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, 2018.

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, 2018. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

/s/ Derek Evans	/s/ Eric L. Toews
Derek Evans President and Chief Executive Officer	Eric L. Toews, CPA, CA Chief Financial Officer

March 7, 2019

Independent auditor's report

To the Shareholders of MEG Energy Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MEG Energy Corp. and its subsidiary (together, the "Corporation") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited
The Corporation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jason Grodziski.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 7, 2019

Consolidated Balance Sheet
(Expressed in thousands of Canadian dollars)

As at December 31	Note		2018		2017
Assets					
Current assets					
Cash and cash equivalents	25	$	**317,704**	$	463,531
Trade receivables and other	5		**218,203**		289,104
Inventories	6		**97,514**		85,850
Commodity risk management	27		**122,658**		—
			756,079		838,485
Non-current assets					
Property, plant and equipment	7		**6,645,224**		7,634,399
Exploration and evaluation assets	8		**550,020**		548,828
Intangible assets	9		**10,948**		13,037
Other assets	10		**210,628**		145,732
Deferred income tax asset	14		**236,578**		182,871
Total assets		$	**8,409,477**	$	9,363,352
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	11	$	**426,353**	$	413,905
Current portion of long-term debt	12		**16,852**		15,460
Current portion of provisions and other liabilities	13		**17,058**		27,446
Commodity risk management	27		**6,061**		68,649
			466,324		525,460
Non-current liabilities					
Long-term debt	12		**3,740,150**		4,668,267
Provisions and other liabilities	13		**293,817**		205,512
Commodity risk management	27		**23,648**		—
Total liabilities			**4,523,939**		5,399,239
Shareholders' equity					
Share capital	15		**5,427,023**		5,403,978
Contributed surplus			**170,173**		166,636
Deficit			**(1,750,653)**		(1,629,091)
Accumulated other comprehensive income			**38,995**		22,590
Total shareholders' equity			**3,885,538**		3,964,113
Total liabilities and shareholders' equity		$	**8,409,477**	$	9,363,352

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 7, 2019.

/s/ Derek Evans

Derek Evans, Director

/s/ Robert B. Hodgins

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			2018		2017 Revised (Note 3)
Revenues					
Petroleum revenue, net of royalties	17	**$**	**2,672,845**	$	2,439,485
Other revenue	17		**59,859**		35,010
			2,732,704		2,474,495
Expenses					
Diluent and transportation	18		**1,560,678**		1,158,414
Operating expenses			**209,733**		222,196
Purchased product	19		**264,259**		290,656
Depletion and depreciation	7,9		**452,178**		475,644
General and administrative			**82,686**		86,785
Stock-based compensation	16		**47,123**		22,528
Research and development			**5,509**		5,808
Net finance expense	21		**285,980**		361,080
Exploration expense			**978**		—
Other expenses	22		**27,893**		34,543
Gain on asset dispositions	7		**(325,031)**		—
Commodity risk management loss (gain)	27		**(22,471)**		49,609
Foreign exchange loss (gain), net	20		**311,162**		(342,547)
Earnings (loss) before income taxes			**(167,973)**		109,779
Income tax expense (recovery)	14		**(48,776)**		(56,197)
Net earnings (loss)			**(119,197)**		165,976
Other comprehensive income (loss), net of tax					
Items that may be reclassified to profit or loss:					
Foreign currency translation adjustment			**16,405**		(12,393)
Comprehensive income (loss) for the year		**$**	**(102,792)**	$	153,583
Net earnings (loss) per common share					
Basic	26	**$**	**(0.40)**	$	0.57
Diluted	26	**$**	**(0.40)**	$	0.57

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, 2017		**$5,403,978**	**$ 166,636**	**$ (1,629,091)**	**$ 22,590**	**$ 3,964,113**
IFRS 9 opening deficit adjustment	3	**—**	**—**	**(4,659)**	**—**	**(4,659)**
Stock-based compensation	16	**—**	**25,420**	**—**	**—**	**25,420**
Stock options exercised	15	**1,813**	**(588)**	**—**	**—**	**1,225**
RSUs vested and released	15	**21,232**	**(21,295)**	**2,294**	**—**	**2,231**
Comprehensive income (loss)		**—**	**—**	**(119,197)**	**16,405**	**(102,792)**
Balance as at December 31, 2018		**$5,427,023**	**$ 170,173**	**$ (1,750,653)**	**$ 38,995**	**$ 3,885,538**
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

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	2018	2017
Cash provided by (used in):			
Operating activities			
Net earnings (loss)		$ **(119,197)**	$ 165,976
Adjustments for:			
Depletion and depreciation	7,9	**452,178**	475,644
Exploration expense		**978**	—
Stock-based compensation	16	**21,584**	19,052
Unrealized loss (gain) on foreign exchange	20	**340,753**	(338,144)
Unrealized loss (gain) on derivative financial liabilities	21	**3,096**	(16,179)
Unrealized loss (gain) on commodity risk management	27	**(161,373)**	38,336
Onerous contracts expense	22	**3,296**	10,830
Deferred income tax expense (recovery)	14	**(49,679)**	(56,130)
Amortization of debt discount and debt issue costs	10,12	**14,860**	19,225
Debt extinguishment expense	12,21	**—**	30,801
Gain on asset dispositions	7	**(325,031)**	—
Other		**6,069**	5,624
Decommissioning expenditures	13	**(5,225)**	(2,403)
Payments on onerous contracts	13	**(18,727)**	(19,569)
Net change in other liabilities		**5,159**	9,389
Net change in non-cash working capital items	25	**111,291**	(24,517)
Net cash provided by (used in) operating activities		**280,032**	317,935
Investing activities			
Capital investments:			
Property, plant and equipment	7	**(620,861)**	(505,713)
Exploration and evaluation	8	**(537)**	(1,569)
Intangible assets	9	**(851)**	(534)
Net proceeds on dispositions	7	**1,508,729**	5,370
Other		**(9,004)**	20,983
Net change in non-cash working capital items	25	**(26,398)**	76,232
Net cash provided by (used in) investing activities		**851,078**	(405,231)
Financing activities			
Issue of shares, net of issue costs	15	**1,162**	496,312
Redemption of senior unsecured notes		**—**	(1,008,825)
Issue of senior secured second lien notes		**—**	1,008,825
Payments on term loan	25	**(1,284,855)**	(12,690)
Refinancing costs		**—**	(82,377)
Net cash provided by (used in) financing activities		**(1,283,693)**	401,245
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**6,756**	(6,648)
Change in cash and cash equivalents		**(145,827)**	307,301
Cash and cash equivalents, beginning of year		**463,531**	156,230
Cash and cash equivalents, end of year		$ **317,704**	$ 463,531

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

1. CORPORATE INFORMATION

MEG Energy Corp. (the "Corporation") was incorporated under the *Alberta Business Corporations Act* on March 9, 1999. The Corporation's shares trade on the Toronto Stock Exchange ("TSX") under the symbol "MEG". The Corporation owns a 100% interest in over 900 square miles of oil sands leases in the southern Athabasca oil sands region of northern Alberta and is primarily engaged in a steam assisted gravity drainage oil sands development at its 80 section Christina Lake Project.

In the first quarter of 2018, the Corporation successfully completed the sale of its 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal.

The corporate office is located at 600 – 3rd Avenue SW, 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 7, 2019.

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.

Prior to March 22, 2018, the Corporation owned an undivided 50% working interest in Access Pipeline and was responsible for its proportionate ownership interest of all assets and liabilities and other obligations. Since the Corporation owned an undivided interest in Access Pipeline, it held a proportionate share of the rights to the assets and obligations for the liabilities. As a result, the Corporation presented its proportionate share of the assets, liabilities, revenues and expenses of Access Pipeline on a line-by-line basis in the December 31, 2017 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

Policy Applicable From January 1, 2018

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. A financial asset or liability is measured initially at fair value plus, for an item not measured at Fair Value Through Profit or Loss, transaction costs that are directly attributable to its acquisition or issuance.

Derivative financial instruments are recognized 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 Profit or Loss are classified as current except where an unconditional right to defer payment beyond 12 months exists. 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.

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.

Derivative financial instruments are included in Fair Value Through Profit or Loss 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 commodity risk management contracts and interest rate swap contract have been classified as Fair Value Through Profit or Loss.

i. Financial assets

At initial recognition, a financial asset is classified as measured at: amortized cost, Fair Value Through Profit or Loss or Fair Value Through Other Comprehensive Income depending on the business model and contractual cash flows 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. A substantial modification to the terms of an existing financial asset results in the derecognition of the financial asset and the recognition of a new financial asset at fair value. In the event that the modification to the terms of an existing financial asset do not result in a substantial difference in the contractual cash flows the gross carrying amount of the financial asset is recalculated and the difference resulting from the adjustment in the gross carrying amount is recognized in earnings or loss.

ii. Financial liabilities

Financial liabilities are measured at amortized cost or Fair Value Through Profit or Loss. 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 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. Where a financial liability is modified in a way that does not constitute an extinguishment (generally when there is a change of less than 10% in the present value of cash flows discounted at the original effective interest rate), the modified cash flows are discounted at the liability's original effective interest rate. Transaction costs paid to third parties in a modification are amortized over the remaining term of the modified debt.

Policy Applicable Before January 1, 2018

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. Any impairments are determined based on the Corporation's impairment policy as described in Note 3(m)(i).

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. On March 22, 2018, the Corporation completed the sale of its wholly-owned Stonefell Terminal and its 50% interest in the Access Pipeline.

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. All other borrowing costs are recognized in net finance expense using the effective interest method.

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 - non-current 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 non-current 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. Leases

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases within PP&E. At the commencement of the lease term, the Corporation recognizes the finance lease as an asset and a corresponding liability on the consolidated balance sheet at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The Corporation's estimated incremental borrowing rate is used to calculate the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the finance lease liability. Finance charges are charged directly against income through Net Finance Expense. The finance lease liability is accreted over the life of the lease and reduced by actual 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.

Loss allowances are measured at an amount equal to the lifetime expected credit losses on the asset. Expected credit losses are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls for financial assets that are not credit-impaired at the reporting date and as the difference between the gross carrying amount and the present value of estimated future cash flows for financial assets that are credit-impaired at the reporting date. Loss allowances for expected credit losses for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the asset.

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. Emissions 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

The Corporation earns revenue primarily from the sale of crude oil, with other revenue earned from excess power generation, and from transportation fees charged to third parties.

i. Petroleum revenue and royalties

The Corporation sells proprietary and purchased crude oil under contracts of varying terms of up to one year to customers at prevailing market prices, whereby delivery takes place throughout the contract period. In most cases, consideration is due when title has transferred and is generally collected in the month following the month of delivery.

The Corporation evaluates its arrangements with third parties to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

Revenues associated with the sales of proprietary and purchased crude oil owned by the Corporation are recognized at a point in time when control of goods have transferred, which is generally when title passes from the Corporation to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognized at the time of production.

Revenue is allocated to each performance obligation on the basis of its standalone selling price and measured at the transaction price, which is the fair value of the consideration and represents amounts receivable for goods or services provided in the normal course of business. The price is allocated to each unit in the series as each unit is substantially the same and depicts the same pattern of transfer to the customer.

ii. Other revenue

Revenue from power generated in excess of the Corporation's internal requirements is recognized upon delivery from the plant gate, at which point, control is transferred to the customer on the power grid. Revenues are earned at prevailing market prices for each megawatt hour produced. Fees charged to customers for the use of pipelines and facilities are recognized in the period when the products are delivered and the services are provided.

iii. Asset dispositions

Property, plant and equipment assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and is recognized in net earnings or loss, unless the disposition is part of a sale and leaseback. The amount of consideration to be included in the gain or loss arising from derecognition is determined by the transaction contract.

Dispositions of property, plant and equipment occur on the date the acquiror obtains control of the asset.

s. 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, and equity-settled RSUs and PSUs granted to directors, officers, employees and consultants.

t. New accounting standards

The Corporation has adopted the following standards effective January 1, 2018:

i. IFRS 15 *Revenue From Contracts With Customers*

The IASB issued IFRS 15 *Revenue From Contracts With Customers*, which was effective January 1, 2018 and replaced 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 Corporation adopted IFRS 15 retrospectively as required by the standard on January 1, 2018, and applied a practical expedient whereby completed contracts prior to January 1, 2017 were not assessed. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements.

Impact from change in accounting policy:

Under IFRS 15, revenues from the purchase and sale of proprietary crude oil are recognized on a gross basis as separate performance obligations. In conjunction with the transition to IFRS 15, the presentation of petroleum revenue, net of royalties and purchased product and storage has changed, with no impact on earnings (loss) before income tax, net earnings (loss), comprehensive income (loss), or net cash provided by (used in) operating activities.

The annual impact of these changes in 2017 was as follows:

		Year ended December 31, 2017
Petroleum revenue – proprietary, as previously reported	$	2,168,602
Blend purchases		39,975
Adjusted petroleum revenue – proprietary	**$**	**2,208,577**
Purchased product and storage as previously reported	$	250,681
Blend purchases		39,975
Adjusted purchased product and storage	**$**	**290,656**

Enhanced required disclosures are provided in Notes 17 and 19.

ii. IFRS 9 *Financial Instruments*

The IASB issued IFRS 9 *Financial Instruments*, which was effective January 1, 2018 and replaced 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 align with risk management activities. An 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 adoption of this standard did not have a material impact on the Corporation's consolidated financial statements.

Impact from change in accounting policy:

The classification of certain financial instruments was impacted by the adoption of IFRS 9. Trade receivables and other are measured at amortized cost under IFRS 9, as the Corporation holds the receivables with the sole intention of collecting contractual cash flows. There were no significant changes to the closing impairment allowance for financial assets determined in accordance with IAS 39 and the expected credit loss allowance determined in accordance with IFRS 9 as at January 1, 2018.

The amendment to IFRS 9 that requires debt modification 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, required the Corporation to revise the opening deficit as follows:

		As at January 1, 2018
Increase to net finance expense[(a)]	$	6,381
Tax effect		(1,722)
Increase to opening deficit	**$**	**4,659**

(a) The increase to net finance expense was the result of a decrease in the unamortized financial derivative liability discount and debt issue costs which resulted in an increase in the carrying value of long-term debt as at January 1, 2018.

iii. IFRS 2 *Share-based Payments*

The IASB issued amendments to IFRS 2 *Share-based Payments*, effective January 1, 2018 relating to classification and measurement of particular share-based payment transactions. The adoption of this revision did not have a material impact on the Corporation's consolidated financial statements.

u. 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 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 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period comparative financial information, as the cumulative effect is recognized as an adjustment to the opening retained earnings and deficit on the transition date and the standard is prospectively applied.

On adoption, the standard is expected to increase the Corporation's assets and liabilities with the recognition of right-of-use assets and corresponding lease liabilities based on the principles of the new standard. The most significant impact on the Corporation of adopting IFRS 16 will be the recognition of right-of-use assets and corresponding lease obligations on long-term leases for office space and marketing storage tank arrangements.

The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate as at January 1, 2019. The corresponding right-of-use assets will be measured at the amount equal to the lease liability on January 1, 2019. As a result, there will be an increase to depletion and depreciation expense on right-of-use assets, an increase to net finance expense on lease liabilities, a reduction to general and administrative expense and a reduction to transportation expense. Accounting treatment of existing sale and leasebacks resulting in a finance lease under IAS 17 will remain unchanged upon transition to IFRS 16. Under the new standard, cash outflows for repayment of the principal portion of the lease liability will be classified as cash flows from financing activities. The interest portion of the lease payments will continue to be classified as cash flows from operating activities.

The accounting requirements for lessors is substantially unchanged and a lessor will continue to classify leases as either finance leases or operating leases, and disclosure requirements are enhanced. However, as an intermediate lessor, on adoption of IFRS 16, the Corporation will reassess subleases previously classified as operating leases under IAS 17 to determine whether each sublease should be classified as an operating lease or a finance lease. An operating lease that is reclassified to a finance lease will be accounted for as a new finance lease entered into on January 1, 2019.

On initial adoption, the Corporation will use the following practical expedients permitted by the standard to leases previously classified as operating leases applying IAS 17:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Rely on the Corporation's previous assessment of whether leases were onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before initial application as an alternative to performing an impairment review. As a result, the Corporation will adjust the right-of-use asset by the amount of the onerous contracts provision recognized in the consolidated financial statements as at December 31, 2018.
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases.
- Exclude initial direct costs from the measurement of the right-of-use asset as at January 1, 2019.
- Use hindsight when determining the lease term where the contract contains options to extend or terminate the lease.

The Corporation continues to assess and evaluate the impact of the standard on the consolidated financial statements. A process for identifying potential lease contracts has been established and the Corporation has created a process for performing detailed evaluations of its contracts that are potentially leases under IFRS 16. In the first quarter of 2019, these activities will be finalized.

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. 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.

e. 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.

f. 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.

g. 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.

h. 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.

i. Sale and leaseback accounting

During the first quarter of 2018, the Corporation sold its 100% interest in the Stonefell Terminal and management determined that the sale of the Stonefell Terminal and the subsequent lease of the terminal should be accounted for as a sale and leaseback transaction that resulted in a finance lease.

Determining the measurement of a finance lease asset and obligation is a complex process that involves estimates, assumptions and judgments to determine the fair value of leased assets, and estimates on timing and amount of expected future cash flows and discount rates. Any future changes to the estimated discount rate will not impact the carrying values of the finance lease asset and obligation. The leased asset will be subject to property, plant and equipment impairment reviews at subsequent reporting periods.

5. TRADE RECEIVABLES AND OTHER

As at December 31		2018		2017
Trade receivables	$	200,606	$	266,789
Deposits and advances		10,035		13,189
Current portion of deferred financing costs		7,562		8,653
Current portion of interest rate swaps		—		473
	$	218,203	$	289,104

6. INVENTORIES

As at December 31		2018		2017
Bitumen blend	$	74,292	$	64,077
Diluent		17,333		19,576
Material and supplies		5,889		2,197
	$	97,514	$	85,850

During the year ended December 31, 2018, a total of $1.3 billion (2017 - $0.9 billion) in inventory product costs were charged to earnings through diluent and transportation expense.

7. PROPERTY, PLANT AND EQUIPMENT

	Crude oil	Transportation and storage	Corporate assets	Total
Cost				
Balance as at December 31, 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
Additions	618,725	201,583	773	821,081
Transfers to other assets (Note 10)	—	(67,318)	—	(67,318)
Dispositions	—	(1,397,099)	—	(1,397,099)
Change in decommissioning liabilities	(37,087)	(329)	—	(37,416)
Balance as at December 31, 2018	**$ 8,879,728**	**$ 354,678**	**$ 77,221**	**$ 9,311,627**
Accumulated depletion and depreciation				
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
Depletion and depreciation	425,505	22,306	6,364	454,175
Dispositions	—	(145,752)	—	(145,752)
Balance as at December 31, 2018	**$ 2,609,753**	**$ 17,188**	**$ 39,462**	**$ 2,666,403**
Carrying amounts				
Balance as at December 31, 2017	$ 6,113,842	$ 1,477,207	$ 43,350	$ 7,634,399
Balance as at December 31, 2018	**$ 6,269,975**	**$ 337,490**	**$ 37,759**	**$ 6,645,224**

During the first quarter of 2018, the Corporation successfully completed the sale of its 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal for proceeds of $1.52 billion (net of transaction costs of $18.5 million). As a result of the transaction, the Corporation recognized a gain of $318.4 million on the sale of its 50% interest in the Access Pipeline. The sale of its 100% interest in the Stonefell Terminal has been accounted for as a sale and leaseback transaction that results in a finance lease (Note 13(a)). The $190.8 million net book value of the leased asset is included in transportation and storage assets within property, plant and equipment. The Stonefell Lease Agreement 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 facility.

As at December 31, 2018, property, plant and equipment was assessed for impairment and no impairment was recognized. Included in the cost of property, plant and equipment is $291.0 million of assets under construction (December 31, 2017 – $459.7 million).

8. EXPLORATION AND EVALUATION ASSETS

Cost		
Balance as at December 31, 2016	$	547,752
Additions		1,569
Change in decommissioning liabilities		(493)
Balance as at December 31, 2017	$	548,828
Additions		2,906
Exploration expense and dispositions		(978)
Change in decommissioning liabilities		(736)
Balance as at December 31, 2018	**$**	**550,020**

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, 2018, these assets were assessed for impairment and no impairment has been recognized on exploration and evaluation assets.

9. INTANGIBLE ASSETS

Cost		
Balance as at December 31, 2016	$	112,921
Additions		534
Balance as at December 31, 2017	$	113,455
Additions		851
Balance as at December 31, 2018	**$**	**114,306**

Accumulated depreciation		
Balance as at December 31, 2016	$	96,810
Depreciation		3,608
Balance as at December 31, 2017	$	100,418
Depreciation		2,940
Balance as at December 31, 2018	**$**	**103,358**

Carrying amounts		
Balance as at December 31, 2017	$	13,037
Balance as at December 31, 2018	**$**	**10,948**

As at December 31, 2018, intangible assets consist of $10.9 million invested in software that is not an integral component of the related computer hardware (December 31, 2017 – $13.0 million). As at December 31, 2018, no impairment has been recognized on these assets.

10. OTHER ASSETS

As at December 31		2018		2017
Non-current pipeline linefill[(a)]	**$**	**194,066**	$	122,657
Deferred financing costs		**15,481**		24,134
Prepaid transportation costs[(b)]		**8,643**		—
Interest rate swap[(c)]		**—**		8,067
		218,190		154,858
Less current portion		**(7,562)**		(9,126)
	$	**210,628**	$	145,732

a. Non-current pipeline linefill on third party owned pipelines is classified as a non-current asset as these transportation contracts expire between the years 2025 and 2048. As a result of the sale of the Corporation's 50% interest in Access Pipeline and its 100% interest in the Stonefell Terminal in the first quarter of 2018, $67.3 million of the associated pipeline linefill was transferred from property, plant and equipment to other assets. As at December 31, 2018, no impairment has been recognized on these assets.

b. During the year ended December 31, 2018, the Corporation invested $8.6 million to upgrade third-party transportation infrastructure under the terms of a non-current transportation services agreement. The prepaid expenditures have been capitalized and will be amortized to transportation expense over the 30-year term of the agreement, once the transportation infrastructure is available for use.

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%. In conjunction with the March 2018 partial repayment of the senior secured term loan, the interest rate swap was terminated and a realized gain of $17.3 million was recognized (Note 21).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31		2018		2017
Accrued and other liabilities	**$**	**336,986**	$	333,988
Interest payable		**84,095**		77,625
Trade payables		**5,272**		2,292
	$	**426,353**	$	413,905

12. LONG-TERM DEBT

As at December 31	2018	2017
Senior secured term loan (December 31, 2018 – US$225.4 million; due 2023; December 31, 2017 – US$1.226 billion)[(a)]	**$ 307,552**	$ 1,534,378
6.375% senior unsecured notes (US$800.0 million; due 2023) [(b)]	**1,091,640**	1,001,440
7.0% senior unsecured notes (US$1.0 billion; due 2024)[(c)]	**1,364,550**	1,251,800
6.5% senior secured second lien notes (US$750.0 million; due 2025)[(d)]	**1,023,413**	938,850
	3,787,155	4,726,468
Less unamortized financial derivative liability discount	**(1,267)**	(4,242)
Less unamortized deferred debt discount and debt issue costs[(a)(b)]	**(28,886)**	(38,499)
	3,757,002	4,683,727
Less current portion of senior secured term loan	**(16,852)**	(15,460)
	$ 3,740,150	$ 4,668,267

	2019	2020	2021	2022	2023	Thereafter	Total
Required debt principal repayments	$ 16,852	$ 16,852	$ 16,852	$ 16,852	$ 1,331,784	$ 2,387,963	$ 3,787,155

The U.S. dollar denominated debt was translated into Canadian dollars at the year end exchange rate of US$1 = C $1.3646 (December 31, 2017 – US$1 = C$1.2518).

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 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, 2018, 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, 2018, the Corporation had US$141.1 million of unutilized capacity 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 March 27, 2018, subsequent to the sale of the Corporation's 50% interest in the Access Pipeline and its 100% interest in the Stonefell terminal, a majority of the net cash proceeds were used to repay approximately $1.2 billion of the senior secured term loan (Note 7). The repayment of debt reduced the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount. The change in estimate was 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 was 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.

As at December 31, 2018, the senior secured credit facilities are comprised of a US$225.4 million 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 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.

c. 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.

d. 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 15, 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.

13. PROVISIONS AND OTHER LIABILITIES

As at December 31		2018		2017
Finance leases[a]	$	131,063	$	—
Onerous contracts provision[b]		77,625		92,157
Decommissioning provision[c]		64,965		102,530
Deferred lease inducements[d]		20,932		22,854
Other liabilities		16,290		15,417
Provisions and other liabilities		310,875		232,958
Less current portion		(17,058)		(27,446)
Non-current portion	$	293,817	$	205,512

a. Finance leases:

As at December 31		2018		2017
Balance, beginning of year	$	—	$	—
Liabilities incurred		130,446		—
Liabilities settled		(12,166)		—
Interest expense		12,783		—
Balance, end of year	$	131,063	$	—

On March 22, 2018, the Corporation successfully completed the sale of its 100% interest in the Stonefell Terminal. Concurrently, the Corporation entered into a Stonefell Lease Agreement, which is a 30-year arrangement that secures the Corporation's operational control and use of 100% of the Stonefell Terminal. The sale of the Stonefell Terminal and the Stonefell Lease Agreement were accounted for as a sale and leaseback transaction that resulted in a finance lease. The lease payments are escalated at 1% per year and the Corporation is entitled to unlimited renewal terms. The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $534.2 million. At the time the Corporation entered into the lease agreement, the Corporation estimated the net present value of the lease obligations using an estimated incremental borrowing rate of 13.5%.

The Corporation's minimum lease payments are as follows:

As at December 31		**2018**
Within one year	**$**	**15,768**
Later than one year but not later than five years		**64,800**
Later than five years		**453,681**
Minimum lease payments		**534,249**
Amounts representing finance charges		**(403,186)**
Present value of net minimum lease payments	**$**	**131,063**

b. Onerous contracts provision:

As at December 31		**2018**		**2017**
Balance, beginning of year	**$**	**92,157**	$	100,159
Changes in estimated future cash flows		**2,688**		13,337
Changes in discount rates		**608**		(2,507)
Liabilities settled		**(18,727)**		(19,569)
Accretion		**899**		737
Balance, end of year		**77,625**		92,157
Less current portion		**(12,572)**		(19,047)
Non-current portion	**$**	**65,053**	$	73,110

As at December 31, 2018, the Corporation has recognized a provision of $77.6 million related to onerous office building lease contracts (December 31, 2017 – $92.2 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 lease contracts and estimated recoveries. The total undiscounted amount of the estimated future cash flows to settle the onerous contracts obligations is $86.5 million (December 31, 2017 – $102.1 million). These cash flows have been discounted using a risk-free discount rate of 1.9% (December 31, 2017 – 1.8%). 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, 2017 - periods up to the year 2031).

c. 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		**2018**		**2017**
Balance, beginning of year	**$**	**102,530**	$	133,924
Changes in estimated future cash flows and settlement dates		**(4,983)**		(36,314)
Changes in discount rates		**(39,132)**		(19,602)
Liabilities incurred		**6,013**		19,902
Liabilities disposed		**(976)**		—
Liabilities settled		**(5,225)**		(2,403)
Accretion		**6,738**		7,023
Balance, end of year		**64,965**		102,530
Less current portion		**(2,557)**		(6,386)
Non-current portion	**$**	**62,408**	$	96,144

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 $719.4 million (December 31, 2017 – $859.1 million). The Corporation has estimated the net present value of the decommissioning obligations using a weighted average credit-adjusted risk-free rate of 14.1% (December 31, 2017 – 9.5%) and an inflation rate of 2.1% (December 31, 2017 - 2.1%). The decommissioning provision is estimated to be settled in periods up to the year 2067 (December 31, 2017 - periods up to the year 2067).

d. Deferred office building lease inducements:

Deferred lease inducements of $20.9 million are being amortized over the respective terms of the Corporation’s office building leases.

14. INCOME TAXES

Year ended December 31		2018		2017
Expected income tax expense (recovery)	$	**(45,353)**	$	29,640
Add (deduct) the tax effect of:				
Stock-based compensation		**5,828**		5,144
Non-taxable loss (gain) on foreign exchange		**46,649**		(46,390)
Taxable capital loss (gain) not recognized		**46,649**		(46,390)
Non-taxable loss (gain) on sale of assets		**(49,358)**		—
Taxable loss (gain) shelter by losses		**(49,358)**		—
Tax benefit of vested RSUs		**(3,703)**		(1,166)
Other		**(130)**		2,965
Income tax expense (recovery)	$	**(48,776)**	$	(56,197)
Current income tax expense (recovery)	$	**903**	$	(67)
Deferred income tax expense (recovery)		**(49,679)**		(56,130)
Income tax expense (recovery)	$	**(48,776)**	$	(56,197)

During the year ended December 31, 2018, the Corporation recognized a current income tax expense of $0.9 million (year ended December 31, 2017 - $0.1 million income tax recovery). The expense is comprised of $0.9 million relating to United States income tax associated with operations in the United States. The 2017 recovery was primarily related to the refundable Alberta tax credit on Scientific Research and Experimental Development expenditures, partially offset by United States income tax associated with operations in the United States.

As at December 31, 2018, the Corporation has recognized a deferred tax asset of $236.6 million (December 31, 2017 - $182.9 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		2018		2017
Deferred tax assets:				
Deferred tax assets to be recovered after more than 12 months	$	**1,419,790**	$	1,381,512
Deferred tax assets to be recovered within 12 months		**12,469**		29,856
	$	**1,432,259**	$	1,411,368
Deferred tax liabilities:				
Deferred tax liabilities to be recovered after more than 12 months	$	**(1,168,663)**	$	(1,228,497)
Deferred tax liabilities to be recovered within 12 months		**(27,018)**		—
	$	**(1,195,681)**	$	(1,228,497)
Deferred tax assets (liabilities), net	$	**236,578**	$	182,871

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

	2018	2017
Balance as at January 1	**$ 182,871**	$ 120,944
Credited (charged) to earnings	**49,679**	56,130
Credited (charged) to other comprehensive income	**13**	(9)
Credited (charged) to equity	**4,015**	5,806
Balance as at December 31	**$ 236,578**	$ 182,871

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

Deferred tax assets	**Tax losses**	**Commodity Risk Management**	**Provisions**	**Other**	**Total**
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**
Credited (charged) to earnings	**37,822**	**(17,985)**	**158**	**(3,132)**	**16,863**
Credited (charged) to equity	**2,292**	**—**	**—**	**1,723**	**4,015**
Credited (charged) to other comprehensive income	**—**	**—**	**—**	**13**	**13**
Balance as at December 31, 2018	**$ 1,371,279**	**$ —**	**$ 5,192**	**$ 55,788**	**$ 1,432,259**

Deferred tax liabilities	**Property, plant and equipment**	**Commodity Risk Management**	**Leases**	**Other**	**Total**
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)**
Credited (charged) to earnings	**72,127**	**(25,035)**	**(14,949)**	**673**	**32,816**
Balance as at December 31, 2018	**$ (1,155,697)**	**$ (25,035)**	**$ (14,949)**	**$ —**	**$ (1,195,681)**

As at December 31, 2018, the Corporation had approximately $7.7 billion in available tax pools (December 31, 2017 - $8.4 billion). Included in the tax pools are $5.1 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 $3.7 billion after 2030. In addition, as at December 31, 2018, the Corporation had an additional $73 million (December 31, 2017 - $6.0 million) of capital investment in incomplete projects which will serve to increase available tax pools upon completion of the projects. As at December 31, 2018, the Corporation had not recognized the tax benefit related to $0.4 billion of realized and unrealized taxable capital foreign exchange losses (December 31, 2017 - $0.4 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	2018		2017	
	Number of shares (thousands)	Amount	Number of shares (thousands)	Amount
Balance, beginning of year	**294,104**	**$ 5,403,978**	226,467	$ 4,878,607
Shares issued	**—**	**—**	66,815	517,816
Share issue costs net of tax	**—**	**—**	—	(15,698)
Issued upon exercise of stock options	**212**	**1,813**	—	—
Issued upon vesting and release of RSUs and PSUs	**2,525**	**21,232**	822	23,253
Balance, end of year	**296,841**	**$ 5,427,023**	294,104	$ 5,403,978

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 annually in thirds 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 and which are set and measured annually. The stock-based compensation expense for PSUs is determined based on an estimate of the final number of PSU awards that eventually vest based on the performance multiplier and the performance criteria.

Cash-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	2018	2017
Outstanding, beginning of year	**5,310**	6,013
Granted	**467**	1,455
Vested and released	**(1,397)**	(1,467)
Forfeited	**(118)**	(691)
Outstanding, end of year	**4,262**	5,310

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, 2018, there were 342,775 DSUs outstanding (December 31, 2017 – 284,871 DSUs outstanding).

As at December 31, 2018, the Corporation has recognized a liability of $30.4 million relating to the fair value of cash-settled RSUs, PSUs and DSUs (December 31, 2017 – $14.3 million). The current portion of $22.0 million is included within accounts payable and accrued liabilities and $8.4 million is included as a non-current liability within provisions and other liabilities based on the expected payout dates of the individual awards.

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	2018			2017		
	Stock options (thousands)		Weighted average exercise price	Stock options (thousands)		Weighted average exercise price
Outstanding, beginning of year	**8,896**	**$**	**23.81**	9,281	$	27.45
Granted	**798**		**9.03**	1,212		4.57
Exercised	**(212)**		**5.77**	—		—
Forfeited	**(439)**		**22.64**	(927)		27.78
Expired	**(526)**		**50.70**	(670)		33.81
Outstanding, end of year	**8,517**	**$**	**21.27**	8,896	$	23.81

As at December 31, 2018								
	Outstanding				Vested			
Range of exercise prices	Options (thousands)		Weighted average exercise price	Weighted average remaining life (in years)	Options (thousands)		Weighted average exercise price	Weighted average remaining life (in years)
$4.53 - $10.00	2,760	$	6.37	5.39	923	$	5.84	4.83
$10.01 - $30.00	2,280		18.57	3.44	2,280		18.57	3.44
$30.01 - $46.38	3,477		34.87	1.53	3,477		34.87	1.53
	8,517	**$**	**21.27**	**3.29**	**6,680**	**$**	**25.30**	**2.64**

The fair value of each option granted during the years ended December 31, 2018 and 2017 was estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Year ended December 31	**2018**	**2017**
Risk-free rate	**2.17%**	1.14%
Expected lives	**5 years**	5 years
Volatility[(i)]	**62%**	59%
Annual dividend per share	**nil**	nil
Fair value of options granted	**$ 4.82**	$ 2.11

(i) Expected volatility is determined by the average price volatility of the Corporation's 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 in thirds 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 and which are set and measured annually.

Equity-settled RSUs and PSUs outstanding:

Year ended December 31 (expressed in thousands)	**2018**	**2017**
Outstanding, beginning of year	**6,308**	1,656
Granted	**3,273**	5,757
Vested and released	**(2,532)**	(823)
Forfeited	**(515)**	(282)
Outstanding, end of year	**6,534**	6,308

c. Stock-based compensation

Year ended December 31	**2018**	**2017**
Cash-settled expense [(i)]	**$ 25,539**	$ 3,476
Equity-settled expense	**21,584**	19,052
Stock-based compensation	**$ 47,123**	$ 22,528

(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 and certain estimates including a performance multiplier for PSUs. Changes in fair value are recognized during the period in which they occur.

17. REVENUES

Year ended December 31		2018		2017 Revised (Note 3)
Petroleum revenue[(i)]				
Proprietary	**$**	**2,502,524**	$	2,208,577
Third-party[(ii)]		**208,526**		253,486
Petroleum revenue		**2,711,050**		2,462,063
Royalties		**(38,205)**		(22,578)
Petroleum revenue, net of royalties	**$**	**2,672,845**	$	2,439,485
Power revenue	**$**	**47,879**	$	22,209
Transportation revenue		**11,980**		12,801
Other revenue	**$**	**59,859**	$	35,010
	$	**2,732,704**	$	2,474,495

(i) *The Corporation had two major customers each with revenue in excess of 10% of total petroleum revenue. Sales to major customers totaled $1.0 billion for the year ended December 31, 2018 (year ended December 31, 2017 - $0.9 billion).*

(ii) *The Corporation purchases crude oil products from third parties for marketing-related activities. These purchases are included in the consolidated statement of earnings (loss) and comprehensive income (loss) under the caption "Purchased product".*

a. Disaggregation of revenue from contracts with customers

The Corporation recognizes revenue upon delivery of goods and services in the following geographic regions:

	Year ended December 31					
	2018			2017		
	Petroleum Revenue			Petroleum Revenue		
	Proprietary	**Third-party**	**Total**	**Proprietary**	**Third-party**	**Total**
Country:						
Canada	**$ 1,434,655**	**$ 96,390**	**$ 1,531,045**	$ 1,262,722	$ 147,498	$ 1,410,220
United States	**1,067,869**	**112,136**	**1,180,005**	945,855	105,988	1,051,843
	$ 2,502,524	**$ 208,526**	**$ 2,711,050**	$ 2,208,577	$ 253,486	$ 2,462,063

Other revenue recognized during the years ended December 31, 2018 and 2017 is attributed to Canada.

b. Revenue-related assets

The Corporation has recognized the following revenue-related assets in trade receivables and other:

As at		December 31, 2018		December 31, 2017
Petroleum revenue	**$**	**121,928**	$	244,330
Other revenue		**4,489**		2,960
Total revenue-related assets	**$**	**126,417**	$	247,290

Revenue-related receivables are typically settled within 30 days. As at December 31, 2018 and December 31, 2017, no impairment has been recognized on revenue-related receivables.

18. DILUENT AND TRANSPORTATION

Year ended December 31	2018	2017
Diluent expense	$ 1,281,075	$ 944,134
Transportation expense[a]	279,603	214,280
Diluent and transportation	$ 1,560,678	$ 1,158,414

a. On March 22, 2018, the Corporation successfully completed the sale of its 50% interest in the Access Pipeline. Transportation expense includes incremental expenses associated with the related Transportation Services Agreement from March 22, 2018 through December 31, 2018.

19. PURCHASED PRODUCT

Year ended December 31	2018	2017
		Revised (Note 3)
Third-party purchased product	$ 194,564	$ 250,681
Blend purchases	69,695	39,975
Purchased product[i]	$ 264,259	$ 290,656

(i) The Corporation purchases crude oil products from third-parties for marketing-related activities.

20. FOREIGN EXCHANGE LOSS (GAIN), NET

Year ended December 31	2018	2017
Unrealized foreign exchange loss (gain) on:		
Long-term debt	$ 345,542	$ (343,633)
Other	(4,789)	5,489
Unrealized net loss (gain) on foreign exchange	340,753	(338,144)
Realized loss (gain) on foreign exchange	5,771	(4,403)
Realized loss (gain) on foreign exchange derivatives[a]	(35,362)	—
Foreign exchange loss (gain), net	$ 311,162	$ (342,547)
C$ equivalent of 1 US$		
Beginning of year	1.2518	1.3427
End of year	1.3646	1.2518

a. On February 8, 2018, the Corporation entered into forward currency contracts to manage the foreign exchange risk on expected Canadian dollar denominated asset sale proceeds designated for U.S. dollar denominated long-term debt repayment. The forward currency contracts were settled on March 22, 2018, resulting in a realized gain of $35.4 million.

21. NET FINANCE EXPENSE

Year ended December 31		2018		2017
Interest expense on long-term debt	$	287,417	$	341,594
Interest expense on finance leases		12,783		—
Interest income		(7,641)		(3,924)
Net interest expense		292,559		337,670
Debt extinguishment expense[(a)]		—		30,801
Accretion on provisions		7,637		7,760
Unrealized loss (gain) on derivative financial liabilities		3,096		(16,179)
Realized loss (gain) on interest rate swaps[(b)]		(17,312)		1,028
Net finance expense	$	285,980	$	361,080

a. During the first quarter of 2018, the Corporation successfully completed the sale of its 50% interest in the Access Pipeline and its 100% interest in the Stonefell Terminal for proceeds of $1.52 billion (net of transaction costs of $18.5 million). A majority of the net proceeds were used to repay approximately $1.2 billion of the senior secured term loan (Note 12). The repayment of debt reduced the estimated amortization period of the unamortized debt discount and debt issue costs, and the unamortized financial derivative liability discount. The change in estimate was 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 was 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.

b. 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%. In conjunction with the partial repayment of the senior secured term loan on March 27, 2018, the interest rate swap was terminated and a realized gain of $17.3 million was recognized.

22. OTHER EXPENSES

Year ended December 31		2018		2017
Defense costs related to unsolicited bid[(a)]	$	19,152	$	—
Severance and other		5,445		4,948
Onerous contracts expense[(b)]		3,296		10,830
Contract cancellation expense[(c)]		—		18,765
Other expenses	$	27,893	$	34,543

a. On October 2, 2018, Husky Energy Inc. ("Husky") issued an unsolicited Offer to Purchase and Bid Circular to acquire all of the outstanding common shares of the Corporation. On October 17, 2018, the Corporation issued a Directors' Circular recommending shareholders to reject Husky's offer. On January 17, 2019, Husky issued a press release stating that the takeover offer for the Corporation did not meet their minimum tender conditions and therefore did not extend the offer. During the fourth quarter of 2018, the Corporation incurred $19.2 million of costs related to Husky's offer.

b. Onerous contracts expense primarily includes changes in estimated future cash flow sublease recoveries related to the Corporation’s onerous office building lease contracts.

c. During the third quarter of 2017, the Corporation recognized an $18.8 million contract cancellation expense relating to the termination of a long-term marketing transportation contract that had not yet commenced.

23. WAGES AND EMPLOYEE BENEFITS EXPENSE

Year ended December 31	2018	2017
Operating expense:		
Salaries and wages[(i)]	**$ 55,414**	$ 48,574
Short-term employee benefits	**5,746**	5,454
General and administrative expense:		
Salaries and wages[(i)]	**56,549**	58,806
Short-term employee benefits	**8,672**	9,047
	$ 126,381	$ 121,881

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

24. TRANSACTIONS WITH RELATED PARTIES

The Corporation did not enter into any significant related party transactions during the years ended December 31, 2018 and 2017, other than compensation of key management personnel. The Corporation considers directors and officers of the Corporation as key management personnel.

Year ended December 31	2018	2017
Salaries and short-term employee benefits	**$ 11,799**	$ 7,385
Share-based compensation	**16,850**	9,578
Termination benefits	**3,856**	64
	$ 32,505	$ 17,027

25. SUPPLEMENTAL CASH FLOW DISCLOSURES

Year ended December 31		2018		2017
Cash provided by (used in):				
Trade receivables and other	**$**	**79,698**	$	(52,074)
Inventories		**(4,568)**		(19,591)
Accounts payable and accrued liabilities		**9,763**		123,380
	$	**84,893**	$	51,715
Changes in non-cash working capital relating to:				
Operating	**$**	**111,291**	$	(24,517)
Investing		**(26,398)**		76,232
	$	**84,893**	$	51,715
Cash and cash equivalents:[(a)]				
Cash	**$**	**276,810**	$	276,023
Cash equivalents		**40,894**		187,508
	$	**317,704**	$	463,531
Cash interest paid	**$**	**252,207**	$	294,743

a. As at December 31, 2018, C$154.2 million of the Corporation's total cash and cash equivalents balance was held in U.S. dollars (December 31, 2017 – C$201.0 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$1.3646 (December 31, 2017 – US$1 = C$1.2518).

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

		Long-term debt [i]
Balance as at December 31, 2016	$	5,070,694
Cash changes:		
Debt refinancing costs		(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		30,801
Amortization of financial derivative liability discount		3,520
Amortization of deferred debt discount and debt issue costs		7,391
Balance as at December 31, 2017	$	4,683,727
Cash changes:		
Payments on term loan		(1,284,855)
Non-cash changes:		
Unrealized loss (gain) on foreign exchange		345,542
Amortization of financial derivative liability discount		882
Amortization of deferred debt discount and debt issue costs		5,325
IFRS 9 adjustment to deferred debt discount and debt issue costs (Note 3)		6,381
Balance as at December 31, 2018	**$**	**3,757,002**

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

26. NET EARNINGS (LOSS) PER COMMON SHARE

Year ended December 31		**2018**		**2017**
Net earnings (loss)	**$**	**(119,197)**	$	165,976
Weighted average common shares outstanding (thousands)[a]		**295,740**		289,142
Dilutive effect of stock options, RSUs and PSUs (thousands)[b]		**—**		117
Weighted average common shares outstanding – diluted (thousands)		**295,740**		289,259
Net earnings (loss) per share, basic	**$**	**(0.40)**	$	0.57
Net earnings (loss) per share, diluted	**$**	**(0.40)**	$	0.57

a. Weighted average common shares outstanding for the year ended December 31, 2018 includes nil PSUs not yet released (year ended December 31, 2017 - 139,863 PSUs).

b. For the year ended December 31, 2018, 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, 2018, the dilutive effect of stock options, RSUs and PSUs would have been 3.8 million 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, finance leases and derivative financial liabilities included within provisions and other liabilities and long-term debt. As at December 31, 2018, commodity risk management contracts were classified as fair value through profit and loss; cash and cash equivalents, trade receivables and other, accounts payable and accrued liabilities, finance leases and long-term debt were 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 measurements of long-term debt, finance leases, derivative financial liabilities, commodity risk management contracts and the interest rate swap are as follows:

			Fair value measurements using		
As at December 31, 2018		**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recurring measurements:					
Financial assets					
Commodity risk management contracts	$	**122,658**	**$ —**	**$ 122,658**	**$ —**
Financial liabilities					
Long-term debt[(i)] (Note 12)	$	**3,787,155**	**$ —**	**$ 3,706,647**	**$ —**
Finance leases (Note 13)	$	**131,063**	**$ —**	**$ —**	**$ 131,063**
Derivative financial liabilities	$	**1,058**	**$ —**	**$ 1,058**	**$ —**
Commodity risk management contracts	$	**29,709**	**$ —**	**$ 29,709**	**$ —**

			Fair value measurements using		
As at December 31, 2017		**Carrying amount**	**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	$	6,028	$ —	$ 6,028	$ —
Commodity risk management contracts	$	68,649	$ —	$ 68,649	$ —

(i) Includes the current and non-current portions.

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

As at December 31, 2018, 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, the interest rate swap and derivative financial liabilities are derived using third-party valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including forward prices for commodities, interest rate yield curves and foreign exchange rates. The observable inputs may be adjusted using certain methods, which include extrapolation to the end of the term of the contract.

Level 3 fair value measurements are based on unobservable information.

The estimated fair value of finance leases is based on recently observed transactions, or calculated by discounting the expected future contractual cash flows using a discount rate based on either contractual terms or market rates for instruments of similar maturity and credit risk.

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 had the following financial commodity risk management contracts relating to crude oil sales and condensate purchases outstanding as at December 31, 2018:

As at December 31, 2018	**Volumes (bbls/d)[(i)]**	**Term**	**Average Price (US$/bbl)[(i)]**
Crude Oil Sales Contracts			
Fixed Price:			
WTI[(ii)] Fixed Price	21,115	Jan 1, 2019 - Dec 31, 2019	$67.30
WTI:WCS[(iii)] Fixed Differential	31,000	Jan 1, 2019 - Dec 31, 2019	$(24.28)
WTI:WCS Fixed Differential	5,000	Jan 1, 2020 - Dec 31, 2020	$(23.19)
Options:			
Purchased WTI Puts	1,000	Jan 1, 2019 - Mar 31, 2019	$55.00
Condensate Purchase Contracts			
Fixed Percentage:			
Mont Belvieu Fixed % of WTI	9,750	Jan 1, 2019 - Dec 31, 2019	92.2% of WTI
Mont Belvieu Fixed % of WTI	7,750	Jan 1, 2020 - Dec 31, 2020	93.1% of WTI

(i) The volumes and prices in the above table 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.

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

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

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, 2018			December 31, 2017		
	Asset	Liability	Net	Asset	Liability	Net
Gross amount	**$ 302,503**	**$ (65,863)**	**$ 236,640**	$ —	$ (184,175)	$ (184,175)
Amount offset	**(179,845)**	**36,154**	**(143,691)**	—	115,526	115,526
Net amount	**$ 122,658**	**$ (29,709)**	**$ 92,949**	$ —	$ (68,649)	$ (68,649)
Current portion	**$ 122,658**	**$ (6,061)**	**$ 116,597**	$ —	$ (68,649)	$ (68,649)
Non-current portion	**—**	**(23,648)**	**(23,648)**	—	—	—
Net amount	**$ 122,658**	**$ (29,709)**	**$ 92,949**	$ —	$ (68,649)	$ (68,649)

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	2018	2017
Fair value of contracts, beginning of year	$ (68,649)	$ (30,313)
Fair value of contracts realized	138,902	11,273
Change in fair value of contracts	22,471	(49,609)
Unamortized premiums on put and call options	225	—
Fair value of contracts, end of year	**$ 92,949**	$ (68,649)

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

Year ended December 31	2018	2017
Realized loss (gain) on commodity risk management	**$ 138,902**	$ 11,273
Unrealized loss (gain) on commodity risk management	**(161,373)**	38,336
Commodity risk management loss (gain)	**$ (22,471)**	$ 49,609

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, 2018:

Commodity	Sensitivity Range	Increase	Decrease
Crude oil commodity price	± US$1.00 per bbl applied to WTI contracts	$ (10,517)	$ 10,517
Crude oil differential price (i)	± US$1.00 per bbl applied to WCS differential contracts	$ 17,937	$ (17,937)

(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.

The Corporation entered into the following financial commodity risk management contracts relating to crude oil sales subsequent to December 31, 2018. As a result, these contracts are not reflected in the Corporation's Consolidated Financial Statements:

Subsequent to December 31, 2018	Volumes (bbls/d)	Term	Average Prices (US$/bbl)
Crude Oil Sales Contracts			
Fixed Price:			
WTI Fixed Price	2,058	Feb 1, 2019 - Mar 31, 2019	$53.23
WTI:WCS Fixed Differential	10,568	Feb 1, 2019 - Dec 31, 2019	$(17.09)
WTI:WCS Fixed Differential	2,000	Jan 1, 2020 - Dec 31, 2020	$(20.73)
Condensate Purchase Contracts			
Fixed Price:			
WTI:Mont Belvieu Fixed Differential	3,000	Apr 1, 2019 - Dec 31, 2019	$(7.55)
WTI:Mont Belvieu Fixed Differential	2,500	Jan 1, 2020 - Dec 31, 2020	$(7.42)

c. Credit risk management:

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. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses a combination of historical and forward looking information to determine the appropriate loss allowance provisions. 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 each counterparty's 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. The Corporation has experienced no material loss in relation to trade receivables. As at December 31, 2018, the Corporation's estimated maximum exposure to credit risk related to trade receivables, deposits and advances was $210.6 million.

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, 2018 was $317.7 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 $317.7 million.

d. 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. 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 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. In conjunction with the partial repayment of the senior secured term loan on March 27, 2018, the interest rate swap was terminated and a realized gain of $17.3 million was recognized (Note 21).

As at December 31, 2018, a 1% increase in the LIBOR on the floating rate debt would have resulted in a $6.1 million increase in net loss before income taxes (December 31, 2017 - $14.1 million decrease in net earnings before income taxes). As at December 31, 2018, a 1% decrease in LIBOR would have resulted in a $4.9 million decrease in net loss before income taxes (December 31, 2017 - $2.6 million increase in net earnings before income taxes).

e. Foreign currency risk management:

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, 2018, 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$27.8 million (December 31, 2017 - C$37.8 million).

f. Liquidity risk management:

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, 2018	Total	Less than 1 year	1 - 3 years	5 years	More than 5 years
Long-term debt	$ 3,787,155	$ 16,852	$ 33,704	$ 1,348,636	$ 2,387,963
Interest on long-term debt	1,267,457	249,254	495,551	426,707	95,945
Commodity risk management contracts	92,949	116,597	(23,648)	—	—
Derivative financial liabilities	1,058	19	356	683	—
Accounts payable and accrued liabilities	342,258	342,258	—	—	—
	$ 5,490,877	$ 724,980	$ 505,963	$ 1,776,026	$ 2,483,908

As at December 31, 2017	Total	Less than 1 year	1 - 3 years	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	1,048	3,210	1,680
Accounts payable and accrued liabilities	336,280	336,280	—	—	—
	$ 6,907,139	$ 712,525	$ 613,650	$ 612,594	$ 4,968,370

28. GEOGRAPHICAL DISCLOSURE

As at December 31, 2018, the Corporation had non-current assets related to operations in the United States of $99.3 million (December 31, 2017 – $101.7 million). For the year ended December 31, 2018, petroleum revenue related to operations in the United States was $1.2 billion (year ended December 31, 2017 – $1.1 billion).

29. JOINT OPERATIONS

The Corporation transports its bitumen blend volumes and diluent purchases on pipelines that are operated by Access Pipeline. Up until March 22, 2018, the Corporation owned an undivided 50% working interest in this jointly controlled entity and presented its proportionate share of the assets, liabilities, revenues and expenses of the joint operation on a line-by-line basis in the December 31, 2017 consolidated financial statements. As at December 31, 2018, the Corporation's proportionate interest in the joint operation's working capital balances was $nil (December 31, 2017 - $2.4 million) and its interest in related pipeline assets, recorded in property, plant and equipment, was $nil (December 31, 2017 - $1.05 billion).

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, 2018:

	2019	2020	2021	2022	2023	Thereafter	Total
Transportation and storage(i)	$ 349,389	$ 375,293	$ 424,379	$ 450,239	$ 447,021	$ 6,270,410	$ 8,316,731
Office lease rentals(ii)	10,855	11,278	11,278	11,278	11,616	95,976	152,281
Diluent purchases	360,886	21,606	21,547	21,547	17,946	—	443,532
Other operating commitments	15,748	12,554	10,472	9,441	9,452	49,963	107,630
Capital commitments	5,708	—	—	—	—	—	5,708
Commitments	**$ 742,586**	**$ 420,731**	**$ 467,676**	**$ 492,505**	**$ 486,035**	**$ 6,416,349**	**$ 9,025,882**

(i) *This represents transportation and storage commitments from 2019 to 2048, including the Access Pipeline TSA, and various pipeline commitments which are awaiting regulatory approval and are not yet in service. Excludes finance leases recognized on the consolidated balance sheet (Note 13(a)).*

(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 in Alberta. The claim was amended in the fourth quarter of 2017 asserting a significant increase to damages claimed. The Corporation filed a statement of defense in the first quarter of 2018. The Corporation continues to view this claim, and the recent amendments, as without merit and will continue to defend against all such claims. The Corporation believes that any liabilities that might arise from this matter are unlikely to have a material effect on its financial position.

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, 2018, the Corporation's capital resources included $289.8 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$298.9 million of letters of credit have been issued. Working capital is comprised of $317.7 million of cash and cash equivalents, offset by a non-cash working capital deficiency of $27.9 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.