report.

The condensed interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 3 to the consolidated financial statements for the fiscal year ended December 31, 2012, except for the newly issued standards and amendments as discussed below.

These condensed interim consolidated financial statements were approved and signed by the Chair of the Audit Committee and Chief Executive Officer on October 23, 2013.

## Note 3 Significant Accounting Policies

### Changes in Accounting Policy

The following new accounting standards and amendments to existing standards, as issued by the IASB, have been adopted by the Company effective January 1, 2013.

#### New Accounting Standards

IFRS 10, “Consolidated Financial Statements” provides a single control model to be applied in the assessment of control for all entities in which the Company has an investment. The adoption of this standard had no impact on the Company’s consolidated financial statements.

IFRS 11, “Joint Arrangements” classifies joint arrangements as either joint operations or joint ventures. Parties to a joint operation retain the rights and obligations to individual assets and liabilities of the operation and apply proportionate consolidation, while parties to a joint venture have rights to the net assets of the venture and apply equity accounting. As a result of identifying and analyzing the applicability of these new standards, the Company’s Madura joint arrangement will no longer be accounted for using proportionate consolidation. It will now be accounted for on an equity basis as it meets the IFRS 11 definition of a joint venture. The Company’s share of income or loss in the Madura joint arrangement is included as share of equity investment on the consolidated statements of income. The adoption of this standard resulted in the following cumulative balance sheet impact, applied prospectively from January 1, 2012.

#### Balance Sheet Impact

| <i>(\$ millions)</i>                     | December 31, 2012 | January 1, 2012 |
|--|-------------------|-----------------|
| Accounts receivable                      | (4)               | (4)             |
| Exploration and evaluation assets        | (37)              | (14)            |
| Property, plant and equipment, net       | (45)              | (42)            |
| Investment in joint ventures             | 132               | 91              |
| Other assets                             | (25)              | —               |
| Accounts payable and accrued liabilities | 1                 | 18              |
| Other long-term liabilities              | 3                 | (24)            |
| Deferred tax liabilities                 | (25)              | (25)            |
| Total Balance Sheet Impact               | —                 | —               |

IFRS 12, “Disclosure of Interests in Other Entities” contains new annual disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard will not have a material impact on the Company's annual consolidated financial statement disclosures.

IFRS 13, “Fair Value Measurement” establishes a single source of guidance for fair value measurement and disclosure of financial and non-financial items under IFRS. The adoption of this standard had an immaterial impact on the Company's consolidated financial statements.

#### Amendments to Standards

Amendments to IFRS 7, “Financial Instruments Disclosures” require additional disclosures regarding the Company's financial assets and financial liabilities that are subject to set-off rights and related arrangements. Refer to Note 11 for the additional disclosure required.

Amendments to IAS 28, “Investments in Associates and Joint Ventures” provide additional guidance applicable to accounting for interests in joint ventures or associates using the equity method of accounting. The adoption of this amended standard had no impact on the Company's consolidated financial statements.

Amendments to IAS 19, “Employee Benefits” replaced the corridor approach with immediate recognition of actuarial re-measurements and past service costs, modified the calculation of benefit costs and eliminated the expected returns on plan assets through profit or loss. Additional disclosures regarding risk, judgments and assumptions are required.

The adoption of this amended standard resulted in the following balance sheet impact, applied retrospectively to January 1, 2010.

| <b>Balance Sheet Impact</b><br><i>(\$ millions)</i>  | 2012 | 2011 | 2010 | Total |
|--|------|------|------|-------|
| Increase/(decrease) in net defined benefit liability | 1    | 2    | (12) | (9)   |
| Increase/(decrease) in retained earnings             | (1)  | (2)  | 12   | 9     |
| Total balance sheet impact                           | —    | —    | —    | —     |

#### Recent Accounting Standards

The IASB issued amendments to IAS 36, “Impairment of Assets” that require retrospective application and will be adopted by the Company on January 1, 2014. The adoption of these amended standards is not expected to have a material impact on the Company's consolidated financial statements.

#### Note 4 Exploration and Evaluation Assets

| <b>Exploration and Evaluation Assets</b><br><i>(\$ millions)</i> |              |
|--|--------------|
| December 31, 2012 <i>(note 3)</i>                                | 773          |
| Additions  | 434          |
| Transfers to oil and gas properties <i>(note 5)</i>              | (148)        |
| Expensed exploration expenditures previously capitalized         | (8)          |
| Exchange adjustments   | 8            |
| <b>September 30, 2013</b>  | <b>1,059</b> |

## Note 5 Property, Plant and Equipment

| <i>Property, Plant and Equipment</i><br>(\$ millions)       | Oil and Gas<br>Properties | Processing,<br>Transportation<br>and Storage | Upgrading      | Refining       | Retail and<br>Other | Total           |
|---|---------------------------|--|----------------|----------------|---------------------|-----------------|
| <b>Cost</b>   |                           |  |                |                |                     |                 |
| December 31, 2012 (note 3)                                  | 38,781                    | 981  | 2,006          | 5,094          | 2,225               | 49,087          |
| Additions   | 2,718                     | 56   | 162            | 171            | 119                 | 3,226           |
| Acquisitions  | 11                        | —  | —              | —              | —                   | 11              |
| Transfers from exploration and evaluation (note 4)          | 148                       | —  | —              | —              | —                   | 148             |
| Transfers between categories                                | —                         | —  | —              | (27)           | 27                  | —               |
| Changes in asset retirement obligations                     | 40                        | —  | —              | —              | —                   | 40              |
| Disposals and derecognition                                 | (30)                      | —  | —              | —              | (3)                 | (33)            |
| Exchange adjustments  | 68                        | —  | —              | 153            | —                   | 221             |
| <b>September 30, 2013</b>                                   | <b>41,736</b>             | <b>1,037</b>                                 | <b>2,168</b>   | <b>5,391</b>   | <b>2,368</b>        | <b>52,700</b>   |
| <b>Accumulated depletion, depreciation and amortization</b> |                           |  |                |                |                     |                 |
| December 31, 2012   | (17,947)                  | (443)  | (950)          | (1,260)        | (1,133)             | (21,733)        |
| Depletion, depreciation and amortization                    | (1,711)                   | (32)   | (71)           | (188)          | (85)                | (2,087)         |
| Transfers between categories                                | —                         | —  | —              | 12             | (12)                | —               |
| Disposals and derecognition                                 | 24                        | —  | —              | —              | 1                   | 25              |
| Exchange adjustments  | (8)                       | —  | —              | (32)           | —                   | (40)            |
| <b>September 30, 2013</b>                                   | <b>(19,642)</b>           | <b>(475)</b>                                 | <b>(1,021)</b> | <b>(1,468)</b> | <b>(1,229)</b>      | <b>(23,835)</b> |
| <b>Net book value</b>                                       |                           |  |                |                |                     |                 |
| December 31, 2012 (note 3)                                  | 20,834                    | 538  | 1,056          | 3,834          | 1,092               | 27,354          |
| <b>September 30, 2013</b>                                   | <b>22,094</b>             | <b>562</b>                                   | <b>1,147</b>   | <b>3,923</b>   | <b>1,139</b>        | <b>28,865</b>   |

## Note 6 Cash Flows – Change in Non-cash Working Capital

| <i>Non-cash Working Capital</i><br>(\$ millions)       | Three months ended September 30, |            | Nine months ended September 30, |            |
|--|----------------------------------|------------|---------------------------------|------------|
|  | 2013                             | 2012       | 2013                            | 2012       |
| <b>Decrease (increase) in non-cash working capital</b> |                                  |            |                                 |            |
| Accounts receivable                                    | 26                               | (100)      | 460                             | 464        |
| Inventories  | (360)                            | (32)       | (430)                           | 285        |
| Prepaid expenses                                       | (43)                             | (3)        | (26)                            | (3)        |
| Accounts payable and accrued liabilities               | 451                              | 451        | 64                              | 48         |
| <b>Change in non-cash working capital</b>              | <b>74</b>                        | <b>316</b> | <b>68</b>                       | <b>794</b> |
| <b>Relating to:</b>                                    |                                  |            |                                 |            |
| Operating activities                                   | (69)                             | 188        | 167                             | 845        |
| Financing activities                                   | (7)                              | 17         | (7)                             | 74         |
| Investing activities                                   | 150                              | 111        | (92)                            | (125)      |

## Note 7 Long-term Debt

| <b>Long-term Debt</b><br>(\$ millions)      | Maturity | Canadian \$ Amount    |                      | U.S. \$ Denominated   |                      |
|---|----------|-----------------------|----------------------|-----------------------|----------------------|
|   |          | September 30,<br>2013 | December 31,<br>2012 | September 30,<br>2013 | December 31,<br>2012 |
| Long-term debt                              |          |                       |                      |                       |                      |
| 5.90% notes                                 | 2014     | —                     | 746                  | —                     | 750                  |
| 3.75% medium-term notes                     | 2015     | 300                   | 300                  | —                     | —                    |
| 7.55% debentures <sup>(1)</sup>             | 2016     | 206                   | 199                  | 200                   | 200                  |
| 6.20% notes <sup>(1)</sup>                  | 2017     | 309                   | 298                  | 300                   | 300                  |
| 6.15% notes <sup>(1)</sup>                  | 2019     | 309                   | 298                  | 300                   | 300                  |
| 7.25% notes <sup>(1)</sup>                  | 2019     | 771                   | 746                  | 750                   | 750                  |
| 5.00% medium-term notes                     | 2020     | 400                   | 400                  | —                     | —                    |
| 3.95% senior unsecured notes <sup>(1)</sup> | 2022     | 514                   | 498                  | 500                   | 500                  |
| 6.80% notes <sup>(1)</sup>                  | 2037     | 397                   | 385                  | 387                   | 387                  |
| Debt issue costs <sup>(2)</sup>             |          | (21)                  | (24)                 | —                     | —                    |
| Unwound interest rate swaps                 |          | 55                    | 72                   | —                     | —                    |
| <b>Long-term debt</b>                       |          | <b>3,240</b>          | <b>3,918</b>         | <b>2,437</b>          | <b>3,187</b>         |
| Long-term debt due within one year          |          |                       |                      |                       |                      |
| 5.90% notes <sup>(1)</sup>                  | 2014     | 771                   | —                    | 750                   | —                    |

<sup>(1)</sup> The Company's U.S. denominated debt is designated as a hedge of the Company's net investment in its U.S. refining operations. Refer to Note 11.

<sup>(2)</sup> Calculated using the effective interest rate method.

On March 22, 2012, the Company issued U.S. \$500 million of 3.95% senior unsecured notes due April 15, 2022 pursuant to a universal short form base shelf prospectus filed with the Alberta Securities Commission and the U.S. Securities and Exchange Commission on June 13, 2011 and an accompanying prospectus supplement. The notes are redeemable at the option of the Company at a make-whole premium and interest is payable semi-annually. The notes are unsecured and unsubordinated and rank equally with all of the Company's other unsecured and unsubordinated indebtedness.

On June 15, 2012, the Company repaid the maturing 6.25% notes issued under a trust indenture dated June 14, 2002. The amount paid to note holders was U.S. \$413 million, including U.S. \$13 million of interest. The amount paid to note holders was equivalent to \$410 million in Canadian dollars.

On December 14, 2012, the Company amended and restated both of its revolving syndicated credit facilities to allow the Company to borrow up to \$1.5 billion and \$1.6 billion in either Canadian or U.S. currency from a group of banks on an unsecured basis. The maturity date for the \$1.5 billion facility was extended to December 14, 2016 and there was no change to the August 31, 2014 maturity date of the \$1.6 billion facility. In February 2013, the limit on the \$1.5 billion facility was increased to \$1.6 billion. There continues to be no difference between the terms of these facilities, other than their maturity dates. As at September 30, 2013, there were no amounts drawn under the facilities.

On December 31, 2012, the Company filed a universal short form base shelf prospectus (the "Canadian Base Prospectus") with applicable securities regulators in each of the provinces of Canada, other than Quebec, that enables the Company to offer up to \$3.0 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and units (the "Securities") in Canada up to and including January 30, 2015. As at September 30, 2013, the Company had not issued Securities under the Canadian Base Prospectus. The ability of the Company to raise capital utilizing the Canadian Base Prospectus is dependent on market conditions at the time of sale.

## Note 8 Financial Items

| <b>Financial Items</b><br>(\$ millions)                                 | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |       |
|---|-------------------------------------|------|------------------------------------|-------|
|   | 2013                                | 2012 | 2013                               | 2012  |
| Foreign exchange  |                                     |      |                                    |       |
| Gains (losses) on translation of U.S. dollar denominated long-term debt | 10                                  | 49   | (11)                               | 47    |
| Gains on cross currency swaps   | —                                   | —    | —                                  | 2     |
| Gains (losses) on contribution receivable                               | (9)                                 | (27) | 21                                 | (22)  |
| Other foreign exchange gains (losses)                                   | 5                                   | (6)  | (2)                                | (12)  |
| Net foreign exchange gains  | 6                                   | 16   | 8                                  | 15    |
| Finance income  |                                     |      |                                    |       |
| Contribution receivable   | 5                                   | 13   | 20                                 | 44    |
| Interest income   | 6                                   | 4    | 14                                 | 23    |
| Other   | —                                   | 5    | 2                                  | 5     |
| Finance income  | 11                                  | 22   | 36                                 | 72    |
| Finance expenses  |                                     |      |                                    |       |
| Long-term debt  | (59)                                | (54) | (174)                              | (176) |
| Contribution payable  | (20)                                | (20) | (60)                               | (62)  |
| Other   | (1)                                 | (2)  | 2                                  | (3)   |
|   | (80)                                | (76) | (232)                              | (241) |
| Interest capitalized <sup>(1)</sup>                                     | 69                                  | 45   | 191                                | 119   |
|   | (11)                                | (31) | (41)                               | (122) |
| Accretion of asset retirement obligations (note 9)                      | (28)                                | (22) | (88)                               | (66)  |
| Accretion of other long-term liabilities (note 11)                      | (3)                                 | (2)  | (6)                                | (7)   |
| Finance expenses  | (42)                                | (55) | (135)                              | (195) |
|   | (25)                                | (17) | (91)                               | (108) |

<sup>(1)</sup> Interest capitalized on project costs is calculated using the Company's annualized effective interest rate of 6% (2012 – 6%).

## Note 9 Asset Retirement Obligations ("ARO")

A reconciliation of the carrying amount of asset retirement obligations at September 30, 2013 is set out below.

| <b>Asset Retirement Obligations</b><br>(\$ millions) |              |
|--|--------------|
| December 31, 2012                                    | 2,793        |
| Additions  | 40           |
| Liabilities settled                                  | (92)         |
| Exchange adjustment                                  | 6            |
| Accretion (note 8)                                   | 88           |
| <b>September 30, 2013</b>                            | <b>2,835</b> |
| Expected to be incurred within one year              | 158          |
| Expected to be incurred beyond one year              | 2,677        |

## Note 10 Share Capital

### Common Shares

| <i>Common Shares</i>      | Number of Shares   | Amount<br>(\$ millions) |
|---------------------------|--------------------|-------------------------|
| December 31, 2012         | 982,229,220        | 6,939                   |
| Stock dividends           | 199,477            | 6                       |
| Options exercised         | 854,188            | 26                      |
| <b>September 30, 2013</b> | <b>983,282,885</b> | <b>6,971</b>            |

During the three and nine months ended September 30, 2013, the Company declared dividends of \$0.30 per common share and \$0.90 per common share (three and nine months ended September 30, 2012 – \$0.30 per common share and \$0.90 per common share), resulting in total dividends of \$295 million and \$885 million (three and nine months ended September 30, 2012 – \$294 million and \$876 million), respectively. At September 30, 2013, \$295 million, including \$292 million in cash and \$3 million in common shares (December 31, 2012 – \$295 million, including \$293 million in cash and \$2 million in common shares), was payable to shareholders on account of dividends declared. During the first nine months of 2013, an aggregate of \$885 million, including \$879 million in cash and \$6 million in common shares (nine months ended September 30, 2012 - \$870 million, including \$264 million in cash and \$606 million in common shares) was paid to shareholders .

### Preferred Shares

During the three and nine months ended September 30, 2013, the Company declared dividends payable of \$3 million and \$10 million (three and nine months ended September 30, 2012 – \$3 million and \$10 million), respectively, on the Cumulative Redeemable Preferred Shares, Series 1 (the "Series 1 Preferred Shares"). No amounts were payable as cash dividends at September 30, 2013 (December 31, 2012 – nil). During the first nine months of 2013, \$10 million was paid as dividends on the Series 1 Preferred Shares (nine months ended September 30, 2012 - \$10 million).

### Stock-based Compensation

The following table summarizes the total expense recognized in selling, general and administrative expenses in the condensed interim consolidated statements of income for the Company's stock option plan and Performance Share Units ("PSU") for the three and nine months ended September 30, 2013 and 2012.

| <i>Stock-based Compensation</i><br>(\$ millions) | Three months ended September 30, |      | Nine months ended September 30, |      |
|--|----------------------------------|------|---------------------------------|------|
|  | 2013                             | 2012 | 2013                            | 2012 |
| Stock option plan                                | 20                               | 7    | 17                              | 15   |
| PSU  | 10                               | 2    | 15                              | 6    |
| Stock-based compensation expense                 | 30                               | 9    | 32                              | 21   |

## Earnings per Share

| <b>Earnings per Share</b><br>(\$ millions)                                       | Three months ended September 30, |       | Nine months ended September 30, |       |
|--|----------------------------------|-------|---------------------------------|-------|
|  | 2013                             | 2012  | 2013                            | 2012  |
| Net earnings   | 512                              | 526   | 1,652                           | 1,548 |
| Effect of dividends declared on preferred shares in the period                   | (3)                              | (3)   | (10)                            | (10)  |
| Net earnings - basic   | 509                              | 523   | 1,642                           | 1,538 |
| Dilutive effect of accounting for share options as equity-settled <sup>(1)</sup> | —                                | (1)   | (6)                             | (10)  |
| Net earnings - diluted   | 509                              | 522   | 1,636                           | 1,528 |
| <i>(millions)</i>  |                                  |       |                                 |       |
| Weighted average common shares outstanding - basic                               | 983.3                            | 981.8 | 982.9                           | 973.7 |
| Effect of stock dividends declared in the period                                 | 0.5                              | 0.1   | 0.6                             | 0.1   |
| Weighted average common shares outstanding - diluted                             | 983.8                            | 981.9 | 983.5                           | 973.8 |
| Earnings per share – basic (\$/share)  | 0.52                             | 0.53  | 1.67                            | 1.58  |
| Earnings per share – diluted (\$/share)  | 0.52                             | 0.53  | 1.66                            | 1.57  |

<sup>(1)</sup> Stock-based compensation expense was \$23 million and \$17 million based on cash-settlement for the three and nine months ended September 30, 2013 (three and nine months ended September 30, 2012 – expense of \$7 million and \$15 million), respectively. Stock-based compensation expense was \$7 million and \$23 million based on equity-settlement for the three and nine months ended September 30, 2013 (three and nine months ended September 30, 2012 - expense of \$8 million and \$25 million), respectively. For the three months ended September 30, 2013, cash-settlement of share options was used to calculate diluted earnings per share as it was considered more dilutive than equity-settlement. For the nine months ended September 30, 2013, equity-settlement of share options was used to calculate diluted earnings per share as it was considered more dilutive than cash-settlement.

For the three and nine months ended September 30, 2013, 27 million tandem options and 0.3 million tandem performance options (three and nine months ended September 30, 2012 - 29 million tandem options and 2 million tandem performance options) were excluded from the calculation of diluted earnings per share as these options were anti-dilutive.

## Note 11 Financial Instruments and Risk Management

### Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, contribution receivable, accounts payable and accrued liabilities, long-term debt, contribution payable, and portions of other assets and other long-term liabilities.

The following table summarizes the Company's financial instruments that are carried at fair value in the consolidated balance sheets:

| <i>Financial Instruments at Fair Value</i><br>(\$ millions) | As at September 30, 2013 | As at December 31, 2012 |
|---|--------------------------|-------------------------|
| Derivatives – fair value through profit or loss ("FVTPL")   |                          |                         |
| Accounts receivable   | 36                       | 13                      |
| Accounts payable and accrued liabilities                    | (11)                     | (5)                     |
| Other assets, including derivatives                         | 3                        | 1                       |
| Other – FVTPL <sup>(1)</sup>                                |                          |                         |
| Accounts payable and accrued liabilities                    | (51)                     | (27)                    |
| Other long-term liabilities                                 | (31)                     | (78)                    |
| Hedging instruments <sup>(2)</sup>                          |                          |                         |
| Derivatives designated as a cash flow hedge                 | 27                       | 1                       |
| Hedge of net investment <sup>(3)</sup>                      | 4                        | 88                      |
|   | <b>(23)</b>              | <b>(7)</b>              |

<sup>(1)</sup> Non-derivative items related to contingent consideration recognized as part of a business acquisition.

<sup>(2)</sup> Hedging instruments are presented net of tax.

<sup>(3)</sup> Represents the translation of the Company's U.S. denominated long-term debt designated as a hedge of the Company's net investment in its U.S. refining operations.

The Company's other financial instruments that are not related to derivatives, contingent consideration or hedging activities are included in cash and cash equivalents, accounts receivable, contribution receivable, accounts payable and accrued liabilities, long-term debt, other long-term liabilities and contribution payable. These financial instruments are classified as loans and receivables or other financial liabilities and are carried at amortized cost. Excluding long-term debt, the carrying values of these financial instruments and cash and cash equivalents approximate their fair values.

The fair value of long-term debt represents the present value of future cash flows associated with the debt. Market information such as treasury rates and credit spreads are used to determine the appropriate discount rates. These fair value determinations are compared to quotes received from financial institutions to ensure reasonability. The estimated fair value of long-term debt at September 30, 2013 was \$4.5 billion (December 31, 2012 - \$4.6 billion).

The Company's financial assets and liabilities that are recorded at fair value on a recurring basis have been categorized into one of three categories based upon the fair value hierarchy. Level 1 fair value measurements are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair value measurements of assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 fair value measurements are based on inputs that are unobservable and significant to the overall fair value measurement.

The estimation of the fair value of commodity derivatives and held-for-trading inventories incorporates forward prices and adjustments for quality and location. The estimation of the fair value of interest rate and foreign currency derivatives incorporates forward market prices, which are compared to quotes received from financial institutions to ensure reasonability. The estimation of the fair value of the net investment hedge incorporates foreign exchange rates and market interest rates from financial institutions. All financial assets and liabilities are classified as Level 2 measurements with the exception of contingent consideration payments. During the three and nine months ended September 30, 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.



Contingent consideration payments, based on the average differential between heavy and synthetic crude oil prices until 2014, are classified as Level 3 fair value measurements and included in accounts payable and accrued liabilities and other long-term liabilities. The fair value of the contingent consideration is determined through forecasts of synthetic crude oil volumes, crude oil prices, and forward price differentials deemed specific to the Company's Upgrader. A reconciliation of changes in fair value of financial liabilities classified in Level 3 is provided below:

### Level 3 Valuations

(\$ millions)

|  |      |
|--|------|
| Balance as at December 31, 2012        | 105  |
| Accretion (note 8)                     | 6    |
| Upside interest payment                | (25) |
| Decrease on revaluation <sup>(1)</sup> | (4)  |
| Balance as at September 30, 2013       | 82   |
| Expected to be incurred within 1 year  | 51   |
| Expected to be incurred beyond 1 year  | 31   |

<sup>(1)</sup> Revaluation of the contingent consideration liability is recorded in other – net in the consolidated statements of income.

## Risk Management

The Company is exposed to risks related to the volatility of commodity prices, foreign exchange rates and interest rates. In certain instances, the Company uses derivative instruments to manage the Company's exposure to these risks. Derivative instruments are recorded at fair value in accounts receivable, other assets, and accounts payable and accrued liabilities in the condensed interim consolidated balance sheets. The Company has crude oil and natural gas inventory held in storage related to commodity price risk management contracts that is recognized at fair value. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels.

### Net Investment Hedge

At September 30, 2013, the Company had designated all of its U.S. \$3.2 billion denominated debt as a hedge of the Company's net investment in its U.S. refining operations (December 31, 2012 – U.S. \$2.8 billion). Of this amount, U.S. \$400 million was designated in the third quarter of 2013. For the three and nine months ended September 30, 2013, the Company incurred an unrealized gain of \$54 million and loss of \$83 million (three and nine months ended September 30, 2012 – gain of \$56 million and \$42 million), respectively, arising from the translation of the debt, net of tax of \$8 million and \$12 million (three and nine months ended September 30, 2012 – net of tax of \$8 million and \$6 million), respectively, which was recorded in net investment hedge within other comprehensive income.

### Interest Rate Swaps

At September 30, 2013, the balance in long-term debt related to deferred gains resulting from unwound interest rate swaps that were designated as a fair value hedge was \$55 million (December 31, 2012 – \$72 million). The amortization of the accrued gain upon terminating the interest rate swaps resulted in an offset to finance expenses of \$5 million and \$16 million for the three and nine months ended September 30, 2013 (three and nine months ended September 30, 2012 – offset of \$5 million and \$16 million), respectively.

The Company has entered into a cash flow hedge using forward starting interest rate swap arrangements whereby the Company fixed the underlying U.S. 10-year Treasury Bond rate on U.S. \$500 million to June 16, 2014, which is the Company's forecasted debt issuance on the same date. The effective portion of these contracts has been recorded at fair value in other assets; there was no ineffective portion at September 30, 2013. For the three and nine months ended September 30, 2013, the Company incurred an unrealized loss of \$2 million and gain of \$27 million (three and nine months ended September 30, 2012 – loss of \$1 million and gain of \$1 million), respectively, arising from the revaluation of the forward starting swaps, net of tax of \$1 million and \$9 million (three and nine months ended September 30, 2012 – net of tax of nil and \$1 million), respectively, which was recorded in cash flow hedge within other comprehensive income.

The forward starting swaps had the following terms and fair value as at September 30, 2013:

| <b>Forward Starting Swaps</b><br>(\$ millions) | Swap Rate <sup>(1)</sup> | <b>As at September 30, 2013</b>       |            |
|--|--------------------------|---------------------------------------|------------|
|  |                          | Notional Amount<br>(U.S. \$ millions) | Fair Value |
| Swap Maturity                                  |                          |                                       |            |
| June 15, 2024                                  | 2.24%                    | 105                                   | 8          |
| June 16, 2024                                  | 2.25%                    | 310                                   | 23         |
| June 17, 2024                                  | 2.24%                    | 85                                    | 6          |
|  |                          | 500                                   | 37         |

<sup>(1)</sup> Weighted average rate.

The following represents the cumulative fair value adjustments on the Company's other risk management contracts as at September 30, 2013:

| <b>Risk Management</b><br>(\$ millions)      | <b>As at September 30, 2013</b> |           |     |
|--|---------------------------------|-----------|-----|
|  | Asset                           | Liability | Net |
| Commodity Price                              |                                 |           |     |
| Natural gas contracts                        | 20                              | (9)       | 11  |
| Natural gas storage contracts                | 9                               | (2)       | 7   |
| Natural gas storage inventory <sup>(1)</sup> | 11                              | —         | 11  |
| Crude oil contracts                          | 7                               | —         | 7   |
| Crude oil inventory <sup>(2)</sup>           | —                               | (9)       | (9) |
| Foreign Currency                             |                                 |           |     |
| Foreign currency forwards                    | 1                               | —         | 1   |
|  | 48                              | (20)      | 28  |

<sup>(1)</sup> Represents the fair value adjustment to inventory recognized in the condensed interim consolidated balance sheets related to third party physical purchase and sale contracts for natural gas held in storage. Total fair value of the related natural gas storage inventory was \$102 million at September 30, 2013.

<sup>(2)</sup> Represents the fair value adjustment to inventory recognized in the condensed interim consolidated balance sheets related to third party crude oil physical purchase and sale contracts. Total fair value of the related crude oil inventory was \$315 million at September 30, 2013.

The gains (losses) recognized on other risk management positions for the three and nine months ended September 30, 2013 are set out below.

| <b>Gross Earnings Impact</b><br>(\$ millions) | <b>Three months ended September 30, 2013</b> |                                     |             |                             |
|---|--|-------------------------------------|-------------|-----------------------------|
|   | Marketing and Other                          | Purchases of Crude Oil and Products | Other – Net | Net Foreign Exchange Losses |
| Commodity Price                               |  |                                     |             |                             |
| Natural gas                                   | 8  | 8                                   | 1           | —                           |
| Crude oil                                     | (17)   | —                                   | —           | —                           |
|   | (9)  | 8                                   | 1           | —                           |
| Foreign Currency                              |  |                                     |             |                             |
| Foreign currency forwards <sup>(1)</sup>      | —  | —                                   | 6           | —                           |
|   | (9)  | 8                                   | 7           | —                           |

<sup>(1)</sup> Unrealized gains or losses from short-dated foreign currency forwards are included in other – net, while realized gains or losses are included in net foreign exchange gains (losses).

| <b>Gross Earnings Impact</b><br>(\$ millions) | <b>Nine months ended September 30, 2013</b> |                                     |             |                             |
|---|---|-------------------------------------|-------------|-----------------------------|
|   | Marketing and Other                         | Purchases of Crude Oil and Products | Other – Net | Net Foreign Exchange Losses |
| Commodity Price                               |   |                                     |             |                             |
| Natural gas                                   | 12  | 8                                   | 1           | —                           |
| Crude oil                                     | (53)  | —                                   | —           | —                           |
|   | (41)  | 8                                   | 1           | —                           |
| Foreign Currency                              |   |                                     |             |                             |
| Foreign currency forwards <sup>(1)</sup>      | —   | —                                   | 2           | (21)                        |
|   | (41)  | 8                                   | 3           | (21)                        |

<sup>(1)</sup> Unrealized gains or losses from short-dated foreign currency forwards are included in other – net, while realized gains or losses are included in net foreign exchange gains (losses).

## Offsetting Financial Assets and Liabilities

The tables below outline the financial assets and financial liabilities that are subject to set-off rights and related arrangements, and the effect of those rights and arrangements on the condensed interim consolidated balance sheets:

| <b>Offsetting Financial Assets and Liabilities</b><br>(\$ millions) | <b>As at September 30, 2013</b> |               |            |
|---|---------------------------------|---------------|------------|
|   | Gross Amount                    | Amount Offset | Net Amount |
| Financial Assets  |                                 |               |            |
| Financial derivatives   | 269                             | (258)         | 11         |
| Normal purchase and sale agreements                                 | 606                             | (196)         | 410        |
|   | 875                             | (454)         | 421        |
| Financial Liabilities   |                                 |               |            |
| Financial derivatives   | —                               | —             | —          |
| Normal purchase and sale agreements                                 | (1,060)                         | 404           | (656)      |
|   | (1,060)                         | 404           | (656)      |

| <b>Offsetting Financial Assets and Liabilities</b><br>(\$ millions) | <b>As at December 31, 2012</b> |               |            |
|---|--------------------------------|---------------|------------|
|   | Gross Amount                   | Amount Offset | Net Amount |
| Financial Assets  |                                |               |            |
| Financial derivatives   | 36                             | (5)           | 31         |
| Normal purchase and sale agreements                                 | 595                            | (116)         | 479        |
|   | 631                            | (121)         | 510        |
| Financial Liabilities   |                                |               |            |
| Financial derivatives   | (121)                          | 119           | (2)        |
| Normal purchase and sale agreements                                 | (707)                          | 279           | (428)      |
|   | (828)                          | 398           | (430)      |