

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, 2017.

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, 2017. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

/s/ William (Bill) McCaffrey

William (Bill) McCaffrey, P.Eng.
President and Chief Executive Officer

/s/ Eric L. Toews

Eric L. Toews, CPA, CA
Chief Financial Officer

March 8, 2018



March 8, 2018

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, 2017 and December 31, 2016 and the consolidated statements of earnings (loss) and 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, 2017 and December 31, 2016 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
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3 T:
+1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

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

CONSOLIDATED BALANCE SHEET

(Expressed in thousands of Canadian dollars)

As at December 31	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	25	\$ 463,531	\$ 156,230
Trade receivables and other	5	289,104	236,989
Inventories	6	85,850	66,394
		838,485	459,613
Non-current assets			
Property, plant and equipment	7	7,634,399	7,639,434
Exploration and evaluation assets	8	548,828	547,752
Intangible assets	9	13,037	16,111
Other assets	10	145,732	137,370
Deferred income tax asset	14	182,871	120,944
Total assets		\$ 9,363,352	\$ 8,921,224
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 413,905	\$ 292,340
Current portion of long-term debt	12	15,460	17,455
Current portion of provisions and other liabilities	13	27,446	23,063
Commodity risk management	27	68,649	30,313
		525,460	363,171
Non-current liabilities			
Long-term debt	12	4,668,267	5,053,239
Provisions and other liabilities	13	205,512	218,038
Total liabilities		5,399,239	5,634,448
Shareholders' equity			
Share capital	15	5,403,978	4,878,607
Contributed surplus		166,636	168,253
Deficit		(1,629,091)	(1,795,067)
Accumulated other comprehensive income		22,590	34,983
Total shareholders' equity		3,964,113	3,286,776
Total liabilities and shareholders' equity		\$ 9,363,352	\$ 8,921,224

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 8, 2018.

/s/ William (Bill) McCaffrey

/s/ 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	2017	2016
Revenues			
Petroleum revenue, net of royalties	17	\$ 2,399,510	\$ 1,823,234
Other revenue	18	35,193	43,050
		2,434,703	1,866,284
Expenses			
Diluent and transportation	19	1,158,414	1,017,894
Operating expenses	23	222,196	253,758
Purchased product and storage		250,681	202,135
Depletion and depreciation	7,9	475,644	499,811
Impairment charge	9	-	80,072
Exploration expense	8	-	1,248
General and administrative	23	86,785	96,241
Stock-based compensation	16	22,528	49,942
Research and development		5,808	5,499
Net finance expense	21	361,080	355,323
Other expenses	22	34,726	64,022
Commodity risk management loss (gain)	27	49,609	27,954
Foreign exchange loss (gain), net	20	(342,547)	(151,395)
Earnings (loss) before income taxes		109,779	(636,220)
Income tax recovery	14	(56,197)	(207,494)
Net earnings (loss)		165,976	(428,726)
Other comprehensive income (loss), net of tax			
Items that may be reclassified to profit or loss:			
Foreign currency translation adjustment		(12,393)	(590)
Comprehensive income (loss)		\$ 153,583	\$ (429,316)
Net earnings (loss) per common share			
Basic	26	\$ 0.57	\$ (1.90)
Diluted	26	\$ 0.57	\$ (1.90)

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, 2016		\$ 4,878,607	\$ 168,253	\$ (1,795,067)	\$ 34,983	\$ 3,286,776
Shares issued	15	517,816	-	-	-	517,816
Share issue costs, net of tax	15	(15,698)	-	-	-	(15,698)
Stock-based compensation	16	-	21,636	-	-	21,636
RSUs vested and released	15	23,253	(23,253)	-	-	-
Comprehensive income (loss)		-	-	165,976	(12,393)	153,583
Balance as at December 31, 2017		\$ 5,403,978	\$ 166,636	\$ (1,629,091)	\$ 22,590	\$ 3,964,113
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

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	2017	2016
Cash provided by (used in):			
Operating activities			
Net earnings (loss)		\$ 165,976	\$ (428,726)
Adjustments for:			
Depletion and depreciation	7,9	475,644	499,811
Impairment charge	9	-	80,072
Exploration expense	8	-	1,248
Stock-based compensation	16	19,052	33,588
Unrealized loss (gain) on foreign exchange	20	(338,144)	(148,153)
Unrealized loss (gain) on derivative financial liabilities	21	(16,179)	(12,508)
Unrealized loss (gain) on risk management	27	38,336	30,313
Onerous contracts expense	22	10,830	47,866
Deferred income tax recovery	14	(56,130)	(208,413)
Amortization of debt discount and debt issue costs	10,12	19,225	12,192
Debt extinguishment expense	12,21	30,801	28,845
Other		5,624	2,258
Decommissioning expenditures	13	(2,403)	(1,290)
Payments on onerous contracts	13	(19,569)	(6,116)
Net change in other liabilities		9,389	-
Net change in non-cash working capital items	25	(24,517)	(25,061)
Net cash provided by (used in) operating activities		317,935	(94,074)
Investing activities			
Capital investments:			
Property, plant and equipment	7	(505,713)	(120,828)
Exploration and evaluation	8	(1,569)	(2,265)
Intangible assets	9	(534)	(16,643)
Proceeds on dispositions	7,8	5,370	3,247
Deferred lease inducements and other	13	20,983	2,775
Net change in non-cash working capital items	25	76,232	2,603
Net cash provided by (used in) investing activities		(405,231)	(131,111)
Financing activities			
Issue of shares, net of issue costs	25	496,312	-
Redemption of senior unsecured notes	25	(1,008,825)	-
Issue of senior secured second lien notes	25	1,008,825	-
Payments on term loan	12	(12,690)	(17,062)
Refinancing costs	25	(82,377)	-
Net cash provided by (used in) financing activities		401,245	(17,062)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency			
	20	(6,648)	(9,736)
Change in cash and cash equivalents		307,301	(251,983)
Cash and cash equivalents, beginning of year		156,230	408,213
Cash and cash equivalents, end of year		\$ 463,531	\$ 156,230

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2017

(All amounts are expressed in thousands of Canadian dollars, unless otherwise noted.)

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.

On February 7, 2018, the Corporation entered into an agreement for the sale of the Corporation's 50% interest in Access Pipeline and its 100% interest in the Stonefell Terminal. The transaction is expected to close in the first quarter of 2018, subject to regulatory approvals and customary closing conditions (Note 32).

The corporate office is located at 600 – 3rd Avenue S.W., Calgary, Alberta, Canada.

2. BASIS OF PRESENTATION

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. Certain prior year amounts have been reclassified to conform to the current year presentation. These consolidated financial statements were approved by the Corporation's Board of Directors on March 8, 2018.

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) Foreign currency translation

i. Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Corporation operates (the "functional currency"). The

consolidated financial statements are presented in Canadian dollars (\$ or C\$), which is the Corporation's functional currency.

ii. Transactions and balances

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

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

(c) Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. 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.

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. The derivative financial instruments include the Corporation's commodity risk

management contracts, the interest rate swap included in other assets and the derivative financial liability included in provisions and other liabilities.

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 mandatory within twelve months from the balance sheet date. Otherwise, they are presented as non-current liabilities.

(d) Cash and cash equivalents

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

(e) Trade receivables and other

Trade receivables are recorded based on the Corporation's revenue recognition policy as described in Note 3(r). 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.

(f) Inventories

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

(g) Exploration and evaluation assets

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

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

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

(h) Property, plant and equipment

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

i. Crude oil

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

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

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

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

ii. Transportation and storage

Transportation and storage assets consist primarily of the Corporation's undivided 50% joint operations interest in the Access Pipeline, 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.

(i) 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.

(j) Intangible assets

Intangible assets acquired by the Corporation which have a finite useful life are carried at cost less accumulated depreciation. Subsequent expenditures are capitalized only to the extent that they increase the future economic benefits embodied in the asset to which they relate. 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 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.

(k) Other assets – long-term pipeline linefill

The Corporation transports 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.

(l) 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.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income by the Corporation as a seller-lessee. Instead, the excess is deferred and amortized over the lease term. If a sale and leaseback results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately.

(m) 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.

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 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.

(n) Provisions

i. General

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

ii. Decommissioning provision

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

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

iii. Onerous contracts

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

iv. Emission obligations

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

(o) Deferred income taxes

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

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

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

(p) Share capital

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

(q) Share based payments

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

i. Equity-settled

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

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

The Corporation's cash-settled RSU Plan allows the holder of an RSU or PSU to receive a cash payment, 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 grants cash-settled 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.

(r) Revenue recognition

i. Petroleum revenue and royalties

Revenue associated with the sale of proprietary and purchased crude oil and natural gas 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

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.

(s) 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.

(t) 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.

(u) Net finance expense

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

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.

(v) Net earnings (loss) per share

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

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

(w) New accounting standards

The Corporation has adopted the following revised standards effective January 1, 2017:

IAS 7, *Statement of Cash Flows*, has been amended by the IASB as part of its disclosure initiative to require additional disclosure for changes in liabilities arising from financing activities. This includes changes arising from cash flows and non-cash changes. Additional disclosures for changes in liabilities arising from financing activities have been included in Note 25. As allowed by IAS 7, comparative information has not been presented.

IAS 12, *Income Taxes*, has been amended to clarify the recognition of deferred tax assets relating to unrealized losses. The adoption of this revision did not have an impact on the Corporation's consolidated financial statements.

(x) Accounting standards issued but not yet applied

i. IFRS 16 *Leases*

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. The Corporation is currently assessing and evaluating the impact of the standard on the consolidated financial statements and is in the process of planning and identifying leases that are within the scope of the standard. The Corporation anticipates there will be a material impact on the consolidated financial statements and additional new disclosures.

ii. IFRS 9 *Financial Instruments*

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. The adoption of these changes will not have a material impact on the Corporation's consolidated financial statements.

A new amendment to IFRS 9 requires debt modifications to be discounted at the original effective interest rate of the debt rather than a revised effective interest rate as was required under IAS 39. The Corporation is currently assessing and evaluating the impact of the new amendment. IFRS 9 will be adopted by the Corporation on January 1, 2018, as required by the standard, on a modified retrospective basis.

iii. IFRS 15 *Revenue From Contracts With Customers*

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. The Corporation will be adopting IFRS 15 retrospectively on January 1, 2018. The Corporation has substantially completed its assessment and evaluation of the underlying terms of its revenue contracts with customers and has determined that adoption of the standard will not have a material impact on the Corporation's consolidated financial statements. The Corporation anticipates there will be additional enhanced disclosures.

iv. IFRS 2 *Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018, and will be applied prospectively as required by the standard. The Corporation anticipates that the adoption of these amendments will not have a material impact on the Corporation's 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 and the facilities' productive capacity. Accordingly, those amounts are subject to measurement uncertainty.

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

(b) Exploration and evaluation assets

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

(c) Bitumen reserves

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

reserves estimates would result in a higher or lower depletion and depreciation charge to net earnings. Downward revisions to reserves estimates may also result in an impairment of PP&E carrying amounts.

(d) 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 are made to estimate the future liability based on current economic factors. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and 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 Corporation's share price and on several assumptions, including the risk-free interest rate, the future forfeiture rate, the expected volatility

of the Corporation's share price and the future attainment of performance criteria. Accordingly, these estimates are subject to measurement uncertainty.

(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.

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.

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 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	2017	2016
Trade receivables	\$ 266,789	\$ 219,054
Deposits and advances	13,189	13,571
Current portion of deferred financing costs	8,653	4,364
Current portion of interest rate swap	473	-
	\$ 289,104	\$ 236,989

6. INVENTORIES

As at December 31	2017	2016
Bitumen blend	\$ 64,077	\$ 46,571
Diluent	19,576	17,859
Materials and supplies	2,197	1,964
	\$ 85,850	\$ 66,394

During the year ended December 31, 2017, a total of \$0.9 billion (2016 - \$0.8 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, 2015	\$ 7,768,244	\$ 1,605,547	\$ 51,076	\$ 9,424,867
Additions	115,832	4,544	4,907	125,283
Dispositions	(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
Additions	478,782	8,645	20,465	507,892
Dispositions	(24,102)	-	-	(24,102)
Change in decommissioning liabilities	(34,599)	(922)	-	(35,521)
Balance as at December 31, 2017	\$ 8,298,090	\$ 1,617,841	\$ 76,448	\$ 9,992,379
Accumulated depletion and depreciation				
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
Dispositions	(3,641)	-	-	(3,641)
Balance as at December 31, 2016	\$ 1,766,709	\$ 110,833	\$ 27,134	\$ 1,904,676
Depletion and depreciation	436,271	29,801	5,964	472,036
Dispositions	(18,732)	-	-	(18,732)
Balance as at December 31, 2017	\$ 2,184,248	\$ 140,634	\$ 33,098	\$ 2,357,980
Carrying amounts				
Balance as at December 31, 2016	\$ 6,111,300	\$ 1,499,285	\$ 28,849	\$ 7,639,434
Balance as at December 31, 2017	\$ 6,113,842	\$ 1,477,207	\$ 43,350	\$ 7,634,399

As at December 31, 2017, property, plant and equipment was assessed for impairment and no impairment has been recognized. Included in the cost of property, plant and equipment is \$459.7 million of assets under construction (December 31, 2016 - \$547.9 million).

8. EXPLORATION AND EVALUATION ASSETS

Cost	
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
Additions	1,569
Change in decommissioning liabilities	(493)
Balance as at December 31, 2017	\$ 548,828

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, 2017, 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.

9. INTANGIBLE ASSETS

Cost	
Balance as at December 31, 2015	\$ 96,278
Additions	16,643
Balance as at December 31, 2016	\$ 112,921
Additions	534
Balance as at December 31, 2017	\$ 113,455

Accumulated depreciation	
Balance as at December 31, 2015	\$ 12,136
Impairment	80,072
Depreciation	4,602
Balance as at December 31, 2016	\$ 96,810
Depreciation	3,608
Balance as at December 31, 2017	\$ 100,418

Carrying amounts	
Balance as at December 31, 2016	\$ 16,111
Balance as at December 31, 2017	\$ 13,037

As at December 31, 2017, intangible assets consist of \$13.0 million invested in software that is not an integral component of the related computer hardware (December 31, 2016 – \$16.1 million). No impairment has been recognized on these assets for the year ended December 31, 2017.

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 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 recognized a fourth quarter 2016 impairment charge of \$80.1 million.

10. OTHER ASSETS

As at December 31	2017	2016
Long-term pipeline linefill ^(a)	\$ 122,657	\$ 129,733
Deferred financing costs ^(b)	24,134	12,001
Interest rate swap ^(c)	8,067	-
	154,858	141,734
Less current portion	(9,126)	(4,364)
	\$ 145,732	\$ 137,370

(a) Long-term pipeline linefill on third party owned pipelines is classified as a long-term asset as these transportation contracts extend beyond the year 2024. As at December 31, 2017, no impairment has been recognized on these assets.

(b) During the year ended December 31, 2017, the Corporation recognized deferred financing costs on modifications to its revolving credit facility and guaranteed letter of credit facility of \$17.5 million and \$2.9 million, respectively. These costs are being amortized as a component of net finance expense over the respective terms of the credit facilities (Note 12).

(c) In the third quarter of 2017, the Corporation entered into an interest rate swap contract to effectively fix the interest rate on US\$650.0 million of its US\$1.2 billion senior secured term loan at approximately 5.3% (Note 27(c)). This interest rate swap contract commenced September 29, 2017 and expires on December 31, 2020. 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. The interest rate swap is classified as a non-current derivative financial asset and measured at fair value, with gains and losses on re-measurement included in net finance expense in the period in which they arise.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31	2017	2016
Accrued and other liabilities	\$ 333,988	\$ 217,424
Interest payable	77,625	71,945
Trade payables	2,292	2,971
	\$ 413,905	\$ 292,340

12. LONG-TERM DEBT

As at December 31	2017	2016
Senior secured term loan (December 31, 2017 - US\$1.226 billion; due 2023; December 31, 2016 - US\$1.236 billion) ^(a)	\$ 1,534,378	\$ 1,658,906
6.5% senior secured second lien notes (US\$750.0 million; due 2025) ^(b)	938,850	-
6.5% senior unsecured notes (US\$750.0 million; due 2021) ^(c)	-	1,007,025
6.375% senior unsecured notes (US\$800.0 million; due 2023) ^(d)	1,001,440	1,074,160
7.0% senior unsecured notes (US\$1.0 billion; due 2024) ^(e)	1,251,800	1,342,700
	4,726,468	5,082,791
Less unamortized financial derivative liability discount	(4,242)	(11,143)
Less unamortized deferred debt discount and debt issue costs ^{(a)(b)}	(38,499)	(22,766)
Debt redemption premium ^(c)	-	21,812
	4,683,727	5,070,694
Less current portion of senior secured term loan	(15,460)	(17,455)
	\$ 4,668,267	\$ 5,053,239

	2018	2019	2020	2021	2022	Thereafter	Total
Required debt principal repayments	\$15,460	\$15,460	\$15,460	\$15,460	\$15,460	\$4,649,168	\$4,726,468

The U.S. dollar denominated debt was translated into Canadian dollars at the year-end exchange rate of US\$1 = C\$1.2518 (December 31, 2016 – US\$1 = C\$1.3427).

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) Effective January 27, 2017, the Corporation refinanced and extended the maturity date of its US\$1.2 billion term loan from March 2020 to December 2023. The term loan bears interest at an annual rate based on either U.S. Prime or LIBOR, at the Corporation's option, plus a credit spread of 2.5% or 3.5%, respectively. The term loan also has a U.S. Prime Rate floor of 2.0% and a LIBOR floor of 1.0%. The term loan is to be repaid in quarterly installment payments of US\$3.1 million, with the balance due on December 31, 2023. The term loan was issued at a price equal to 99.75% of its face value. The Corporation has deferred the debt discount and the associated debt issue costs of \$22.0 million and is amortizing these costs over the life of the loan utilizing the effective interest method.

Effective January 27, 2017, the Corporation extended the maturity date on substantially all of its commitments under the Corporation's 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. As at December 31, 2017, no amount has been drawn under the revolving credit facility.

On February 15, 2017, the Corporation extended the maturity date on the Corporation's five-year letter of credit facility, guaranteed by Export Development Canada, from November 2019 to November 2021. 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. As at December 31, 2017, letters of credit of US\$258.4 million were issued and outstanding under this facility.

The amendments to the term loan, revolving credit facility and guaranteed letter of credit facility were not considered to be new financial liabilities, as no substantial modifications arose between the existing

and amended agreements. As a result, no profit or loss was recognized when the terms of the financial liabilities were amended.

On February 8, 2018, the Corporation announced that it had entered into an agreement for the sale of the Corporation's 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal. Upon closing, a portion of the net cash proceeds will be used to repay approximately C\$1.225 billion of the Corporation's senior secured term loan. The expected repayment of debt reduces the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount. The change in estimate is an adjusting subsequent event under IAS 10, *Events after the Reporting Period*, and a debt extinguishment expense of \$30.8 million was recorded at December 31, 2017. The debt extinguishment expense is comprised of the unamortized proportion of the senior secured term loan debt discount and debt issue costs of \$17.0 million and the unamortized proportion of the senior secured term loan financial derivative liability discount of \$13.8 million (Note 32).

As at December 31, 2017, the senior secured credit facilities are comprised of a US\$1.226 billion term loan and a US\$1.4 billion revolving credit facility. The senior secured term loan, credit facilities and second lien notes are secured by substantially all the assets of the Corporation.

- (b) Effective January 27, 2017, the Corporation issued US\$750 million in aggregate principal amount of 6.5% senior secured second lien notes, with a maturity date of January 2025. Interest is paid semi-annually in January and July. No principal payments are required until 2025. The Corporation has deferred the associated debt issue costs of \$18.1 million and is amortizing these costs over the life of the notes utilizing the effective interest method.
- (c) On March 15, 2017, the Corporation redeemed the previously outstanding US\$750 million aggregate principal amount of 6.5% senior unsecured notes due 2021, utilizing the proceeds received from the issuance of the US\$750 million, 6.5% senior secured second lien notes, which were held in escrow subject to the redemption. The 2.166% debt redemption premium of \$21.8 million and associated remaining unamortized deferred debt issue costs of \$7.0 million were recognized as debt extinguishment expense in the fourth quarter of 2016.
- (d) 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.
- (e) 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.

13. PROVISIONS AND OTHER LIABILITIES

As at December 31	2017	2016
Decommissioning provision ^(a)	\$ 102,530	\$ 133,924
Onerous contracts provision ^(b)	92,157	100,159
Derivative financial liabilities ^(c)	6,028	3,714
Deferred lease inducements and other ^(d)	32,243	3,304
Provisions and other liabilities	232,958	241,101
Less current portion	(27,446)	(23,063)
Non-current portion	\$ 205,512	\$ 218,038

(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	2017	2016
Balance, beginning of year	\$ 133,924	\$ 130,381
Changes in estimated future cash flows	(351)	(91)
Changes in discount rates	(19,602)	4,436
Changes in estimated settlement dates	(35,963)	(10,553)
Liabilities incurred	19,902	4,123
Liabilities settled	(2,403)	(1,290)
Accretion	7,023	6,918
Balance, end of year	102,530	133,924
Less current portion	(6,386)	(3,097)
Non-current portion	\$ 96,144	\$ 130,827

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 \$859.1 million (December 31, 2016 - \$825.1 million). The Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 9.5% (December 31, 2016 – 8.2%) and an inflation rate of 2.10% (December 31, 2016 – 2.10%).

As at December 31, 2017, a 1% increase in the credit-adjusted risk-free rate would result in a \$12.1 million decrease in the present value of the decommissioning provision. The decommissioning provision is estimated to be settled in periods up to the year 2067 (December 31, 2016 – periods up to the year 2066).

(b) Onerous contracts provision:

As at December 31	2017	2016
Balance, beginning of year	\$ 100,159	\$ 58,178
Changes in estimated future cash flows	13,337	40,499
Changes in discount rates	(2,507)	(1,478)
Liabilities incurred	-	8,845
Liabilities settled	(19,569)	(6,116)
Accretion	737	231
Balance, end of year	92,157	100,159
Less current portion	(19,047)	(18,930)
Non-current portion	\$ 73,110	\$ 81,229

As at December 31, 2017, the Corporation has recognized a provision of \$92.2 million related to onerous operating lease contracts (December 31, 2016 – \$100.2 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. The total undiscounted amount of the estimated future cash flows to settle the onerous contracts obligations is \$102.1 million (December 31, 2016 - \$106.2 million). These cash flows have been discounted using a risk-free discount rate of 1.8% (December 31, 2016 – 1.3%). This estimate may vary as a result of changes in estimated recoveries. The onerous contracts obligation is estimated to be settled in periods up to the year 2031 (December 31, 2016 – periods up to the year 2031).

(c) Derivative financial liabilities:

As at December 31	2017	2016
1% interest rate floor	\$ 6,028	\$ 3,714
Less current portion	(90)	(517)
Non-current portion	\$ 5,938	\$ 3,197

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.

(d) Deferred lease inducements and other:

During the year ended December 31, 2017, the Corporation recognized a \$21.5 million tenant improvement allowance related to its corporate office lease. The allowance will be amortized and treated as a reduction to general and administrative expenses over the 15-year term of the lease. In addition, the Corporation recognized a \$9.4 million long term liability to be settled in installments over the next four years.

14. INCOME TAXES

The income tax provision differs from results which would be obtained if the Corporation applied the combined federal and provincial statutory rate of 27% (2016 – 27%) to earnings or loss before income taxes as follows:

For the years ended December 31	2017	2016
Expected income tax expense (recovery)	\$ 29,640	\$ (171,780)
Add (deduct) the tax effect of:		
Stock-based compensation	5,144	9,069
Non-taxable loss (gain) on foreign exchange	(46,390)	(21,232)
Taxable capital loss (gain) not recognized	(46,390)	(21,232)
Tax benefit of vested RSUs	(1,166)	(2,133)
Other	2,965	(186)
Income tax expense (recovery)	\$ (56,197)	\$ (207,494)
Current income tax expense (recovery)	\$ (67)	\$ 919
Deferred income tax expense (recovery)	(56,130)	(208,413)
Income tax expense (recovery)	\$ (56,197)	\$ (207,494)

During the year ended December 31, 2017, the Corporation recognized a current income tax recovery of \$0.1 million (year ended December 31, 2016 - \$0.9 million income tax expense). The recovery is comprised of \$0.8 million relating to the refundable Alberta tax credit on Scientific Research and Experimental Development expenditures, partially offset by an expense of \$0.7 million relating to the United States income tax associated with its operations in the United States. The 2016 expense was related to the United States income tax associated with its operations in the United States.

The Corporation has recognized a deferred tax asset of \$182.9 million (December 31, 2016 – \$120.9 million). 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 deferred tax assets (liabilities) consist of the following:

As at December 31	2017	2016
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	\$ 1,381,512	\$ 1,255,527
Deferred tax assets to be recovered within 12 months	29,856	17,627
	1,411,368	1,273,154
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(1,228,497)	(1,151,317)
Deferred tax liabilities to be recovered within 12 months	-	(893)
	(1,228,497)	(1,152,210)
Deferred tax assets (liabilities), net	\$ 182,871	\$ 120,944

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

	2017	2016
Balance as at January 1	\$ 120,944	\$ (87,469)
Credited (charged) to earnings	56,130	208,413
Credited (charged) to other comprehensive income	(9)	-
Credited (charged) to equity	5,806	-
Balance as at December 31	\$ 182,871	\$ 120,944

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

Deferred tax assets	Tax losses	Derivative financial			Other	Total
		liabilities	Provisions			
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	
Credited (charged) to earnings	123,110	8,798	1,247	5,068	138,223	
Credited (charged) to other comprehensive income	-	-	-	(9)	(9)	
Balance as at December 31, 2017	\$ 1,331,165	\$ 17,985	\$ 5,034	\$ 57,184	\$ 1,411,368	

Deferred tax liabilities	Property, plant and equipment		Other	Total
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)	
Credited (charged) to earnings	(85,400)	3,307	(82,093)	
Credited (charged) to equity	-	5,806	5,806	
Balance as at December 31, 2017	\$ (1,227,824)	\$ (673)	\$ (1,228,497)	

As at December 31, 2017, the Corporation had approximately \$8.4 billion in available tax pools (December 31, 2016 - \$8.0 billion). Included in the tax pools are \$4.9 billion of non-capital loss carry forward balances expiring as follows: \$0.2 billion in 2026; \$0.2 billion in 2027; \$0.3 billion in 2028; \$0.5 billion in 2029; \$0.2 billion in 2030 and \$3.5 billion after 2030). In addition, as at December 31, 2017, the Corporation had an additional \$6.0 million (December 31, 2016 - \$0.2 billion) of capital investment in incomplete projects which will serve to increase available tax pools upon completion of the projects. As at December 31, 2017, the Corporation had not recognized the tax benefit related to \$0.4 billion of realized and unrealized taxable capital foreign exchange losses (December 31, 2016 - \$0.6 billion).

15. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares.

Changes in issued common shares are as follows:

Year ended December 31	2017		2016	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	226,467,107	\$ 4,878,607	224,996,989	\$ 4,836,800
Shares issued	66,815,000	517,816	-	-
Share issue costs net of tax	-	(15,698)	-	-
Issued upon vesting and release of RSUs and PSUs	821,836	23,253	1,470,118	41,807
Balance, end of year	294,103,943	\$ 5,403,978	226,467,107	\$ 4,878,607

On January 27, 2017, the Corporation issued 66,815,000 common shares at a price of \$7.75 per share for gross proceeds of \$517.8 million.

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:

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

RSUs and PSUs outstanding:

Year ended December 31	2017	2016
Outstanding, beginning of year	6,013,010	-
Granted	1,454,659	6,132,701
Vested and released	(1,467,027)	-
Forfeited	(690,569)	(119,691)
Outstanding, end of year	5,310,073	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, 2017, there were 284,871 DSUs outstanding (December 31, 2016 – 163,954 DSUs outstanding).

As at December 31, 2017, the Corporation has recognized a liability of \$14.3 million relating to the fair value of RSUs, PSUs and DSUs (December 31, 2016 – \$19.2 million).

(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	2017		2016	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Outstanding, beginning of year	9,281,186	\$ 27.45	9,925,313	\$ 29.94
Granted	1,211,880	4.57	1,214,300	6.52
Forfeited	(927,256)	27.78	(851,422)	30.73
Expired	(669,807)	33.81	(1,007,005)	24.00
Outstanding, end of year	8,896,003	\$ 23.81	9,281,186	\$ 27.45

As at December 31, 2017						
		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)
\$4.53 - \$10.00	2,308,480	\$ 5.49	6.00	365,522	\$ 6.52	5.49
\$10.01 - \$20.00	2,364,946	18.52	4.45	1,581,898	18.52	4.45
\$20.01 - \$30.00	40,401	22.83	3.76	31,582	23.32	3.65
\$30.01 - \$40.00	3,624,122	34.83	2.54	3,624,122	34.83	2.54
\$40.01 - \$51.43	558,054	50.50	0.46	558,054	50.50	0.46
	8,896,003	\$ 23.81	3.82	6,161,178	\$ 30.32	3.02

The fair value of each option granted during the years ended December 31, 2017 and 2016 was estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2017	2016
Risk-free rate	1.14%	0.57%
Expected lives	5 years	5 years
Volatility ⁽ⁱ⁾	59%	53%
Annual dividend per share	\$ nil	\$ nil
Fair value of options granted	\$ 2.11	\$ 3.20

(i) Expected volatility is determined by the average price volatility of the common shares over the past five years.

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.

RSUs and PSUs outstanding:

Year ended December 31	2017	2016
Outstanding, beginning of year	1,655,606	3,280,112
Granted	5,756,580	-
Vested and released	(822,821)	(1,470,118)
Forfeited	(282,137)	(154,388)
Outstanding, end of year	6,307,228	1,655,606

(c) Stock-based compensation

Year ended December 31	2017	2016
Cash-settled expense ⁽ⁱ⁾	\$ 3,476	\$ 16,354
Equity-settled expense	19,052	33,588
Stock-based compensation	\$ 22,528	\$ 49,942

(i) Cash-settled RSUs and PSUs are accounted for as liability instruments and are measured at fair value based on the market value of the Corporation's common shares at each period end. Fluctuations in the fair value are recognized during the period in which they occur

17. PETROLEUM REVENUE, NET OF ROYALTIES

Year ended December 31	2017	2016
Petroleum revenue ^(a)		
Proprietary	\$ 2,168,602	\$ 1,626,025
Third-party ^(b)	253,486	205,790
Petroleum revenue	2,422,088	1,831,815
Royalties	(22,578)	(8,581)
Petroleum revenue, net of royalties	\$ 2,399,510	\$ 1,823,234

(a) The Corporation had two major customers each with revenue in excess of 10% of total petroleum revenue. Sales to major customers totaled \$0.9 billion for the year ended December 31, 2017 (year ended December 31, 2016 - \$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	2017	2016
Power revenue	\$ 22,209	\$ 18,868
Transportation revenue	12,801	19,791
Insurance proceeds	183	4,391
Other revenue	\$ 35,193	\$ 43,050

19. DILUENT AND TRANSPORTATION

Year ended December 31	2017	2016
Diluent expense	\$ 944,134	\$ 808,030
Transportation expense	214,280	209,864
Diluent and transportation	\$ 1,158,414	\$ 1,017,894

20. FOREIGN EXCHANGE LOSS (GAIN), NET

Year ended December 31	2017	2016
Unrealized foreign exchange loss (gain) on:		
Long-term debt	\$ (343,633)	\$ (157,272)
Other	5,489	9,119
Unrealized net loss (gain) on foreign exchange	(338,144)	(148,153)
Realized loss (gain) on foreign exchange	(4,403)	(3,242)
Foreign exchange loss (gain), net	\$ (342,547)	\$ (151,395)
C\$ equivalent of 1 US\$		
Beginning of year	1.3427	1.3840
End of year	1.2518	1.3427

21. NET FINANCE EXPENSE

Year ended December 31	2017	2016
Total interest expense	\$ 341,594	\$ 328,335
Total interest income	(3,924)	(1,047)
Net interest expense	337,670	327,288
Debt extinguishment expense ^(a)	30,801	28,845
Accretion on provisions	7,760	7,150
Unrealized gain on derivative financial liabilities	(16,179)	(12,508)
Realized loss on interest rate swaps	1,028	4,548
Net finance expense	\$ 361,080	\$ 355,323

- (a) On February 8, 2018, the Corporation announced that it had entered into an agreement for the sale of the Corporation's 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal. Upon closing, a portion of the net cash proceeds will be used to repay approximately C\$1.225 billion of the Corporation's senior secured term loan. The expected repayment of debt reduces the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount. The change in estimate is an adjusting subsequent event under IAS 10, *Events after the Reporting Period*, and a debt extinguishment expense of \$30.8 million was recorded at December 31, 2017. The debt extinguishment expense is comprised of the unamortized proportion of the senior secured term loan debt discount and debt issue costs of \$17.0 million and the unamortized proportion of the senior secured term loan financial derivative liability discount of \$13.8 million (Note 32).

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 12(c)). 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	2017	2016
Contract cancellation	\$ 18,765	\$ -
Onerous contracts	10,830	47,866
Severance and other	5,131	16,156
Other expenses	\$ 34,726	\$ 64,022

During the year ended December 31, 2017, the Corporation recognized an \$18.8 million contract cancellation expense relating to the termination of a long-term transportation contract.

23. WAGES AND EMPLOYEE BENEFITS EXPENSE

Year ended December 31	2017	2016
Operating expense:		
Salaries and wages ⁽ⁱ⁾	\$ 48,574	\$ 48,958
Short-term employee benefits	5,454	5,928
General and administrative expense:		
Salaries and wages ⁽ⁱ⁾	58,806	63,489
Short-term employee benefits	9,047	11,400
	\$ 121,881	\$ 129,775

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

24. TRANSACTIONS WITH RELATED PARTIES

During the years ended December 31, 2017 and December 31, 2016, related party transactions include the compensation of key management personnel. The Corporation considers directors and officers of the Corporation as key management personnel.

Year ended December 31	2017	2016
Salaries and short-term employee benefits	\$ 7,385	\$ 9,117
Share-based compensation	9,578	12,006
Termination benefits	64	1,617
	\$ 17,027	\$ 22,740

25. SUPPLEMENTAL CASH FLOW DISCLOSURES

Year ended December 31	2017	2016
Cash provided by (used in):		
Trade receivables and other	\$ (52,074)	\$ (83,601)
Inventories	(19,591)	(13,524)
Accounts payable and accrued liabilities	123,380	74,667
	\$ 51,715	\$ (22,458)
Changes in non-cash working capital relating to:		
Operating	\$ (24,517)	\$ (25,061)
Investing	76,232	2,603
	\$ 51,715	\$ (22,458)
Cash and cash equivalents: ^(a)		
Cash	\$ 276,023	\$ 156,230
Cash equivalents	187,508	-
	\$ 463,531	\$ 156,230
Cash interest paid	\$ 294,743	\$ 286,983
Cash interest received	\$ 3,660	\$ 1,046

(a) As at December 31, 2017, C\$201.0 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars. (December 31, 2016 - C\$102.8 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\$1.2518 (December 31, 2016 - US\$1 = C\$1.3427).

The following table reconciles long-term debt to cash flows arising from financing activities:

	Other assets	Long-term debt
Balance as at December 31, 2016 ⁽ⁱ⁾	\$ 12,001	\$ 5,070,694
Cash changes:		
Debt refinancing costs ^(a)	20,447	(61,930)
Redemption of senior unsecured notes	-	(1,008,825)
Issue of senior secured second lien notes	-	1,008,825
Payments on term loan	-	(12,690)
Non-cash changes:		
Unrealized loss (gain) on foreign exchange	-	(343,633)
Change in fair value of financial derivative liability	-	(10,426)
Debt extinguishment expense ^(b)	-	30,801
Amortization of financial derivative liability discount	-	3,520
Amortization of deferred debt discount and debt issue costs	(8,314)	7,391
Balance as at December 31, 2017⁽ⁱ⁾	\$ 24,134	\$ 4,683,727

(i) Long-term debt, including the current portion of long-term debt.

(a) During the year ended December 31, 2017, debt refinancing costs of \$82.4 million were paid, including \$61.9 million for the refinancing and maturity extension of the Corporation's US\$1.2 billion term loan and replacement of the Corporation's US\$750 million senior unsecured notes with US\$750 million senior secured second lien notes (Note 12). Refinancing costs related to amendments and extensions to the revolving credit facility and to the guaranteed letter of credit facility of \$17.5 million and \$2.9 million respectively, have been recognized as a component of Other Assets (Note 10).

(b) On February 8, 2018, the Corporation announced that it had entered into an agreement for the sale of the Corporation's 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal. Upon closing, a portion of the net cash proceeds will be used to repay approximately C\$1.225 billion of the Corporation's senior secured term loan. The expected repayment of debt reduces the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount. The change in estimate is an adjusting subsequent event under IAS 10, *Events after the Reporting Period*, and a debt extinguishment expense of \$30.8 million was recorded at December 31, 2017 (Note 32).

26. NET EARNINGS (LOSS) PER COMMON SHARE

Year ended December 31	2017	2016
Net earnings (loss)	\$ 165,976	\$ (428,726)
Weighted average common shares outstanding ^(a)	289,142,338	225,982,724
Dilutive effect of stock options, RSUs and PSUs ^(b)	116,583	-
Weighted average common shares outstanding - diluted	289,258,921	225,982,724
Net earnings (loss) per share, basic	\$ 0.57	\$ (1.90)
Net earnings (loss) per share, diluted	\$ 0.57	\$ (1.90)

- (a) Weighted average common shares outstanding for the year ended December 31, 2017 includes 139,863 PSUs not yet released (year ended December 31, 2016 – 184,425 PSUs).
- (b) For the year ended December 31, 2016, 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 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, commodity risk management contracts, the interest rate swap included within other assets, 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, 2017, commodity risk management contracts, the interest rate swap and 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 long-term debt, derivative financial liabilities, derivative financial assets, commodity risk management contracts and debt redemption premium liability:

As at December 31, 2017	Carrying amount	Fair value measurements using		
		Level 1	Level 2	Level 3
Recurring measurements:				
Financial assets				
Interest rate swap (Note 10)	\$ 8,067	-	\$ 8,067	-
Financial liabilities				
Long-term debt ⁽ⁱ⁾ (Note 12)	\$ 4,726,468	-	\$ 4,415,238	-
Derivative financial liabilities (Note 13)	\$ 6,028	-	\$ 6,028	-
Commodity risk management contracts	\$ 68,649	-	\$ 68,649	-

As at December 31, 2016	Carrying amount	Fair value measurements using		
		Level 1	Level 2	Level 3
Recurring measurements:				
Financial liabilities				
Long-term debt ⁽ⁱ⁾ (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	-

(i) Includes the current and long-term portions.

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

As at December 31, 2017, 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 value of long-term debt is derived using quoted prices in an inactive market from a third-party independent broker.

The fair value of commodity risk management contracts and derivative financial assets and 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, 2017, 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:

The Corporation enters into derivative financial instruments to manage commodity price risk. The use of the financial 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. Financial commodity risk management contracts are measured at fair value, with gains and losses on re-measurement included in the consolidated statement of earnings and comprehensive income in the period in which they arise.

The Corporation has the following financial commodity risk management contracts relating to crude oil sales outstanding as at December 31, 2017:

As at December 31, 2017	Volumes (bbls/d) ⁽ⁱ⁾	Term	Average Price (US\$/bbl) ⁽ⁱ⁾
Fixed Price:			
WTI ⁽ⁱⁱ⁾ Fixed Price	30,700	Jan 1, 2018 – Jun 30, 2018	\$52.89
WTI Fixed Price	22,500	Jul 1, 2018 – Dec 31, 2018	\$52.72
WTI:WCS ⁽ⁱⁱⁱ⁾ Fixed Differential	48,700	Jan 1, 2018 – Jun 30, 2018	\$(14.43)
WTI:WCS Fixed Differential	32,000	Jul 1, 2018 – Dec 31, 2018	\$(14.68)
Collars:			
WTI Collars	41,500	Jan 1, 2018 – Jun 30, 2018	\$46.71 – \$54.97
WTI Collars	32,500	Jul 1, 2018 – Dec 31, 2018	\$46.64 – \$54.52

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

(ii) West Texas Intermediate ("WTI") crude oil

(iii) Western Canadian Select ("WCS") crude oil blend

The Corporation has entered into the following financial commodity risk management contracts relating to crude oil sales subsequent to December 31, 2017. As a result, these contracts are not reflected in the Corporation's consolidated financial statements:

Subsequent to December 31, 2017	Volumes (bbls/d) ⁽ⁱ⁾	Term	Average Price (US\$/bbl) ⁽ⁱ⁾
Fixed Price:			
WTI Fixed Price	3,000	Apr 1, 2018 – Jun 30, 2018	\$63.82
WTI Fixed Price	11,500	Jul 1, 2018 – Dec 31, 2018	\$60.20

The Corporation has entered into the following financial commodity risk management contracts relating to condensate purchases subsequent to December 31, 2017. As a result, these contracts are not reflected in the Corporation's consolidated financial statements:

Subsequent to December 31, 2017	Volumes (bbls/d) ⁽ⁱ⁾	Term	Average % of WTI ⁽ⁱ⁾
Mont Belvieu fixed % of WTI	1,000	Apr 1, 2018 – Jun 30, 2018	92.3%
Mont Belvieu fixed % of WTI	500	Jul 1, 2018 – Sep 30, 2018	93.5%

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

The Corporation's financial 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 financial commodity risk management positions:

As at	December 31, 2017			December 31, 2016		
	Asset	Liability	Net	Asset	Liability	Net
Gross amount	\$ -	\$ (184,175)	\$ (184,175)	\$ -	\$ (165,740)	\$ (165,740)
Amount offset	-	115,526	115,526	-	135,427	135,427
Net amount	\$ -	\$ (68,649)	\$ (68,649)	\$ -	\$ (30,313)	\$ (30,313)

The following table provides a reconciliation of changes in the fair value of the Corporation's financial commodity risk management assets and liabilities from January 1 to December 31:

As at December 31	2017	2016
Fair value of contracts, beginning of year	\$ (30,313)	\$ -
Fair value of contracts realized	11,273	(2,359)
Change in fair value of contracts	(49,609)	(27,954)
Fair value of contracts, end of year	\$ (68,649)	\$ (30,313)

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

For the year ended December 31	2017	2016
Realized loss (gain) on commodity risk management	\$ 11,273	\$ (2,359)
Unrealized loss (gain) on commodity risk management	38,336	30,313
Commodity risk management loss (gain)	\$ 49,609	\$ 27,954

The following table summarizes the sensitivity of the earnings before income tax impact of fluctuating commodity prices on the Corporation's open financial commodity risk management positions in place as at December 31, 2017:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US\$5.00 per bbl applied to WTI contracts	\$ (145,090)	\$ 140,206
Crude oil differential price ⁽ⁱ⁾	± US\$1.00 per bbl applied to WCS differential contracts	\$ 18,414	\$ (18,414)

(i) 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 has entered into an interest rate swap contract to effectively fix the interest rate on US\$650.0 million of the US\$1.2 billion senior secured term loan at approximately 5.3%. Interest rate swaps are classified as derivative financial assets and liabilities and measured at fair value, with gains and losses on re-measurement included as a component of net finance expense in the period in which they arise. As at December 31, 2017, the Corporation has recognized an \$8.1 million derivative financial asset related to this interest rate swap.

Amount	Effective date	Remaining term	Fixed rate	Floating rate
US\$650 million	September 29, 2017	Oct 1, 2017 – Dec 31, 2020	5.319% ⁽ⁱ⁾	3 month LIBOR ⁽ⁱⁱ⁾ + 3.5% credit spread

(i) Comprised of the fixed rate on the interest rate swap contract of 1.819% plus 3.5% credit spread

(ii) London Interbank Offered Rate

As at December 31, 2017, a 100 basis points increase in the LIBOR on the floating rate debt would have resulted in a \$14.1 million decrease in net earnings before income taxes (December 31, 2016 - \$6.5 million). As at December 31, 2017, a 100 basis points decrease in LIBOR would have resulted in a \$2.6 million increase in net earnings before income taxes (December 31, 2016 - \$nil).

(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, 2017, 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\$37.8 million (December 31, 2016 - C\$37.9 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. As at December 31, 2017, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was \$280.0 million. There were no significant trade receivables which were greater than 90 days as at December 31, 2017.

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, 2017 was \$463.5 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 \$463.5 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, 2017	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Long-term debt	\$ 4,726,468	\$ 15,460	\$ 30,920	\$ 30,920	\$ 4,649,168
Interest on long-term debt	1,769,714	292,046	581,682	578,464	317,522
Commodity risk management contracts	68,649	68,649	-	-	-
Derivative financial liabilities	6,028	90	5,938	-	-
Accounts payable and accrued liabilities	336,280	336,280	-	-	-
	\$ 6,907,139	\$ 712,525	\$ 618,540	\$ 609,384	\$ 4,966,690

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

28. GEOGRAPHICAL DISCLOSURE

As at December 31, 2017, the Corporation had non-current assets related to operations in the United States of \$101.7 million (December 31, 2016 - \$109.2 million). For the year ended December 31, 2017, petroleum revenue related to operations in the United States was \$1.1 billion (year ended December 31, 2016 - \$664.2 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, 2017, the Corporation's proportionate interest in the joint operation's working capital balances was \$2.4 million (December 31, 2016 - \$2.9 million) and its interest in related pipeline assets, recorded in property, plant and equipment, was \$1.05 billion (December 31, 2016 - \$1.06 billion).

Operating commitments of \$12.2 million related to the joint operation are included within "Commitments" presented within Note 30(a).

30. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Corporation's commitments are enforceable and legally binding obligations to make payments in the future for goods and services. These items exclude amounts recorded on the consolidated balance sheet. The Corporation had the following commitments as at December 31, 2017, which exclude any impact related to transactions that occurred subsequent to December 31, 2017 as described in Note 32:

	2018	2019	2020	2021	2022	Thereafter	Total
Transportation and storage ⁽ⁱ⁾	\$ 169,248	\$ 182,850	\$ 227,393	\$ 283,457	\$ 284,128	\$2,248,252	\$3,395,328
Office lease rentals ⁽ⁱⁱ⁾	10,863	10,863	11,286	11,286	11,286	107,667	163,251
Diluent purchases	483,812	19,563	19,617	19,563	19,563	16,294	578,412
Other operating commitments	14,160	12,487	11,440	10,418	9,331	60,394	118,230
Capital commitments	14,843	-	-	-	-	-	14,843
Commitments	\$ 692,926	\$ 225,763	\$ 269,736	\$ 324,724	\$ 324,308	\$ 2,432,607	\$4,270,064

(i) Includes transportation commitments of \$1.2 billion that are awaiting regulatory approval and are not yet in service.

(ii) Excludes amounts for which an onerous contracts provision has been recognized on the consolidated balance sheet (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.

The Corporation is the defendant to a statement of claim originally filed in 2014 in relation to legacy issues involving a unit train transloading facility. The claim was amended in the fourth quarter of 2017 asserting a significant increase to damages claimed. The Corporation continues to view this three year old claim, and the recent amendments, as without merit and will defend against all such claims.

31. CAPITAL DISCLOSURES

The Corporation's capital structure consists of shareholders' equity and long-term debt. The Corporation's objective when managing its capital structure is to maintain financial flexibility that will allow it to execute future capital development projects, preserve access to funding, generate sufficient internally generated cash flow, retain its ability to meet financial obligations as they come due, and position the Corporation for strategic expansion and growth opportunities. The Corporation manages its capital structure in response to changing economic conditions and is able to adjust capital and operating spending, sell assets, issue new common shares, issue new debt, draw down on its revolving credit facility, or repay existing debt.

As at December 31, 2017, the Corporation's capital resources included \$313.0 million of working capital, an additional undrawn US\$1.4 billion syndicated revolving credit facility and a US\$440.0 million guaranteed letter of credit facility under which US\$258.4 million of letters of credit have been issued. Working capital is comprised of \$463.5 million of cash and cash equivalents, offset by a non-cash working capital deficiency of \$150.5 million.

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.

32. SUBSEQUENT EVENTS

On February 7, 2018, the Corporation entered into an agreement with Wolf Midstream Inc. ("Wolf") for the sale of the Corporation's 50% interest in Access Pipeline and its 100% interest in the Stonefell Terminal for cash and other consideration of \$1.61 billion ("the transaction"). The transaction was announced on February 8, 2018.

As part of the transaction, the Corporation and Wolf have entered into a Transportation Services Agreement dedicating the Corporation's Christina Lake production and condensate transport to Access Pipeline for an initial term of 30 years. The transaction also includes a Stonefell Lease Agreement which is a 30-year arrangement that secures the Corporation's operational control and exclusive use of 100% of Stonefell Terminal's 900,000 barrel blend and condensate storage facility. The sale of the Stonefell Terminal and the Stonefell Lease Agreement will be accounted for as a sale and leaseback transaction that results in a finance lease.

The Corporation will receive \$1.52 billion in cash at closing, and a credit of \$90 million toward future expansions of Access Pipeline whereby the Corporation will not pay incremental tolls to fund such expansions. Upon closing, a portion of the net cash proceeds will be used to repay approximately C\$1.225 billion of MEG's senior secured term loan.

As a result of the transaction announced on February 8, 2018, the Corporation determined that the expected repayment of debt results in a change in estimated life of certain amounts associated with the senior secured term loan. A debt extinguishment expense of \$30.8 million was recorded at December 31, 2017, as an adjusting subsequent event under IAS 10, *Events after the Reporting Period*.

The transaction is expected to close in the first quarter of 2018, subject to regulatory approvals and customary closing conditions.

Subsequent to entering into the agreement, the Corporation entered into forward currency contracts to manage the foreign exchange risk on the Canadian dollar denominated proceeds from the sale of assets designated for U.S. dollar denominated long-term debt repayment.