REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are properly accounted for and adequately safeguarded. Management's evaluation concluded that the Corporation's internal controls over financial reporting were effective as of December 31, 2016.

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

PricewaterhouseCoopers LLP, an independent firm of auditors, has been engaged, as approved by a vote of the shareholders at the Corporation's most recent Annual General Meeting, to audit and provide their independent audit opinion on the Corporation's consolidated financial statements as at and for the year ended December 31, 2016. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

"William (Bill) McCaffrey"	*"Eric L. Toews"*
William (Bill) McCaffrey, P.Eng. President and Chief Executive Officer	Eric L. Toews, CPA, CA Chief Financial Officer

March 2, 2017

March 2, 2017

Independent Auditor's Report

To the Shareholders of MEG Energy Corp.

We have audited the accompanying consolidated financial statements of MEG Energy Corp. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016 and December 31, 2015 and the consolidated earnings (loss), comprehensive income (loss), changes in shareholders' equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MEG Energy Corp. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
Suite 3100, 111 – 5th Avenue, SW, Calgary, Alberta, Canada, T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

CONSOLIDATED BALANCE SHEET
(Expressed in thousands of Canadian dollars)

As at December 31	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	25	**$ 156,230**	$ 408,213
Trade receivables and other	5	**236,989**	150,042
Inventories	6	**66,394**	53,079
		459,613	611,334
Non-current assets			
Property, plant and equipment	7	**7,639,434**	8,011,760
Exploration and evaluation assets	8	**547,752**	546,421
Other intangible assets	9	**16,111**	84,142
Other assets	10	**137,370**	146,612
Deferred income tax asset	14	**120,944**	-
Total assets		**$ 8,921,224**	$ 9,400,269
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	**$ 292,340**	$ 217,991
Current portion of long-term debt	12	**17,455**	17,992
Current portion of provisions and other liabilities	13	**23,063**	12,313
Commodity risk management	27	**30,313**	-
		363,171	248,296
Non-current liabilities			
Long-term debt	12	**5,053,239**	5,190,363
Provisions and other liabilities	13	**218,038**	196,274
Deferred income tax liability	14	**-**	87,469
Total liabilities		**5,634,448**	5,722,402
Shareholders' equity			
Share capital	15	**4,878,607**	4,836,800
Contributed surplus		**168,253**	171,835
Deficit		**(1,795,067)**	(1,366,341)
Accumulated other comprehensive income		**34,983**	35,573
Total shareholders' equity		**3,286,776**	3,677,867
Total liabilities and shareholders' equity		**$ 8,921,224**	$ 9,400,269

Commitments and contingencies (note 30)

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

These Consolidated Financial Statements were approved by the Corporation's Board of Directors on March 2, 2017.

"William (Bill) McCaffrey" *"Robert B. Hodgins"*

William (Bill) McCaffrey, Director Robert B. Hodgins, Director

CONSOLIDATED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Expressed in thousands of Canadian dollars, except per share amounts)

Year ended December 31	Note		2016		2015
Revenues					
Petroleum revenue, net of royalties	17	**$**	**1,823,234**	$	1,882,853
Other revenue	18		**43,050**		43,063
			1,866,284		1,925,916
Expenses					
Diluent and transportation	19		**1,017,894**		1,050,377
Operating expenses	23		**253,758**		306,725
Purchased product and storage			**202,135**		129,615
Depletion and depreciation	7,9		**499,811**		467,422
Impairment charge	9		**80,072**		-
Exploration expense	8		**1,248**		-
General and administrative	23		**96,241**		118,518
Stock-based compensation	16		**49,942**		50,105
Research and development			**5,499**		7,497
Gain on disposition of assets	8		**-**		(68,192)
Interest and other income			**(1,133)**		(3,078)
Commodity risk management loss	27		**27,954**		-
Foreign exchange loss (gain), net	20		**(151,395)**		801,739
Net finance expense	21		**356,370**		255,194
Other expenses	22		**64,108**		71,598
Loss before income taxes			**(636,220)**		(1,261,604)
Income tax recovery	14		**(207,494)**		(91,933)
Net loss			**(428,726)**		(1,169,671)
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment			**(590)**		22,358
Comprehensive loss		**$**	**(429,316)**	$	(1,147,313)

Net loss per common share					
Basic	26	**$**	**(1.90)**	$	(5.21)
Diluted	26	**$**	**(1.90)**	$	(5.21)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at December 31, 2015		**$ 4,836,800**	**$ 171,835**	**$ (1,366,341)**	**$ 35,573**	**$ 3,677,867**
Stock-based compensation	16	**-**	**38,225**	**-**	**-**	**38,225**
RSUs vested and released	15	**41,807**	**(41,807)**	**-**	**-**	**-**
Comprehensive income (loss)		**-**	**-**	**(428,726)**	**(590)**	**(429,316)**
Balance as at December 31, 2016		**$ 4,878,607**	**$ 168,253**	**$ (1,795,067)**	**$ 34,983**	**$ 3,286,776**
Balance as at December 31, 2014		$ 4,797,853	$ 153,837	$ (196,670)	$ 13,215	$ 4,768,235
Stock-based compensation	16	-	56,945	-	-	56,945
RSUs vested and released	15	38,947	(38,947)	-	-	-
Comprehensive income (loss)		-	-	(1,169,671)	22,358	(1,147,313)
Balance as at December 31, 2015		$ 4,836,800	$ 171,835	$ (1,366,341)	$ 35,573	$ 3,677,867

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

CONSOLIDATED STATEMENT OF CASH FLOW
(Expressed in thousands of Canadian dollars)

Year ended December 31	Note	2016	2015
Cash provided by (used in):			
Operating activities			
Net loss		**$ (428,726)**	$ (1,169,671)
Adjustments for:			
Depletion and depreciation	7,9	**499,811**	467,422
Impairment charge	9	**80,072**	-
Exploration expense	8	**1,248**	-
Stock-based compensation	16	**33,588**	50,105
Gain on disposition of assets	8	**-**	(68,192)
Unrealized loss (gain) on foreign exchange	20	**(148,153)**	785,310
Unrealized gain on derivative financial liabilities	21	**(12,508)**	(13,289)
Unrealized loss on risk management	27	**30,313**	-
Onerous contracts	22	**47,866**	58,719
Deferred income tax recovery	14	**(208,413)**	(90,733)
Amortization of debt issue costs	10,12	**12,192**	11,795
Debt extinguishment expense	12,21	**28,845**	-
Other		**2,258**	5,115
Decommissioning expenditures	13	**(1,290)**	(1,873)
Net change in other liabilities		**(6,116)**	(541)
Net change in non-cash working capital items	25	**(25,061)**	77,991
Net cash provided by (used in) operating activities		**(94,074)**	112,158
Investing activities			
Capital investments:			
Property, plant and equipment	7	**(120,828)**	(305,670)
Exploration and evaluation	8	**(2,265)**	(1,458)
Other intangible assets	9	**(16,643)**	(6,498)
Proceeds on disposition of assets	8,10	**3,247**	110,015
Other		**2,775**	(930)
Net change in non-cash working capital items	25	**2,603**	(212,455)
Net cash provided by (used in) investing activities		**(131,111)**	(416,996)
Financing activities			
Repayment of long-term debt	12	**(17,062)**	(17,020)
Net cash provided by (used in) financing activities		**(17,062)**	(17,020)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	20	**(9,736)**	73,974
Change in cash and cash equivalents		**(251,983)**	(247,884)
Cash and cash equivalents, beginning of year	25	**408,213**	656,097
Cash and cash equivalents, end of year	25	**$ 156,230**	$ 408,213

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

1. CORPORATE INFORMATION

MEG Energy Corp. (the "Corporation") was incorporated under the *Alberta Business Corporations Act* on March 9, 1999. The Corporation's shares trade on the Toronto Stock Exchange ("TSX") under the symbol "MEG". The Corporation owns a 100% interest in over 900 square miles of oil sands leases in the southern Athabasca oil sands region of northern Alberta and is primarily engaged in a steam-assisted gravity drainage oil sands development at its 80 section Christina Lake Project. The Corporation also holds a 50% interest in the Access Pipeline, a dual pipeline to transport diluent north from the Edmonton area to the Athabasca oil sands area and a blend of bitumen and diluent south from the Christina Lake Project into the Edmonton area. In addition to the Access Pipeline, the Corporation owns the Stonefell Terminal, located near Edmonton, Alberta, which offers 900,000 barrels of terminalling and storage capacity. The Stonefell Terminal is connected to the Access Pipeline and is also connected by pipeline to a third party rail-loading terminal. The corporate office is located at 520 - 3rd Avenue S.W., Calgary, Alberta, Canada.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the significant accounting policies disclosed in Note 3. These consolidated financial statements were approved by the Corporation's Board of Directors on March 2, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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

The Corporation owns an undivided 50% working interest in Access Pipeline and is responsible for its proportionate ownership interest of all assets and liabilities and other obligations. Since the Corporation owns an undivided interest in Access Pipeline, it holds a proportionate share of the rights to the assets and obligations for the liabilities. As a result, the Corporation presents its proportionate share of the assets, liabilities, revenues and expenses of Access Pipeline on a line-by-line basis in the consolidated financial statements.

(b) Operating segments

The Corporation's operations are aggregated into one operating segment for reporting consistent with the internal reporting regularly provided to and reviewed by the chief operating decision-maker of the Corporation.

(c) Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

(d) Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in earnings or loss. If the modification is not treated as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

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

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i. Financial assets and liabilities at fair value through earnings or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. The Corporation's investments in U.S. auction rate securities (“ARS”) were classified as fair value through earnings or loss.

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

Financial instruments are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings (loss) and comprehensive income (loss). Gains and losses arising from changes in fair value are recognized in net earnings (loss) in the period in which they arise. Financial assets and liabilities at fair value through earnings or loss are classified as current except for any portion expected to be realized or paid beyond twelve months from the balance sheet date. Derivative financial instruments are included on the balance sheet as either an asset or liability and are classified as current or non-current based on the contractual terms specific to the instrument.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of cash and cash equivalents and trade receivables and other, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less any required discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

iii. Financial liabilities at amortized cost

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

Financial liabilities are classified as current liabilities if payment is due within twelve months from the balance sheet date. Otherwise, they are presented as non-current liabilities.

(e) Cash and cash equivalents

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

(f) Trade receivables and other

Trade receivables are recorded based on the Corporation's revenue recognition policy as described in Note 3(t). Other amounts include deposits and advances which include funds placed in escrow in accordance with the terms of certain agreements, funds held in trust in accordance with governmental regulatory requirements and funds advanced to joint operation partners.

(g) Inventories

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

(h) Exploration and evaluation assets

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

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

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

(i) Property, plant and equipment

Property, plant and equipment (“PP&E”) is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Assets under construction are not subject to depletion and depreciation.

i. Crude oil

Crude oil assets consist of capitalized costs associated with the acquisition, construction, development and production of crude oil sands properties and reserves, including directly attributable overhead and administrative costs, related borrowing costs and estimates of decommissioning liability costs.

Field production assets are depleted using the unit-of-production method based on estimated proved reserves. Costs subject to depletion include estimated future development costs required to develop and produce the proved reserves. These estimates are reviewed by independent reserve engineers at least annually.

Major facilities and equipment are depreciated on a unit-of-production basis over the total productive capacity of the facilities. When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components).

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

ii. Transportation and storage

Transportation and storage assets consist primarily of the Corporation's undivided 50% joint operations interest in the Access Pipeline and the Corporation's wholly-owned Stonefell Terminal and other transportation and storage assets. The net carrying values of transportation and storage assets are depreciated on a straight-line basis over their estimated 50 year useful lives.

iii. Corporate assets

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

(j) Borrowing costs

Borrowing costs incurred for the construction of a qualifying asset are capitalized when a substantial period of time is required to complete and prepare the asset for its intended use. The capitalization of borrowing costs is suspended during extended periods in which the Corporation suspends active development of the asset and ceases when the asset is in the location and condition necessary for its intended use.

(k) Other intangible assets

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

(l) Other assets – long-term pipeline linefill

The Corporation has entered into agreements to transport bitumen blend and diluent on third-party pipelines for which it is required to supply linefill. As these pipelines are owned by third parties, the linefill is not considered to be a component of the Corporation's PP&E. The linefill is classified as either a current or long-term asset based on the term of the related transportation contract. The linefill is carried at the lower of cost or net realizable value. If the carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exist.

(m) Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases within PP&E. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

All other leases are operating leases, which are recognized as an expense as incurred over the lease term. When lease inducements are received to enter into operating leases, such inducements are recognized as a deferred liability. The aggregate benefit of inducements is recognized as a reduction of the related lease expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Impairments

i. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are recognized in earnings or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

ii. Non-financial assets

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

For the purpose of impairment testing, PP&E assets are grouped into cash-generating units ("CGU"). A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. E&E assets are allocated to related CGU's, aggregated at the operating segment level, for impairment testing.

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

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

(o) Government grants

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

(p) Provisions

i. General

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

ii. Decommissioning provision

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

The decommissioning provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the decommissioning provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as any changes in the discount rate. Increases in the decommissioning provision due to the passage of time are recognized as a finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the decommissioning provision.

iii. Onerous contracts

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured at the present value of the estimated future cash flows associated with the contract. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as any changes in the discount rate. The net amount of actual costs incurred and sublease recoveries earned are charged against the onerous contract provision.

iv. Emission obligations

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

(q) Deferred income taxes

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(r) Share capital

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

(s) Share based payments

The Corporation has a number of share-based compensation plans including both equity-settled awards and cash-settled awards. Compensation expense is recorded as stock based compensation expense or capitalized when the cost directly relates to exploration or development activities.

i. Equity-settled

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

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

ii. Cash-settled

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

The Corporation's cash-settled RSU Plan allows the holder of an RSU or PSU to receive a cash payment, at the Corporation's discretion, equal to the fair market value of the Corporation's common shares calculated at the date of such payment.

The Corporation’s Deferred Share Unit Plan allows for the granting of deferred share units (“DSUs”) to directors of the Corporation. DSUs are accounted for as liability instruments and are measured at fair value based on the market price of the Corporation’s common shares. The fair value of a DSU is recognized as stock-based compensation expense on the grant date and future fluctuations in the fair value are recognized as stock-based compensation expense in the period in which they occur.

(t) Revenues

i. Petroleum revenue and royalty recognition

Revenue associated with the sale of proprietary and purchased crude oil and natural gas owned by the Corporation is recognized when title passes from the Corporation to its customers and collection is reasonably assured. Royalties are recorded at the time of production.

ii. Other revenue recognition

Revenue from power generated in excess of the Corporation's internal requirements is recognized when the power leaves the plant gate, at which point the risks and rewards are transferred to the customer. Revenue generated from the transportation of crude oil products is recognized in the period the product is delivered and the service is provided.

(u) Diluent and transportation

The costs associated with the transportation of crude oil, including the cost of diluent used in blending, are recognized when the product is sold.

(v) Purchased product and storage

Purchased product and storage costs include the cost of crude oil products purchased from third parties and associated transportation and storage costs.

(w) Net finance expense

Net finance expense is comprised of interest expense on borrowings, debt extinguishment expense, accretion of the discount on provisions, and gains and losses on derivative financial instruments and other assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time required to complete and prepare the assets for their intended use. All other borrowing costs are recognized in finance expense using the effective interest method.

(x) Net earnings (loss) per share

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

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

(y) New accounting standards

There were no new accounting standards adopted during the year ended December 31, 2016.

(z) Accounting standards issued but not yet applied

The IASB has issued the following standards which are not yet effective:

On January 19, 2016, the IASB issued amendments to IAS 12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 12 will be applied on a retrospective basis by the Corporation on January 1, 2017. The adoption of this amended standard is not expected to have a material impact on the Corporation's consolidated financial statements.

On January 29, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows, as part of its disclosure initiative. The amendments require an entity to disclose changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 7 will be applied by the Corporation on January 1, 2017. The adoption of this amended standard will have required disclosure impacts that enable users of financial statements to evaluate changes in liabilities arising from financing activities on the Corporation's consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of the adoption of these amendments on the Corporation's consolidated financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. Under IFRS 16, a single recognition and measurement model will apply for lessees, which will require recognition of lease assets and lease obligations on the balance sheet. The standard eliminates the classification of leases as either operating leases or finance leases for lessees, essentially treating all leases as finance leases. Short-term leases and leases for low-value assets are exempt from recognition and will continue to be treated as operating leases. The accounting requirements for lessors is substantially unchanged and a lessor will continue to classify leases as either finance leases or operating leases, but disclosure requirements are enhanced. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. IFRS 16 will be adopted by the Corporation on January 1, 2019 and the Corporation is currently assessing and evaluating the impact of the standard on the consolidated financial statements.

In May 2014, the IASB issued IFRS 15 Revenue From Contracts With Customers, which will replace IAS 11 Construction Contracts and IAS 18 Revenue and the related interpretations on revenue recognition. IFRS 15 provides a comprehensive revenue recognition and measurement framework that applies to all contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 will be adopted by the Corporation on January 1, 2018 and the Corporation is currently assessing and evaluating the impact of the standard on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9 Financial Instruments, which is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The accounting treatment of financial liabilities in IFRS 9 is essentially unchanged from IAS 39, except for financial liabilities designated at fair value through profit or loss, whereby an entity can recognize the portion of the change in fair value related to the change in the entity's own credit risk through other comprehensive income rather than net earnings. The standard also introduces a new expected credit loss impairment model for financial assets. In addition, IFRS 9 incorporates new hedge accounting requirements that more closely aligns with risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 will be adopted by the Corporation on January 1, 2018 and the Corporation is currently assessing and evaluating the impact of the standard on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

(a) Property, plant and equipment

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

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

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

(b) Exploration and evaluation assets

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

(c) Bitumen reserves

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

(d) Joint control

Judgment is required to determine whether an interest the Corporation holds in a joint arrangement should be classified as a joint operation or joint venture. The determination includes an assessment as to whether the Corporation has the rights to the assets and obligations for the liabilities of the arrangement or the rights to the net assets.

(e) Provisions

i. Decommissioning provision

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

ii. Onerous contracts

A contract is considered to be onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The determination of when to record a provision for an onerous contract is a complex process that involves management judgment about outcomes of future events and estimates concerning the nature, extent and timing of expected future cash flows and discount rates related to the contract.

(f) Impairments

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

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

(g) Stock-based compensation

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

(h) Deferred income taxes

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

The Corporation follows the liability method of accounting for income taxes. Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. The periods in which timing differences reverse are impacted by future earnings and capital expenditures. Rates are also affected by changes to tax legislation. Income taxes are recognized in net earnings except to the extent that they relate to items recognized directly in shareholders' equity, in which case the income taxes are recognized in shareholders' equity.

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

(i) Derivative financial instruments

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

5. TRADE RECEIVABLES AND OTHER

As at December 31	2016	2015
Trade receivables	**$ 219,054**	$ 130,187
Deposits and advances	**13,571**	15,491
Current portion of deferred financing costs	**4,364**	4,364
	$ 236,989	$ 150,042

6. INVENTORIES

As at December 31	2016	2015
Diluent	**$ 17,859**	$ 18,157
Bitumen blend	**46,571**	32,669
Materials and supplies	**1,964**	2,253
	$ 66,394	$ 53,079

During the year ended December 31, 2016, a total of $0.8 billion (2015 - $0.9 billion) in inventory product costs were charged to earnings through diluent and transportation expense.

7. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Corporate assets	Total
Cost				
Balance as at December 31, 2014	$ 7,539,369	$ 1,560,314	$ 47,117	$ 9,146,800
Additions	254,586	54,515	3,959	313,060
Change in decommissioning liabilities	(25,711)	(2,344)	-	(28,055)
Transfer to other assets (Note 10)	-	(6,938)	-	(6,938)
Balance as at December 31, 2015	$ 7,768,244	$ 1,605,547	$ 51,076	$ 9,424,867
Additions	115,832	4,544	4,907	125,283
Derecognition	(3,641)	-	-	(3,641)
Change in decommissioning liabilities	(2,426)	27	-	(2,399)
Balance as at December 31, 2016	**$ 7,878,009**	**$ 1,610,118**	**$ 55,983**	**$ 9,544,110**
Accumulated depletion and depreciation				
Balance as at December 31, 2014	$ 883,723	$ 51,113	$ 16,474	$ 951,310
Depletion and depreciation	426,946	29,227	5,624	461,797
Balance as at December 31, 2015	$ 1,310,669	$ 80,340	$ 22,098	$ 1,413,107
Depletion and depreciation	459,681	30,493	5,036	495,210
Derecognition	(3,641)	-	-	(3,641)
Balance as at December 31, 2016	**$ 1,766,709**	**$ 110,833**	**$ 27,134**	**$ 1,904,676**
Carrying amounts				
Balance as at December 31, 2015	$ 6,457,575	$ 1,525,207	$ 28,978	$ 8,011,760
Balance as at December 31, 2016	**$ 6,111,300**	**$ 1,499,285**	**$ 28,849**	**$ 7,639,434**

During the year ended December 31, 2016, the Corporation did not capitalize any interest and finance charges related to the development of capital projects (year ended December 31, 2015 - $56.4 million). As at December 31, 2016, $547.9 million of assets under construction were included within property, plant and equipment (December 31, 2015 - $663.8 million). Assets under construction are not subject to depletion and depreciation. As at December 31, 2016, no impairment has been recognized on property, plant and equipment as the net present value of future cash flows exceeded the carrying value of the respective CGUs.

8. EXPLORATION AND EVALUATION ASSETS

Cost		
Balance as at December 31, 2014	$	588,526
Additions		1,458
Dispositions		(41,827)
Change in decommissioning liabilities		(1,736)
Balance as at December 31, 2015	$	546,421
Additions		2,265
Exploration expense		(1,248)
Change in decommissioning liabilities		314
Balance as at December 31, 2016	**$**	**547,752**

Exploration and evaluation assets consist of exploration projects which are pending the determination of proved or probable reserves. These assets are not subject to depletion, as they are in the exploration and evaluation stage, but are reviewed on a quarterly basis for any indication of impairment. If it is determined that the project is not technically feasible and commercially viable or if the Corporation decides not to continue the exploration and evaluation activity, the unrecoverable accumulated costs are expensed as exploration expense. As at December 31, 2016, these assets were assessed for impairment within the aggregation of all of the Corporation's CGUs and no impairment has been recognized on exploration and evaluation assets.

In the fourth quarter of 2015, the Corporation completed a sale of a non-core undeveloped oil sands asset to an unrelated third party for gross proceeds of $110.0 million, resulting in a gain of $68.2 million.

9. OTHER INTANGIBLE ASSETS

Cost		
Balance as at December 31, 2014	$	89,780
Additions		6,498
Balance as at December 31, 2015	$	96,278
Additions		16,643
Balance as at December 31, 2016	**$**	**112,921**

Accumulated depreciation		
Balance as at December 31, 2014	$	6,690
Depreciation		5,446
Balance as at December 31, 2015	$	12,136
Impairment		80,072
Depreciation		4,602
Balance as at December 31, 2016	**$**	**96,810**

Carrying amounts		
Balance as at December 31, 2015	$	84,142
Balance as at December 31, 2016	**$**	**16,111**

At December 31, 2016, the Corporation evaluated its investment in the right to participate in the Northern Gateway pipeline for impairment in relation to the December 6, 2016, directive from the Government of Canada to the National Energy Board to dismiss the project application. As a result, the Corporation fully impaired its investment and has recognized an impairment charge of $80.1 million.

As at December 31, 2016, other intangible assets consist of $16.1 million invested in software that is not an integral component of the related computer hardware. As at December 31, 2015, these assets included $63.6 million invested to maintain the right to participate in the Northern Gateway pipeline project and $20.5 million invested in software that is not an integral component of the related computer hardware.

10. OTHER ASSETS

As at December 31		**2016**		**2015**
Long-term pipeline linefill[(a)]	**$**	**129,733**	$	131,141
Deferred financing costs[(b)]		**12,001**		16,366
U.S. auction rate securities[(c)]		**-**		3,470
		141,734		150,977
Less current portion of deferred financing costs		**(4,364)**		(4,365)
	$	**137,370**	$	146,612

(a) The Corporation has entered into agreements to transport diluent and bitumen blend on third-party owned pipelines and is required to supply linefill for these pipelines. As these pipelines are owned by third-parties, the linefill is not considered to be a component of the Corporation's property, plant and equipment. The linefill is classified as a long-term asset as these transportation contracts extend beyond the year 2024. As at December 31, 2016, no impairment has been recognized on these assets.

(b) Costs associated with establishing the Corporation's revolving credit facility are deferred and amortized over the term of the credit facility.

(c) In the fourth quarter of 2016, the Corporation disposed of these securities for proceeds of $3.2 million.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31		**2016**		**2015**
Trade payables	**$**	**2,971**	$	2,576
Accrued and other liabilities		**217,424**		141,331
Interest payable		**71,945**		74,084
	$	**292,340**	$	217,991

12. LONG-TERM DEBT

As at December 31		**2016**		**2015**
Senior secured term loan (December 31, 2016 - US$1.236 billion; December 31, 2015 - US$1.249 billion; due 2020)[a]	**$**	**1,658,906**	$	1,727,924
6.5% senior unsecured notes (US$750 million; due 2021)[b]		**1,007,025**		1,038,000
6.375% senior unsecured notes (US$800 million; due 2023)[c]		**1,074,160**		1,107,200
7.0% senior unsecured notes (US$1.0 billion; due 2024)[d]		**1,342,700**		1,384,000
		5,082,791		5,257,124
Debt redemption premium[e]		**21,812**		-
Less current portion of senior secured term loan		**(17,455)**		(17,992)
Less unamortized financial derivative liability discount		**(11,143)**		(14,377)
Less unamortized deferred debt issue costs		**(22,766)**		(34,392)
	$	**5,053,239**	$	5,190,363

The U.S. dollar denominated debt was translated into Canadian dollars at the year-end exchange rate of US$1 = C$1.3427 (December 31, 2015 – US$1 = C$1.3840).

All of the Corporation's long-term debt is "covenant-lite" in structure, meaning it is free of any financial maintenance covenants and is not dependent on, nor calculated from, the Corporation's crude oil reserves.

(a) As at December 31, 2016, the senior secured credit facilities are comprised of a US$1.236 billion term loan and a US$2.5 billion revolving credit facility. The senior secured credit facilities are secured by substantially all the assets of the Corporation. The term loan bears a floating interest rate based on either U.S. Prime or LIBOR, at the Corporation's option, plus a credit spread of 175 or 275 basis points, respectively. The term loan also has an interest rate floor of 200 basis points based on U.S. Prime or 100 basis points based on LIBOR. The term loan is to be repaid in quarterly installment payments equal to US$3.25 million, with the balance due on March 31, 2020. These facilities have been amended through a comprehensive refinancing plan completed on January 27, 2017; refer to subsequent events (Note 32).

Effective December 15, 2014, the Corporation entered into a five-year US$500.0 million guaranteed letter of credit facility guaranteed by Export Development Canada. The facility matures on November 5, 2019. Letters of credit issued under this facility do not consume capacity of the revolving credit facility. As at December 31, 2016, letters of credit of US$318.0 million had been issued under this facility. On February 15, 2017, this facility was amended and extended; refer to subsequent events (Note 32).

(b) Effective March 18, 2011, the Corporation issued US$750.0 million in aggregate principal amount of 6.5% Senior Unsecured Notes, with a maturity date of March 15, 2021. Interest is paid semi-annually on March 15 and September 15. No principal payments are required until March 15, 2021. The 6.5% Senior Unsecured Notes have been refinanced and replaced with new 6.5% second lien secured notes through a comprehensive refinancing plan completed on January 27, 2017, along with the planned redemption of these notes on March 15, 2017; refer to subsequent events (Note 32).

(c) Effective July 19, 2012, the Corporation issued US$800.0 million in aggregate principal amount of 6.375% Senior Unsecured Notes, with a maturity date of January 30, 2023. Interest is paid semi-annually on January 30 and July 30. No principal payments are required until January 30, 2023.

(d) Effective October 1, 2013, the Corporation issued US$800.0 million in aggregate principal amount of 7.0% Senior Unsecured Notes, with a maturity date of March 31, 2024. On November 6, 2013 an additional US$200 million of 7.0% Senior Unsecured Notes were issued under the same indenture. Interest is paid semi-annually on March 31 and September 30. No principal payments are required until March 31, 2024.

(e) The 6.5% senior unsecured notes have a prepayment option where the Corporation is required to make an estimate at each reporting date of the likelihood of the prepayment option being exercised. At December 31, 2016, it was determined that it was probable that the prepayment option would be exercised. As such, the Corporation recognized the 2.166% premium that will be payable on the planned redemption of these notes on March 15, 2017, under the comprehensive refinancing plan completed on January 27, 2017 (Note 32). The debt redemption premium of $21.8 million and the associated remaining unamortized deferred debt issue costs of $7.0 million have been recognized as debt extinguishment expense.

	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Required debt principal repayments	$17,455	$17,455	$17,455	$1,606,541	$1,007,025	$2,416,860

13. PROVISIONS AND OTHER LIABILITIES

As at December 31	2016	2015
Decommissioning provision[(a)]	**$ 133,924**	$ 130,381
Onerous contracts provision[(b)]	**100,159**	58,178
Derivative financial liabilities[(c)]	**3,714**	16,223
Deferred lease inducements	**3,304**	3,805
Provisions and other liabilities	**241,101**	208,587
Less current portion	**(23,063)**	(12,313)
Non-current portion	**$ 218,038**	$ 196,274

(a) Decommissioning provision:

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

As at December 31	2016	2015
Balance, beginning of year	**$ 130,381**	$ 156,382
Changes in estimated future cash flows	**(91)**	14,076
Changes in discount rates and settlement dates	**(6,117)**	(48,933)
Liabilities incurred	**4,123**	5,066
Liabilities settled	**(1,290)**	(1,873)
Accretion	**6,918**	5,663
Balance, end of year	**133,924**	130,381
Less current portion	**(3,097)**	(1,485)
Non-current portion	**$ 130,827**	$ 128,896

The decommissioning provision represents the present value of the estimated future costs for the reclamation and abandonment of the Corporation's property, plant and equipment and exploration and evaluation assets. The total undiscounted amount of the estimated future cash flows to settle the decommissioning obligations is $825.1 million (December 31, 2015 - $816.4 million). The Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 8.2% (December 31, 2015 – 8.3%).

As at December 31, 2016, a 1% increase in the credit-adjusted risk-free rate would result in a $13.0 million decrease in the present value of the decommissioning provision. The decommissioning provision is estimated to be settled in periods up to the year 2066 (December 31, 2015 – periods up to the year 2064).

(b) Onerous contracts provision:

As at December 31		2016		2015
Balance, beginning of year	$	58,178	$	-
Changes in estimated future cash flows		40,499		-
Changes in discount rates		(1,478)		-
Liabilities incurred		8,845		58,719
Liabilities settled		(6,116)		(541)
Accretion		231		-
Balance, end of year		100,159		58,178
Less current portion		(18,930)		(1,993)
Non-current portion	$	81,229	$	56,185

As at December 31, 2016, the Corporation has recognized a total provision of $100.2 million related to certain onerous operating lease contracts (December 31, 2015 – $58.2 million). The provision represents the present value of the difference between the minimum future payments that the Corporation is obligated to make under the non-cancellable onerous operating lease contracts and estimated recoveries. These cash flows have been discounted using a risk-free discount rate of 1.3% (December 31, 2015 – 1.0%). This estimate may vary as a result of changes in estimated recoveries.

(c) Derivative financial liabilities:

As at December 31		2016		2015
1% interest rate floor	$	3,714	$	11,740
Interest rate swaps (Note 27)		-		4,483
Derivative financial liabilities		3,714		16,223
Less current portion		(517)		(8,316)
Non-current portion	$	3,197	$	7,907

The interest rate floor on the senior secured term loan has been recognized as an embedded derivative, as the floor rate exceeded the market rate of interest at the time that the debt was incurred.

The Corporation is exposed to interest rate risk in relation to interest income earned on cash and cash equivalents and in relation to interest expense on floating rate long-term debt. To mitigate a portion of the risk of interest rate increases on long-term debt, the Corporation periodically enters into interest rate swap contracts to manage its floating to fixed interest rate mix on long-term debt. As at December 31, 2016, the Corporation does not have any outstanding interest rate swap contracts.

14. INCOME TAXES

The income tax provisions differ from results which would be obtained had the Corporation applied the combined federal and provincial statutory rates of 27% (2015 – 26%) to earnings or loss before income taxes. The reasons for these differences are as follows:

For the years ended December 31	2016	2015
Expected income tax recovery	**$ (171,780)**	$ (328,017)
Add (deduct) the tax effect of:		
Stock-based compensation	**9,069**	13,027
Non-taxable loss (gain) on foreign exchange	**(21,232)**	110,815
Taxable capital loss (gain) not recognized	**(21,232)**	110,815
Tax benefit of vested RSUs	**(2,133)**	(5,507)
Rate change	**-**	14,350
Rate variance	**120**	(3,908)
Scientific research and experimental development input tax credits	**-**	(3,622)
Other	**(306)**	114
Income tax expense (recovery)	**$ (207,494)**	$ (91,933)
Current income tax expense (recovery)	**$ 919**	$ (1,200)
Deferred income tax expense (recovery)	**(208,413)**	(90,733)
Income tax expense (recovery)	**$ (207,494)**	$ (91,933)

During the year ended December 31, 2016, the Corporation recognized a current income tax expense of $0.9 million relating to U.S. income tax associated with its operations in the United States. The Corporation's Canadian operations are not currently taxable. During the year ended December 31, 2015, the Corporation recognized a recovery of $1.2 million relating to the refundable Alberta tax credit on Scientific Research and Experimental Development expenditures.

In June 2015, the Government of Alberta enacted an increase in the Alberta corporate income tax rate from 10% to 12%. As a result, the Corporation increased its 2015 opening deferred income tax liability by $14.4 million, with a corresponding increase to its 2015 deferred income tax expense.

Based on the Corporation's independently evaluated reserve report, the Corporation has recognized a deferred tax asset. Future taxable income is expected to be sufficient to realize the deferred tax asset. The deferred tax asset is reviewed at each balance sheet date to assess whether it is probable that the related tax benefit will be realized.

The analysis of deferred tax assets (liabilities) is as follows:

As at December 31	**2016**	**2015**
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**$ 1,255,527**	$ 1,000,382
Deferred tax assets to be recovered within 12 months	**17,627**	10,071
	1,273,154	1,010,453
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	**(1,151,317)**	(1,097,922)
Deferred tax liabilities to be recovered within 12 months	**(893)**	-
	(1,152,210)	(1,097,922)
Deferred tax asset (liabilities), net	**$ 120,944**	$ (87,469)

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

	2016	**2015**
Balance as at January 1	**$ (87,469)**	$ (178,196)
Credited (charged) to earnings	**208,413**	90,733
Credited (charged) to other comprehensive income	**-**	(6)
Balance as at December 31	**$ 120,944**	$ (87,469)

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

Deferred tax assets	**Tax losses**	**Derivative financial liabilities**	**Provisions**	**Other**	**Total**
Balance as at December 31, 2014	$ 685,505	$ 7,378	$ 1,152	$ 6,657	$ 700,692
Credited (charged) to earnings	288,160	(2,998)	1,115	23,490	309,767
Credited (charged) to other comprehensive income	-	-	-	(6)	(6)
Balance as at December 31, 2015	$ 973,665	$ 4,380	$ 2,267	$ 30,141	$ 1,010,453
Credited (charged) to earnings	234,390	4,807	1,520	21,984	262,701
Balance as at December 31, 2016	**$ 1,208,055**	**$ 9,187**	**$ 3,787**	**$ 52,125**	**$ 1,273,154**

Deferred tax liabilities	Property, plant and equipment	Other	Total
Balance as at December 31, 2014	$ (871,679)	$ (7,209)	$ (878,888)
Credited (charged) to earnings	(215,749)	(3,285)	(219,034)
Balance as at December 31, 2015	$ (1,087,428)	$ (10,494)	$ (1,097,922)
Credited (charged) to earnings	(54,996)	708	(54,288)
Balance as at December 31, 2016	**$ (1,142,424)**	**$ (9,786)**	**$ (1,152,210)**

As at December 31, 2016, the Corporation had approximately $8.0 billion in available tax pools (December 31, 2015 - $7.3 billion). Included in the tax pools are $4.5 billion of non-capital loss carry forward balances ($0.2 billion expiring in 2026; $0.2 billion expiring in 2027; $0.3 billion expiring in 2028; $0.5 billion expiring in 2029; $0.2 billion expiring in 2030 and $3.1 billion expiring after 2030). In addition, as at December 31, 2016, the Corporation had an additional $0.2 billion (December 31, 2015 - $0.6 billion) of capital investment in incomplete projects which will serve to increase available tax pools upon completion of the projects. As at December 31, 2016, the Corporation had not recognized the tax benefit related to $0.6 billion of unrealized taxable capital foreign exchange losses (December 31, 2015 - $0.7 billion).

15. SHARE CAPITAL

Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

Changes in issued common shares are as follows:

Year ended December 31	2016		2015	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Balance, beginning of year	**224,996,989**	**$ 4,836,800**	223,846,891	$ 4,797,853
Issued upon vesting and release of RSUs and PSUs	**1,470,118**	**41,807**	1,150,098	38,947
Balance, end of year	**226,467,107**	**$ 4,878,607**	224,996,989	$ 4,836,800

On January 27, 2017, the Corporation issued 66,815,000 common shares pursuant to a $518 million equity issuance; refer to subsequent events (Note 32).

16. STOCK-BASED COMPENSATION

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

(a) Cash-settled plans

i. Restricted share units and performance share units:

In June 2016, the Corporation granted RSUs and PSUs under a new cash-settled Restricted Share Unit Plan. RSUs generally vest over a three-year period while PSUs generally vest on the third anniversary of the grant date, provided that the Corporation satisfies certain performance criteria identified by the Corporation's Board of Directors within a target range. Upon vesting of the RSUs and PSUs, the participants of the cash-settled RSU plan will receive a cash payment based on the fair value of the underlying share units at the vesting date. The cash-settled RSUs and PSUs are accounted for as liability instruments and are measured at fair value based on the market value of the Corporation's common shares at each period end. Fluctuations in the fair value are recognized within stock-based compensation expense or capitalized to property, plant and equipment during the period in which they occur.

RSUs and PSUs outstanding:

Year ended December 31, 2016	
Outstanding, beginning of year	-
Granted	**6,132,701**
Forfeited	**(119,691)**
Outstanding, end of year	**6,013,010**

ii. Deferred share units outstanding:

The Deferred Share Unit Plan allows for the granting of DSUs to directors of the Corporation. A DSU represents the right for the holder to receive a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment or, at the election of the Corporation, its equivalent in fully-paid common shares purchased through a broker. DSUs vest immediately when granted and are redeemed on the third business day following the date on which the holder ceases to be a director. As at December 31, 2016, there were 163,954 DSUs outstanding (December 31, 2015 – 47,696 DSUs outstanding).

As at December 31, 2016, the Corporation has recognized a liability of $19.2 million relating to the fair value of cash-settled RSUs, PSUs and DSUs.

(b) Equity-settled plans

i. Stock options outstanding:

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

Year ended December 31	**2016**		**2015**	
	Stock options	**Weighted average exercise price**	**Stock options**	**Weighted average exercise price**
Outstanding, beginning of year	**9,925,313**	**$ 29.94**	7,865,788	$ 34.87
Granted	**1,214,300**	**6.52**	2,968,798	18.55
Forfeited	**(851,422)**	**30.73**	(531,473)	31.49
Expired	**(1,007,005)**	**24.00**	(377,800)	41.00
Outstanding, end of year	**9,281,186**	**$ 27.45**	9,925,313	$ 29.94

As at December 31, 2016						
	Outstanding			**Vested**		
Range of exercise prices	**Options**	**Weighted average exercise price**	**Weighted average remaining life (in years)**	**Options**	**Weighted average exercise price**	**Weighted average remaining life (in years)**
$6.52 - $10.00	1,203,700	$ 6.52	6.49	-	$ -	-
$10.01 - $20.00	2,627,035	18.53	5.44	881,295	18.51	5.44
$20.01 - $30.00	94,401	23.50	2.09	74,991	24.10	1.30
$30.01 - $40.00	4,736,789	34.76	3.11	4,241,307	34.40	2.96
$40.01 - $51.43	619,261	50.56	1.46	619,261	50.56	1.46
	9,281,186	**$ 27.45**	**4.09**	**5,816,854**	**$ 33.58**	**3.15**

The fair value of each option granted during the years ended December 31, 2016 and 2015 was estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2016	**2015**
Risk-free rate	**0.57%**	1.01%
Expected lives	**5 years**	5 years
Volatility	**53%**	40%
Annual dividend per share	**$ nil**	$ nil
Fair value of options granted	**$ 3.20**	$ 6.99

ii. Restricted share units and performance share units:

RSUs granted under the equity-settled Restricted Share Unit Plan generally vest annually over a three-year period. PSUs granted under the equity-settled Restricted Share Unit Plan generally vest on the third anniversary of the grant date, provided that the Corporation satisfies certain performance criteria identified by the Corporation's Board of Directors within a target range.

RSU and PSU grants made prior to June 2016 are captured under the equity-settled plan, whereby upon vesting, the holder receives the right to a cash payment equal to the fair market value of the Corporation's common shares calculated at the date of such payment or, at the election of the Corporation, its equivalent in fully-paid common shares. The Corporation does not intend to make cash payments under the equity-settled RSU plan.

RSUs and PSUs outstanding:

Year ended December 31	2016	2015
Outstanding, beginning of year	**3,280,112**	2,745,439
Granted	**-**	1,996,841
Vested and released	**(1,470,118)**	(1,150,098)
Forfeited	**(154,388)**	(312,070)
Outstanding, end of year	**1,655,606**	3,280,112

(c) Stock-based Compensation

Year ended December 31		2016		2015
Cash-settled	**$**	**16,354**	$	-
Equity-settled		**33,588**		50,105
Stock-based compensation expense	**$**	**49,942**	$	50,105

17. PETROLEUM REVENUE, NET OF ROYALTIES

Year ended December 31		2016		2015
Petroleum revenue[(a)]				
Proprietary	**$**	**1,626,025**	$	1,799,154
Third-party[(b)]		**205,790**		104,464
Petroleum revenue		**1,831,815**		1,903,618
Royalties		**(8,581)**		(20,765)
Petroleum revenue, net of royalties	**$**	**1,823,234**	$	1,882,853

(a) The Corporation had four major customers each with revenue in excess of 10% of total petroleum revenue. Sales to major customers totaled $1.1 billion for the year ended December 31, 2016 (year ended December 31, 2015 - $1.1 billion).

(b) The Corporation purchases crude oil products from third-parties for marketing-related activities. These purchases and associated storage charges are included in the consolidated statement of earnings (loss) and comprehensive income (loss) under the caption “Purchased product and storage”.

18. OTHER REVENUE

Year ended December 31	2016	2015
Power revenue	**$ 18,868**	$ 29,239
Transportation revenue	**19,791**	13,824
Insurance proceeds[a]	**4,391**	-
Other revenue	**$ 43,050**	$ 43,063

(a) Includes insurance proceeds related to the small fire that occurred during the first quarter of 2016, which caused damage to the Sulphur Recovery Unit at the Corporation’s Christina Lake facility.

19. DILUENT AND TRANSPORTATION

Year ended December 31	2016	2015
Diluent expense	**$ 808,030**	$ 893,995
Transportation expense	**209,864**	156,382
Diluent and transportation	**$ 1,017,894**	$ 1,050,377

20. FOREIGN EXCHANGE LOSS (GAIN), NET

Year ended December 31	2016	2015
Unrealized foreign exchange loss (gain) on:		
Long-term debt	**$ (157,272)**	$ 852,422
Other	**9,119**	(67,112)
Unrealized net loss (gain) on foreign exchange	**(148,153)**	785,310
Realized loss (gain) on foreign exchange	**(3,242)**	16,429
Foreign exchange loss (gain), net	**$ (151,395)**	$ 801,739

C$ equivalent of 1 US$		
Beginning of year	**1.3840**	1.1601
End of year	**1.3427**	1.3840

21. NET FINANCE EXPENSE

Year ended December 31		2016		2015
Total interest expense	$	**328,335**	$	313,411
Less capitalized interest		**-**		(56,449)
Net interest expense		**328,335**		256,962
Debt extinguishment expense[a]		**28,845**		-
Accretion on provisions		**7,150**		5,663
Unrealized gain on derivative financial liabilities		**(12,508)**		(13,289)
Realized loss on interest rate swaps		**4,548**		5,858
Net finance expense	$	**356,370**	$	255,194

(a) At December 31, 2016, the Corporation recognized $28.8 million of debt extinguishment expense associated with the planned redemption of the 6.5% Senior Unsecured Notes on March 15, 2017, under the comprehensive refinancing plan completed on January 27, 2017 (Note 32). The debt extinguishment expense is comprised of a redemption premium of $21.8 million and the associated remaining unamortized deferred debt issue costs of $7.0 million.

22. OTHER EXPENSES

Year ended December 31		2016		2015
Onerous contracts[a]	$	**47,866**	$	58,719
Severance and other		**16,242**		-
Contract cancellation		**-**		12,879
Other expenses	$	**64,108**	$	71,598

(a) During the year ended December 31, 2016, the Corporation recognized an expense of $47.9 million (December 31, 2015 - $58.7 million) related to certain onerous Calgary office lease contracts (Note 13(b)).

23. WAGES AND EMPLOYEE BENEFITS EXPENSE

Year ended December 31		2016		2015
Operating expense:				
Salaries and wages[1]	$	**48,958**	$	57,130
Short-term employee benefits		**5,928**		6,101
General and administrative expense:				
Salaries and wages[1]		**63,489**		78,394
Short-term employee benefits		**11,400**		12,153
	$	**129,775**	$	153,778

(1) Excludes severance included in other expenses (Note 22)

24. TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 2016 and December 31, 2015, related party transactions include the compensation of key management personnel. The Corporation considers directors and officers of the Corporation as key management personnel.

During the year ended December 31, 2015, the Corporation paid $0.3 million in costs on behalf of WP Lexington Private Equity B.V. ("WP Lex"). WP Lex is considered to be a related party of the Corporation as two managing directors of WP Lex also hold positions as members of the Board of Directors of the Corporation.

Year ended December 31		**2016**		**2015**
Salaries and short-term employee benefits	**$**	**9,117**	$	8,710
Share-based compensation		**12,006**		13,323
Termination benefits		**1,617**		-
	$	**22,740**	$	22,033

25. SUPPLEMENTAL CASH FLOW DISCLOSURES

Year ended December 31		**2016**		**2015**
Cash provided by (used in):[(a)]				
Trade receivables and other	**$**	**(83,601)**	$	46,852
Inventories		**(13,524)**		47,492
Accounts payable and accrued liabilities		**74,667**		(228,808)
	$	**(22,458)**	$	(134,464)
Changes in non-cash working capital relating to:				
Operating	**$**	**(25,061)**	$	77,991
Investing		**2,603**		(212,455)
	$	**(22,458)**	$	(134,464)
Cash and cash equivalents:[(b)]				
Cash	**$**	**156,230**	$	222,341
Cash equivalents		**-**		185,872
	$	**156,230**	$	408,213
Cash interest paid	**$**	**286,983**	$	267,347
Cash interest received	**$**	**1,046**	$	2,860

(a) The amounts for the year ended December 31, 2015 exclude non-cash working capital items primarily related to $52.2 million of inventory transferred to other assets.

(b) As at December 31, 2016, C$102.8 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars. (December 31, 2015 - C$277.1 million). The U.S. dollar cash and cash equivalents balance has been translated into Canadian dollars at the year end exchange rate of US$1 = C$1.3427 (December 31, 2015 - US$1 = C$1.3840).

26. NET LOSS PER COMMON SHARE

Year ended December 31		2016		2015
Net loss	**$**	**(428,726)**	$	(1,169,671)
Weighted average common shares outstanding[(a)]		**225,982,724**		224,579,249
Dilutive effect of stock options, RSUs and PSUs[(b)]		**-**		-
Weighted average common shares outstanding - diluted		**225,982,724**		224,579,249
Net loss per share, basic	**$**	**(1.90)**	$	(5.21)
Net loss per share, diluted	**$**	**(1.90)**	$	(5.21)

(a) Weighted average common shares outstanding for the year ended December 31, 2016 includes 184,425 PSUs not yet released (year ended December 31, 2015 – 141,929 PSUs).

(b) For the years ended December 31, 2016 and December 31, 2015, there was no dilutive effect of stock options, RSUs and PSUs due to the Corporation incurring a net loss. If the Corporation had recognized net earnings during the year ended December 31, 2016, the dilutive effect of stock options, RSUs and PSUs would have been 122,500 (year ended December 31, 2015 – 564,201) weighted average common shares.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments recognized on the consolidated balance sheet are comprised of cash and cash equivalents, trade receivables and other, U.S. auction rate securities ("ARS") included within other assets, commodity risk management contracts, accounts payable and accrued liabilities, derivative financial liabilities included within provisions and other liabilities, long-term debt and debt redemption premium liability included within long-term debt. As at December 31, 2016, commodity risk management contracts and the derivative financial liabilities were classified as held-for-trading financial instruments; cash and cash equivalents and trade receivables and other were classified as loans and receivables; and accounts payable and accrued liabilities were classified as other financial liabilities. Long-term debt was carried at amortized cost.

The carrying value of cash and cash equivalents, trade receivables and other, and accounts payable and accrued liabilities included on the consolidated balance sheet approximate the fair value of the respective assets and liabilities due to the short-term nature of those instruments.

(a) Fair value measurement of ARS, long-term debt, derivative financial liabilities, commodity risk management contracts and debt redemption premium liability:

As at December 31, 2016	Carrying amount	Fair value measurements using Level 1	Level 2	Level 3
Recurring measurements:				
Financial liabilities				
Long-term debt[1] (Note 12)	**$5,082,791**	**-**	**$ 4,768,344**	**-**
Derivative financial liabilities (Note 13)	**$ 3,714**	**-**	**$ 3,714**	**-**
Commodity risk management contracts	**$ 30,313**	**-**	**$ 30,313**	**-**
Debt redemption premium (Note 12)	**$ 21,812**	**-**	**$ 21,812**	**-**

As at December 31, 2015	Carrying amount	Fair value measurements using Level 1	Level 2	Level 3
Recurring measurements:				
Financial assets				
ARS (Note 10)	$ 3,470	-	$ 3,470	-
Financial liabilities				
Long-term debt[1] (Note 12)	$5,257,124	-	$3,999,317	-
Derivative financial liabilities (Note 13)	$ 16,223	-	$ 16,223	-

[1] *Includes the current and long-term portions.*

Level 1 fair value measurements are based on unadjusted quoted market prices.

As at December 31, 2016, the Corporation did not have any financial instruments measured at Level 1 fair value.

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices.

The estimated fair values of the ARS and long-term debt are derived using quoted prices in an inactive market from a third-party independent broker.

The fair value of commodity risk management contracts and the derivative financial liabilities are derived using third-party valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including forward prices for commodities, interest rate yield curves and foreign exchange rates. The observable inputs may be adjusted using certain methods, which include extrapolation to the end of the term of the contract.

Level 3 fair value measurements are based on unobservable information.

As at December 31, 2016, the Corporation did not have any financial instruments measured at Level 3 fair value. The Corporation recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

(b) Commodity price risk management:

In 2016, the Corporation entered into derivative financial instruments to manage commodity price risk. The use of these commodity risk management contracts is governed by a Risk Management Committee that follows guidelines and limits approved by the Board of Directors. The Corporation does not use financial derivatives for speculative purposes. Commodity risk management contracts are measured at fair value, with gains and losses on re-measurement included in the consolidated statement of earnings (loss) and comprehensive income (loss) in the period in which they arise.

The Corporation has the following commodity risk management contracts relating to crude oil sales outstanding as at December 31, 2016:

As at December 31, 2016	Volumes (bbls/d)	Term	Average Price (US$/bbl)
Fixed Price:			
WTI(1) Fixed Price	3,500	Jan 1, 2017 – Jun 30, 2017	$52.54
WTI Fixed Price	13,100	Jul 1, 2017 – Dec 31, 2017	$55.19
WCS(2) Fixed Differential	18,000	Jan 1, 2017 – Jun 30, 2017	$(14.94)
Collars:			
WTI Collars	49,250	Jan 1, 2017 – Mar 31, 2017	$45.69 – $54.76
WTI Collars	47,250	Apr 1, 2017 – Jun 30, 2017	$45.71 – $54.61
WTI Collars	28,000	Jul 1, 2017 – Dec 31, 2017	$47.68 – $58.53

(1) West Texas Intermediate ("WTI") crude oil
(2) Western Canadian Select ("WCS") crude oil blend

The Corporation has the following commodity risk management contracts relating to condensate purchases outstanding as at December 31, 2016:

As at December 31, 2016	Volumes (bbls/d)	Term	Average % of WTI
Mont Belvieu fixed % of WTI	15,150	Jan 1, 2017 – Dec 31, 2017	82.9%

The Corporation has entered into the following commodity risk management contracts relating to crude oil sales subsequent to December 31, 2016. As a result, these contracts are not reflected in the Corporation's Consolidated Financial Statements:

Subsequent to December 31, 2016	**Volumes (bbls/d)**	**Term**	**Average Price (US$/bbl)**
Fixed Price:			
WTI[1] Fixed Price	6,000	Mar 1, 2017 – Jun 30, 2017	$54.82
WTI Fixed Price	9,000	Jul 1, 2017 – Dec 31, 2017	$55.09
WCS[2] Fixed Differential	26,943	Feb 1, 2017 – Jun 30, 2017	$(15.06)
WCS Fixed Differential	28,000	Jul 1, 2017 – Dec 31, 2017	$(15.62)
Collars:			
WTI Collars	2,500	Jul 1, 2017 – Dec 31, 2017	$50.00 – $59.00

(1) West Texas Intermediate ("WTI") crude oil
(2) Western Canadian Select ("WCS") crude oil blend

The Corporation's commodity risk management contracts are subject to master agreements that create a legally enforceable right to offset, by counterparty, the related financial assets and financial liabilities on the Corporation's balance sheet in all circumstances.

The following table provides a summary of the Corporation's unrealized offsetting commodity risk management positions:

As at	**December 31, 2016**		
	Asset	**Liability**	**Net**
Gross amount	$ -	$ (165,740)	$ (165,740)
Amount offset	-	135,427	135,427
Net amount	$ -	$ (30,313)	$ (30,313)

As at December 31, 2015 the Corporation did not have any commodity risk management contracts outstanding.

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

For the year ended December 31	**2016**
Realized gain on commodity risk management	$ (2,359)
Unrealized loss on commodity risk management	30,313
Commodity risk management loss	$ 27,954

As at December 31, 2015 the Corporation did not have any commodity risk management contracts outstanding.

The following table summarizes the sensitivity of the earnings before income tax impact of fluctuating commodity prices on the Corporation's open commodity risk management positions in place as at December 31, 2016:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$1.00 per bbl applied to WTI contracts	$ (11,707)	$ 9,523
Crude oil differential price(1)	± US$1.00 per bbl applied to WCS differential contracts	$ 4,375	$ (4,375)
Condensate percentage	± 1% in condensate price as a percentage of US$ WTI price per bbl applied to condensate contracts	$ 3,203	$ (3,203)

(1) As the WCS differential is expressed as a discount to WTI, an increase in the differential results in a lower WCS price and a decrease in the differential results in a higher WCS price.

(c) Interest rate risk management:

The Corporation is exposed to interest rate cash flow risk on its floating rate long-term debt and periodically enters into interest rate swap contracts to manage its floating to fixed interest rate mix on long-term debt. The Corporation does not have any outstanding interest rate swap contracts as at December 31, 2016.

As at December 31, 2016, a 100 basis points increase in the LIBOR on the floating rate debt would have resulted in a $6.5 million decrease in net earnings before income taxes (December 31, 2015 - $1.9 million, excluding the impact of capitalized interest). As at December 31, 2016, a 100 basis points decrease in LIBOR would have resulted in a $nil increase in net earnings before income taxes (December 31, 2015 - $nil, excluding the impact of capitalized interest).

(d) Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the fair value or future cash flows of the Corporation's financial assets or liabilities. The Corporation has U.S. dollar denominated long-term debt as described in Note 12. As at December 31, 2016, a $0.01 change in the U.S. dollar to Canadian dollar exchange rate would have resulted in a corresponding change in the carrying value of long-term debt of C$37.9 million (December 31, 2015 - C$38.0 million).

(e) Credit risk:

Credit risk arises from the potential that the Corporation may incur a loss if a counterparty fails to meet its obligations in accordance with agreed terms. This credit risk exposure is mitigated through the use of credit policies governing the Corporation's credit portfolio and with credit practices that limit transactions according to counterparties' credit quality. A substantial portion of accounts receivable are with investment grade customers in the energy industry and are subject to normal industry credit risk. All transactions with financial institutions are made with those that have investment grade credit ratings. At December 31, 2016, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $232.6 million. There were no significant trade receivables which were greater than 90 days as at December 31, 2016.

The Corporation's cash balances are used to fund the development of its oil sands properties. As a result, the primary objectives of the investment portfolio are low risk capital preservation and high liquidity. The cash balances are held in high interest savings accounts or are invested in high grade, liquid, short-term instruments such as bankers' acceptances, commercial paper, money market deposits or similar instruments. The cash and cash equivalents balance at December 31, 2016 was $156.2 million. None of the investments are past their maturity or considered impaired. The Corporation's estimated maximum exposure to credit risk related to its cash and cash equivalents is $156.2 million.

(f) Liquidity risk:

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

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

As at December 31, 2016	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**More than 5 years**
Long-term debt	$ 5,082,791	$ 17,455	$ 34,910	$ 2,613,566	$ 2,416,860
Interest on long-term debt	1,569,849	289,940	577,917	416,333	285,659
Debt redemption premium	21,812	21,812	-	-	-
Commodity risk management contracts	30,313	30,313	-	-	-
Derivative financial liabilities	3,714	517	3,197	-	-
Accounts payable and accrued liabilities	220,395	220,395	-	-	-
	$ 6,928,874	**$ 580,432**	**$ 616,024**	**$ 3,029,899**	**$ 2,702,519**

As at December 31, 2015	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**More than 5 years**
Long-term debt	$ 5,257,124	$ 17,992	$ 35,984	$ 1,673,948	$ 3,529,200
Interest on long-term debt	1,919,974	299,394	596,764	547,850	475,966
Derivative financial liabilities	16,223	8,316	4,184	3,723	-
Accounts payable and accrued liabilities	143,907	143,907	-	-	-
	$ 7,337,228	**$ 469,609**	**$ 636,932**	**$ 2,225,521**	**$ 4,005,166**

28. GEOGRAPHICAL DISCLOSURE

As at December 31, 2016, the Corporation had non-current assets related to operations in the United States of $109.2 million (December 31, 2015 - $111.1 million). For the year ended December 31, 2016, petroleum revenue related to operations in the United States was $664.2 million (year ended December 31, 2015 - $541.5 million).

29. JOINT OPERATIONS

The Corporation transports its bitumen blend volumes and diluent purchases on pipelines that are operated by Access Pipeline. The Corporation has an undivided 50% interest in this jointly controlled entity and presents its proportionate share of the assets, liabilities, revenues and expenses of the joint operation on a line-by-line basis in the consolidated financial statements. As at December 31, 2016, the Corporation's proportionate interest in the joint operation's working capital balances was $2.9 million (December 31, 2015 - $5.0 million) and its interest in related pipeline assets, recorded in property, plant and equipment, was $1.1 billion (December 31, 2015 - $1.1 billion).

Operating commitments of $13.3 million related to the joint operation are included within "Commitments" presented within Note 30(a).

30. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Corporation had the following commitments as at December 31, 2016:

	2017	2018	2019	2020	2021	Thereafter
Transportation and storage	$178,632	$202,913	$192,853	$232,719	$270,293	$2,997,998
Office lease rentals	33,640	32,198	32,228	33,144	33,542	231,543
Diluent purchases	189,721	20,725	20,725	20,782	20,725	37,986
Other operating commitments	17,827	8,440	11,657	12,354	11,552	74,077
Capital commitments	17,496	-	-	-	-	-
Commitments	**$437,316**	**$264,276**	**$257,463**	**$298,999**	**$336,112**	**$3,341,604**

The Corporation's commitments have been presented on a gross basis. A portion of these committed amounts have been recognized on the balance sheet within provisions and other liabilities (Note 13(b)).

(b) Contingencies

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

31. CAPITAL DISCLOSURES

As at December 31, 2016, the Corporation's capital resources included $96.4 million of working capital, an additional undrawn US$2.5 billion syndicated revolving credit facility and a US$500.0 million guaranteed letter of credit facility under which US$318.0 million of letters of credit have been issued. Working capital is comprised of $156.2 million of cash and cash equivalents, offset by a non-cash working capital deficiency of $59.8 million. These facilities were amended on January 27, 2017 and February 15, 2017 respectively; refer to subsequent events (Note 32).

The Corporation's cash is held in high interest savings accounts with a group of highly-rated financial institutions. The Corporation has also invested in high grade, liquid, short-term instruments such as bankers' acceptances, commercial paper, money market deposits or similar instruments. To date, the Corporation has experienced no material loss or lack of access to its cash in operating accounts, invested cash or cash equivalents. However, the Corporation can provide no assurance that access to its invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. While the Corporation monitors the cash balances in its operating and investment accounts according to its investment policy and adjusts the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions or corporations fail or are subject to other adverse conditions in the financial markets.

On December 1, 2016, the Corporation filed a Canadian base shelf prospectus for common shares, debt securities, subscription receipts, warrants and units (together referred to as "Securities") in the amount of $1.5 billion. The Canadian base shelf prospectus allows for the issuance of these Securities in Canadian dollars or other currencies from time to time in one or more offerings. As at December 31, 2016, no Securities were issued under the Canadian base shelf prospectus. The Canadian base shelf prospectus expires on January 1, 2019.

32. SUBSEQUENT EVENTS

On January 27, 2017, the Corporation completed a comprehensive refinancing plan by way of the Corporation's Canadian base shelf prospectus dated December 1, 2016. The plan was comprised of the following four transactions:

- An extension of the maturity date on substantially all of the commitments under the Corporation's existing covenant-lite revolving credit facility from November 2019 to November 2021. The commitment amount of the five-year facility has been reduced from US$2.5 billion to US$1.4 billion. It has no financial covenants and is not subject to any borrowing base redetermination;

- The US$1.2 billion term loan has been refinanced to extend its maturity date from March 2020 to December 2023. The refinanced term loan will bear interest at an annual rate of LIBOR plus 3.5% with a LIBOR floor of 1%. The term loan was issued at a price equal to 99.75% of its face value;

- The existing US$750 million aggregate principal amount of 6.5% Senior Unsecured Notes, with a maturity date of March 2021, have been refinanced and replaced with new 6.5% second lien secured notes, issued at par, maturing January 2025. The existing 2021 notes will be redeemed with the proceeds from the second lien notes on March 15, 2017; and

- The Corporation raised C$518 million of equity, before underwriting fees and expenses, in the form of 66,815,000 subscription receipts at a price C$7.75 per subscription receipt on a bought deal basis from a syndicate of underwriters. As part of the closing, escrow release conditions for the subscription receipt offering have been satisfied and the subscription receipts have been converted into common shares.

In addition to the transactions noted above, on February 15, 2017, the Corporation extended the maturity date on the Corporation’s current five-year guaranteed letter of credit facility, guaranteed by Export Development Canada, to November 2021 from November 2019. The guaranteed letter of credit facility has been reduced from US$500 million to US$440 million. Letters of credit under this facility do not consume capacity of the revolving credit facility.