

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidated Balance Sheets

| <i>(millions of Canadian dollars)</i> | September 30, 2019 | December 31, 2018 |
|--|---------------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 2,362 | 2,866 |
| Accounts receivable | 1,661 | 1,355 |
| Income taxes receivable | 25 | 112 |
| Inventories | 1,508 | 1,232 |
| Prepaid expenses | 167 | 123 |
| | 5,723 | 5,688 |
| Restricted cash <i>(notes 4, 9)</i> | 141 | 128 |
| Exploration and evaluation assets <i>(note 5)</i> | 987 | 997 |
| Property, plant and equipment, net <i>(note 6)</i> | 25,915 | 25,800 |
| Right-of-use assets, net <i>(note 7)</i> | 1,395 | — |
| Goodwill | 670 | 690 |
| Investment in joint ventures | 1,224 | 1,319 |
| Long-term income taxes receivable | 212 | 243 |
| Other assets | 345 | 360 |
| Total Assets | 36,612 | 35,225 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 3,107 | 3,159 |
| Short-term debt <i>(note 8)</i> | 200 | 200 |
| Long-term debt due within one year <i>(note 8)</i> | 1,393 | 1,433 |
| Lease liabilities <i>(note 7)</i> | 133 | — |
| Asset retirement obligations <i>(note 9)</i> | 218 | 202 |
| | 5,051 | 4,994 |
| Long-term debt <i>(note 8)</i> | 4,635 | 4,114 |
| Other long-term liabilities <i>(note 10)</i> | 531 | 1,107 |
| Lease liabilities <i>(note 7)</i> | 1,352 | — |
| Asset retirement obligations <i>(note 9)</i> | 2,143 | 2,222 |
| Deferred tax liabilities | 2,965 | 3,174 |
| Total Liabilities | 16,677 | 15,611 |
| Shareholders' equity | | |
| Common shares <i>(note 11)</i> | 7,293 | 7,293 |
| Preferred shares <i>(note 11)</i> | 874 | 874 |
| Contributed surplus | 2 | 2 |
| Retained earnings | 10,841 | 10,273 |
| Accumulated other comprehensive income | 913 | 1,160 |
| Non-controlling interest | 12 | 12 |
| Total Shareholders' Equity | 19,935 | 19,614 |
| Total Liabilities and Shareholders' Equity | 36,612 | 35,225 |

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

Condensed Consolidated Statements of Income

| <i>(millions of Canadian dollars, except share data)</i> | Three months ended | | Nine months ended | |
|--|--------------------|-----------------------|-------------------|-----------------------|
| | 2019 | September 30, 2018 | 2019 | September 30, 2018 |
| Gross revenues | 5,359 | 6,132 | 15,246 | 17,025 |
| Royalties | (81) | (106) | (235) | (285) |
| Marketing and other | 35 | 168 | 179 | 520 |
| Revenues, net of royalties | 5,313 | 6,194 | 15,190 | 17,260 |
| Expenses | | | | |
| Purchases of crude oil and products | 3,506 | 3,949 | 9,573 | 10,962 |
| Production, operating and transportation expenses <i>(note 12)</i> | 725 | 740 | 2,221 | 2,102 |
| Selling, general and administrative expenses <i>(note 12)</i> | 149 | 187 | 477 | 542 |
| Depletion, depreciation, amortization and impairment <i>(notes 6, 7)</i> | 703 | 672 | 1,976 | 1,929 |
| Exploration and evaluation expenses | 41 | 26 | 157 | 96 |
| Gain on sale of assets | (3) | — | (5) | (4) |
| Other – net | (203) | (150) | (262) | (149) |
| | 4,918 | 5,424 | 14,137 | 15,478 |
| Earnings from operating activities | 395 | 770 | 1,053 | 1,782 |
| Share of equity investment income | 19 | 18 | 64 | 53 |
| Financial items <i>(note 13)</i> | | | | |
| Net foreign exchange gain (loss) | (8) | (9) | 24 | 16 |
| Finance income | 24 | 15 | 60 | 48 |
| Finance expenses | (84) | (80) | (272) | (238) |
| | (68) | (74) | (188) | (174) |
| Earnings before income taxes | 346 | 714 | 929 | 1,661 |
| Provisions for (recovery of) income taxes | | | | |
| Current | 51 | 13 | 143 | 49 |
| Deferred | 22 | 156 | (185) | 371 |
| | 73 | 169 | (42) | 420 |
| Net earnings | 273 | 545 | 971 | 1,241 |
| Earnings per share <i>(note 11)</i> | | | | |
| Basic | 0.26 | 0.53 | 0.94 | 1.21 |
| Diluted | 0.25 | 0.53 | 0.92 | 1.21 |
| Weighted average number of common shares outstanding <i>(note 11)</i> | | | | |
| Basic <i>(millions)</i> | 1,005.1 | 1,005.1 | 1,005.1 | 1,005.1 |
| Diluted <i>(millions)</i> | 1,005.1 | 1,007.4 | 1,005.1 | 1,006.2 |

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

Condensed Consolidated Statements of Comprehensive Income

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| <i>(millions of Canadian dollars)</i> | 2019 | 2018 | 2019 | 2018 |
| Net earnings | 273 | 545 | 971 | 1,241 |
| Other comprehensive income (loss) | | | | |
| Items that will not be reclassified into earnings, net of tax: | | | | |
| Actuarial gain on pension plans | — | — | — | 1 |
| Items that may be reclassified into earnings, net of tax: | | | | |
| Derivatives designated as cash flow hedges <i>(note 15)</i> | (1) | (1) | (6) | (2) |
| Equity investment - share of other comprehensive income | 1 | 1 | (4) | 1 |
| Exchange differences on translation of foreign operations | 119 | (166) | (328) | 295 |
| Hedge of net investment <i>(note 15)</i> | (32) | 51 | 91 | (94) |
| Other comprehensive income (loss) | 87 | (115) | (247) | 201 |
| Comprehensive income | 360 | 430 | 724 | 1,442 |

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

| (millions of Canadian dollars) | Attributable to Equity Holders | | | | | | | |
|---|--------------------------------|------------------|---------------------|-------------------|------------------------------|------------|--------------------------|----------------------------|
| | Common Shares | Preferred Shares | Contributed Surplus | Retained Earnings | AOCI ⁽¹⁾ | | Non-Controlling Interest | Total Shareholders' Equity |
| | | | | | Foreign Currency Translation | Hedging | | |
| Balance as at December 31, 2017 | 7,293 | 874 | 2 | 9,207 | 559 | 21 | 11 | 17,967 |
| Net earnings | — | — | — | 1,241 | — | — | — | 1,241 |
| Other comprehensive income (loss) | | | | | | | | |
| Actuarial gain on pensions plans (net of tax of less than \$1 million) | — | — | — | 1 | — | — | — | 1 |
| Derivatives designated as cash flow hedges (net of tax recovery of less than \$1 million) | — | — | — | — | — | (2) | — | (2) |
| Equity investment - share of other comprehensive income | — | — | — | — | — | 1 | — | 1 |
| Exchange differences on translation of foreign operations (net of tax of \$27 million) | — | — | — | — | 295 | — | — | 295 |
| Hedge of net investment (net of tax recovery of \$15 million) (note 15) | — | — | — | — | (94) | — | — | (94) |
| Total comprehensive income (loss) | — | — | — | 1,242 | 201 | (1) | — | 1,442 |
| Transactions with owners recognized directly in equity: | | | | | | | | |
| Dividends declared on common shares (note 11) | — | — | — | (277) | — | — | — | (277) |
| Dividends declared on preferred shares (note 11) | — | — | — | (26) | — | — | — | (26) |
| Balance as at September 30, 2018 | 7,293 | 874 | 2 | 10,146 | 760 | 20 | 11 | 19,106 |
| Balance as at December 31, 2018 | 7,293 | 874 | 2 | 10,273 | 1,154 | 6 | 12 | 19,614 |
| Net earnings | — | — | — | 971 | — | — | — | 971 |
| Other comprehensive income (loss) | | | | | | | | |
| Derivatives designated as cash flow hedges (net of tax recovery of \$3 million) (note 15) | — | — | — | — | — | (6) | — | (6) |
| Equity investment - share of other comprehensive income (net of tax recovery of \$1 million) | — | — | — | — | — | (4) | — | (4) |
| Exchange differences on translation of foreign operations (net of tax recovery of \$34 million) | — | — | — | — | (328) | — | — | (328) |
| Hedge of net investment (net of tax of \$12 million) (note 15) | — | — | — | — | 91 | — | — | 91 |
| Total comprehensive income (loss) | — | — | — | 971 | (237) | (10) | — | 724 |
| Transactions with owners recognized directly in equity: | | | | | | | | |
| Dividends declared on common shares (note 11) | — | — | — | (377) | — | — | — | (377) |
| Dividends declared on preferred shares (note 11) | — | — | — | (26) | — | — | — | (26) |
| Balance as at September 30, 2019 | 7,293 | 874 | 2 | 10,841 | 917 | (4) | 12 | 19,935 |

⁽¹⁾ Accumulated other comprehensive income.

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

Condensed Consolidated Statements of Cash Flows

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| <i>(millions of Canadian dollars)</i> | 2019 | 2018 | 2019 | 2018 |
| Operating activities | | | | |
| Net earnings | 273 | 545 | 971 | 1,241 |
| Items not affecting cash: | | | | |
| Accretion <i>(notes 9, 13)</i> | 26 | 23 | 79 | 72 |
| Depletion, depreciation, amortization and impairment <i>(notes 6, 7)</i> | 703 | 672 | 1,976 | 1,929 |
| Exploration and evaluation expenses <i>(note 5)</i> | — | — | 23 | 7 |
| Deferred income taxes | 22 | 156 | (185) | 371 |
| Foreign exchange | (1) | (6) | (15) | (7) |
| Stock-based compensation <i>(notes 11, 12)</i> | (9) | 40 | 11 | 94 |
| Gain on sale of assets | (3) | — | (5) | (4) |
| Unrealized mark to market loss (gain) <i>(note 15)</i> | 4 | (22) | 57 | (134) |
| Share of equity investment income | (19) | (18) | (64) | (53) |
| Gain on insurance recoveries for damage to property | (13) | — | (13) | — |
| Other | 5 | (2) | 1 | 19 |
| Settlement of asset retirement obligations <i>(note 9)</i> | (73) | (45) | (186) | (116) |
| Deferred revenue | (7) | (25) | (28) | (70) |
| Distribution from equity investment | 113 | — | 160 | 72 |
| Change in non-cash working capital <i>(note 14)</i> | (221) | (35) | (677) | (600) |
| Cash flow – operating activities | 800 | 1,283 | 2,105 | 2,821 |
| Financing activities | | | | |
| Long-term debt issuance <i>(note 8)</i> | — | — | 1,000 | — |
| Long-term debt repayment <i>(note 8)</i> | — | — | (402) | — |
| Debt issue costs <i>(note 8)</i> | — | — | (9) | — |
| Dividends on common shares <i>(note 11)</i> | (125) | (126) | (377) | (277) |
| Dividends on preferred shares <i>(note 11)</i> | (9) | (9) | (26) | (26) |
| Finance lease payments <i>(note 7)</i> | (58) | — | (174) | — |
| Other | — | (4) | — | (10) |
| Change in non-cash working capital <i>(note 14)</i> | 10 | 64 | 29 | 139 |
| Cash flow – financing activities | (182) | (75) | 41 | (174) |
| Investing activities | | | | |
| Capital expenditures | (868) | (968) | (2,538) | (2,313) |
| Capitalized interest <i>(note 13)</i> | (46) | (29) | (130) | (76) |
| Corporate acquisition | — | (6) | — | (15) |
| Proceeds from asset sales | 5 | 1 | 4 | 3 |
| Investment in joint ventures | (1) | — | (38) | (40) |
| Other | 26 | (7) | (1) | (12) |
| Change in non-cash working capital <i>(note 14)</i> | 104 | 148 | 68 | 179 |
| Cash flow – investing activities | (780) | (861) | (2,635) | (2,274) |
| Increase (decrease) in cash and cash equivalents | (162) | 347 | (489) | 373 |
| Effect of exchange rates on cash and cash equivalents | 12 | (14) | (15) | 30 |
| Cash and cash equivalents at beginning of period | 2,512 | 2,583 | 2,866 | 2,513 |
| Cash and cash equivalents at end of period | 2,362 | 2,916 | 2,362 | 2,916 |
| Supplementary Cash Flow Information | | | | |
| Net interest paid | (52) | (66) | (239) | (195) |
| Net income taxes received (paid) | 44 | 70 | (34) | 10 |

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 Description of Business and Segmented Disclosures

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

Upstream operations in the Integrated Corridor and Offshore include exploration for, and development and production of, crude oil, bitumen, natural gas and natural gas liquids (“NGL”) (“Exploration and Production”) and the marketing of the Company’s and other producers’ crude oil, natural gas, NGL, sulphur and petroleum coke. Additionally, Upstream operations include pipeline transportation, the blending of crude oil and natural gas and storage of crude oil, diluent and natural gas (“Infrastructure and Marketing”). Infrastructure and Marketing markets and distributes products to customers on behalf of Exploration and Production and is grouped in the Upstream business segment based on the nature of its interconnected operations. The Company’s Upstream operations are located primarily in Alberta, Saskatchewan, and British Columbia (“Western Canada”), offshore east coast of Canada (“Atlantic”) and offshore China and offshore Indonesia (“Asia Pacific”).

Downstream operations in the Integrated Corridor in Canada includes upgrading of heavy crude oil feedstock into synthetic crude oil (“Upgrading”), refining crude oil, producing ethanol and marketing of heavy and synthetic crude oil, refined petroleum products including gasoline, diesel, ethanol blended fuels, asphalt and ancillary products (“Canadian Refined Products”). It also includes refining of crude oil in the U.S. to produce and market diesel fuels, gasoline, jet fuel and asphalt (“U.S. Refining and Marketing”). Upgrading, Canadian Refined Products and U.S. Refining and Marketing all process and refine natural resources into marketable products and are grouped together as the Downstream business segment due to the similar nature of their products and services.

Segmented Financial Information

| | Upstream | | | | | | Downstream | | | | | | | | Corporate and Eliminations ⁽³⁾ | | Total | |
|--|---|-------|---|------|--------------|-------|------------|------|---------------------------|-------|-----------------------------|-------|--------------|-------|---|-------|--------------|-------|
| | Exploration and Production ⁽¹⁾ | | Infrastructure and Marketing ⁽²⁾ | | Total | | Upgrading | | Canadian Refined Products | | U.S. Refining and Marketing | | Total | | 2019 | 2018 | 2019 | 2018 |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | | | | |
| Three months ended September 30, | | | | | | | | | | | | | | | | | | |
| <i>(\$ millions)</i> | | | | | | | | | | | | | | | | | | |
| Gross revenues | 1,241 | 1,319 | 676 | 601 | 1,917 | 1,920 | 464 | 534 | 871 | 1,001 | 2,644 | 3,198 | 3,979 | 4,733 | (537) | (521) | 5,359 | 6,132 |
| Royalties | (81) | (106) | — | — | (81) | (106) | — | — | — | — | — | — | — | — | — | — | (81) | (106) |
| Marketing and other | — | — | 35 | 168 | 35 | 168 | — | — | — | — | — | — | — | — | — | — | 35 | 168 |
| Revenues, net of royalties | 1,160 | 1,213 | 711 | 769 | 1,871 | 1,982 | 464 | 534 | 871 | 1,001 | 2,644 | 3,198 | 3,979 | 4,733 | (537) | (521) | 5,313 | 6,194 |
| Expenses | | | | | | | | | | | | | | | | | | |
| Purchases of crude oil and products | — | — | 658 | 567 | 658 | 567 | 360 | 328 | 706 | 834 | 2,319 | 2,741 | 3,385 | 3,903 | (537) | (521) | 3,506 | 3,949 |
| Production, operating and transportation expenses | 399 | 398 | 4 | 2 | 403 | 400 | 57 | 52 | 69 | 66 | 197 | 222 | 323 | 340 | (1) | — | 725 | 740 |
| Selling, general and administrative expenses | 78 | 71 | — | 1 | 78 | 72 | 7 | 2 | 13 | 12 | 7 | 5 | 27 | 19 | 44 | 96 | 149 | 187 |
| Depletion, depreciation, amortization and impairment | 497 | 461 | 4 | — | 501 | 461 | 29 | 30 | 32 | 29 | 117 | 129 | 178 | 188 | 24 | 23 | 703 | 672 |
| Exploration and evaluation expenses | 41 | 26 | — | — | 41 | 26 | — | — | — | — | — | — | — | — | — | — | 41 | 26 |
| Loss (gain) on sale of assets | — | 2 | — | — | — | 2 | — | — | (4) | (2) | 1 | — | (3) | (2) | — | — | (3) | — |
| Other – net | (18) | (42) | — | (1) | (18) | (43) | — | — | — | — | (163) | (107) | (163) | (107) | (22) | — | (203) | (150) |
| | 997 | 916 | 666 | 569 | 1,663 | 1,485 | 453 | 412 | 816 | 939 | 2,478 | 2,990 | 3,747 | 4,341 | (492) | (402) | 4,918 | 5,424 |
| Earnings (loss) from operating activities | 163 | 297 | 45 | 200 | 208 | 497 | 11 | 122 | 55 | 62 | 166 | 208 | 232 | 392 | (45) | (119) | 395 | 770 |
| Share of equity investment income | 15 | 12 | 4 | 6 | 19 | 18 | — | — | — | — | — | — | — | — | — | — | 19 | 18 |
| Financial items | | | | | | | | | | | | | | | | | | |
| Net foreign exchange loss | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (8) | (9) | (8) | (9) |
| Finance income | — | 2 | — | — | — | 2 | — | — | — | — | — | — | — | — | 24 | 13 | 24 | 15 |
| Finance expenses | (39) | (29) | (2) | — | (41) | (29) | (1) | (1) | (4) | (3) | (5) | (4) | (10) | (8) | (33) | (43) | (84) | (80) |
| | (39) | (27) | (2) | — | (41) | (27) | (1) | (1) | (4) | (3) | (5) | (4) | (10) | (8) | (17) | (39) | (68) | (74) |
| Earnings (loss) before income taxes | 139 | 282 | 47 | 206 | 186 | 488 | 10 | 121 | 51 | 59 | 161 | 204 | 222 | 384 | (62) | (158) | 346 | 714 |
| Provisions for (recovery of) income taxes | | | | | | | | | | | | | | | | | | |
| Current | (9) | (46) | — | 14 | (9) | (32) | 12 | 47 | 35 | 15 | 10 | 2 | 57 | 64 | 3 | (19) | 51 | 13 |
| Deferred | 42 | 114 | 13 | 43 | 55 | 157 | (9) | (14) | (21) | 1 | 25 | 44 | (5) | 31 | (28) | (32) | 22 | 156 |
| | 33 | 68 | 13 | 57 | 46 | 125 | 3 | 33 | 14 | 16 | 35 | 46 | 52 | 95 | (25) | (51) | 73 | 169 |
| Net earnings (loss) | 106 | 214 | 34 | 149 | 140 | 363 | 7 | 88 | 37 | 43 | 126 | 158 | 170 | 289 | (37) | (107) | 273 | 545 |
| Intersegment revenues | 451 | 422 | — | — | 451 | 422 | 58 | 77 | 28 | 22 | — | — | 86 | 99 | — | — | 537 | 521 |
| Expenditures on exploration and evaluation assets | 11 | 56 | — | — | 11 | 56 | — | — | — | — | — | — | — | — | — | — | 11 | 56 |
| Expenditures on property, plant and equipment | 586 | 659 | — | — | 586 | 659 | 13 | 9 | 23 | 23 | 196 | 196 | 232 | 228 | 39 | 25 | 857 | 912 |

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

⁽²⁾ Includes \$41 million of revenue (three months ended September 30, 2018 - \$49 million) and \$41 million of associated costs (three months ended September 30, 2018 - \$38 million) for construction contracts, all of which relates to contracts in progress accounted for under the percentage of completion method.

⁽³⁾ Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices. Segment results include transactions between business segments.

| Nine months ended September 30, (\$ millions) | Upstream | | | | | | Downstream | | | | | | | | Corporate and Eliminations ⁽³⁾ | | Total | |
|--|---|-------|---|-------|--------------|-------|--------------|-------|---------------------------------|-------|--------------------------------|-------|---------------|--------|--|---------|---------------|--------|
| | Exploration and Production ⁽¹⁾ | | Infrastructure and Marketing ⁽²⁾ | | Total | | Upgrading | | Canadian Refined Products | | U.S. Refining and Marketing | | Total | | 2019 | 2018 | 2019 | 2018 |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Gross revenues | 3,677 | 3,687 | 1,734 | 1,681 | 5,411 | 5,368 | 1,321 | 1,443 | 2,329 | 2,591 | 7,718 | 9,004 | 11,368 | 13,038 | (1,533) | (1,381) | 15,246 | 17,025 |
| Royalties | (235) | (285) | — | — | (235) | (285) | — | — | — | — | — | — | — | — | — | — | (235) | (285) |
| Marketing and other | — | — | 179 | 520 | 179 | 520 | — | — | — | — | — | — | — | — | — | — | 179 | 520 |
| Revenues, net of royalties | 3,442 | 3,402 | 1,913 | 2,201 | 5,355 | 5,603 | 1,321 | 1,443 | 2,329 | 2,591 | 7,718 | 9,004 | 11,368 | 13,038 | (1,533) | (1,381) | 15,190 | 17,260 |
| Expenses | | | | | | | | | | | | | | | | | | |
| Purchases of crude oil and products | — | 1 | 1,745 | 1,590 | 1,745 | 1,591 | 992 | 818 | 1,880 | 2,123 | 6,489 | 7,811 | 9,361 | 10,752 | (1,533) | (1,381) | 9,573 | 10,962 |
| Production, operating and transportation expenses | 1,199 | 1,139 | 12 | 19 | 1,211 | 1,158 | 163 | 144 | 221 | 198 | 628 | 602 | 1,012 | 944 | (2) | — | 2,221 | 2,102 |
| Selling, general and administrative expenses | 226 | 224 | 3 | 3 | 229 | 227 | 12 | 6 | 40 | 36 | 23 | 17 | 75 | 59 | 173 | 256 | 477 | 542 |
| Depletion, depreciation, amortization and impairment | 1,349 | 1,342 | 10 | 1 | 1,359 | 1,343 | 86 | 87 | 99 | 86 | 355 | 348 | 540 | 521 | 77 | 65 | 1,976 | 1,929 |
| Exploration and evaluation expenses | 157 | 96 | — | — | 157 | 96 | — | — | — | — | — | — | — | — | — | — | 157 | 96 |
| Loss (gain) on sale of assets | (2) | (2) | — | — | (2) | (2) | — | — | (4) | (2) | 1 | — | (3) | (2) | — | — | (5) | (4) |
| Other – net | 97 | (11) | — | 1 | 97 | (10) | — | — | — | — | (347) | (130) | (347) | (130) | (12) | (9) | (262) | (149) |
| | 3,026 | 2,789 | 1,770 | 1,614 | 4,796 | 4,403 | 1,253 | 1,055 | 2,236 | 2,441 | 7,149 | 8,648 | 10,638 | 12,144 | (1,297) | (1,069) | 14,137 | 15,478 |
| Earnings (loss) from operating activities | 416 | 613 | 143 | 587 | 559 | 1,200 | 68 | 388 | 93 | 150 | 569 | 356 | 730 | 894 | (236) | (312) | 1,053 | 1,782 |
| Share of equity investment income | 42 | 33 | 22 | 20 | 64 | 53 | — | — | — | — | — | — | — | — | — | — | 64 | 53 |
| Financial items | | | | | | | | | | | | | | | | | | |
| Net foreign exchange gain | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 24 | 16 | 24 | 16 |
| Finance income | — | 12 | — | — | — | 12 | — | — | — | — | — | — | — | — | 60 | 36 | 60 | 48 |
| Finance expenses | (121) | (80) | (2) | — | (123) | (80) | (1) | (1) | (12) | (9) | (14) | (11) | (27) | (21) | (122) | (137) | (272) | (238) |
| | (121) | (68) | (2) | — | (123) | (68) | (1) | (1) | (12) | (9) | (14) | (11) | (27) | (21) | (38) | (85) | (188) | (174) |
| Earnings (loss) before income taxes | 337 | 578 | 163 | 607 | 500 | 1,185 | 67 | 387 | 81 | 141 | 555 | 345 | 703 | 873 | (274) | (397) | 929 | 1,661 |
| Provisions for (recovery of) income taxes | | | | | | | | | | | | | | | | | | |
| Current | 24 | (251) | — | 161 | 24 | (90) | 41 | 128 | 42 | 59 | 17 | 6 | 100 | 193 | 19 | (54) | 143 | 49 |
| Deferred | 55 | 400 | 44 | 5 | 99 | 405 | (23) | (22) | (20) | (21) | 106 | 71 | 63 | 28 | (347) | (62) | (185) | 371 |
| | 79 | 149 | 44 | 166 | 123 | 315 | 18 | 106 | 22 | 38 | 123 | 77 | 163 | 221 | (328) | (116) | (42) | 420 |
| Net earnings (loss) | 258 | 429 | 119 | 441 | 377 | 870 | 49 | 281 | 59 | 103 | 432 | 268 | 540 | 652 | 54 | (281) | 971 | 1,241 |
| Intersegment revenues | 1,278 | 1,054 | — | — | 1,278 | 1,054 | 184 | 227 | 71 | 100 | — | — | 255 | 327 | — | — | 1,533 | 1,381 |
| Expenditures on exploration and evaluation assets | 37 | 196 | — | — | 37 | 196 | — | — | — | — | — | — | — | — | — | — | 37 | 196 |
| Expenditures on property, plant and equipment | 1,745 | 1,562 | 1 | — | 1,746 | 1,562 | 29 | 53 | 100 | 52 | 527 | 369 | 656 | 474 | 99 | 81 | 2,501 | 2,117 |

As at September 30, 2019 and December 31, 2018

| | | | | | | | | | | | | | | | | | | |
|---|---------------|--------|--------------|-------|---------------|--------|--------------|-------|--------------|-------|--------------|-------|---------------|--------|--------------|-------|---------------|--------|
| Total exploration and evaluation assets, property, plant and equipment, net | 18,041 | 17,814 | 48 | 51 | 18,089 | 17,865 | 1,017 | 1,074 | 1,182 | 1,208 | 6,280 | 6,336 | 8,479 | 8,618 | 334 | 314 | 26,902 | 26,797 |
| Total right-of-use assets, net | 712 | — | 93 | — | 805 | — | — | — | 127 | — | 168 | — | 295 | — | 295 | — | 1,395 | — |
| Total assets | 19,956 | 19,175 | 1,619 | 1,301 | 21,575 | 20,476 | 1,219 | 1,149 | 1,663 | 1,431 | 8,799 | 8,566 | 11,681 | 11,146 | 3,356 | 3,603 | 36,612 | 35,225 |

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

⁽²⁾ Includes \$134 million of revenue (nine months ended September 30, 2018 - \$114 million) and \$202 million of associated costs (nine months ended September 30, 2018 - \$100 million) for construction contracts, all of which relates to contracts in progress accounted for under the percentage of completion method.

⁽³⁾ Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices. Segment results include transactions between business segments.

Disaggregation of Revenue

| Three months ended September 30, (<i>\$ millions</i>) | Upstream | | | | | | Downstream | | | | | | | | Corporate and Eliminations | | Total | |
|--|----------------------------------|--------------|---------------------------------|------------|--------------|--------------|------------|------------|---------------------------------|--------------|--------------------------------|--------------|--------------|--------------|-------------------------------|--------------|--------------|--------------|
| | Exploration and Production | | Infrastructure and Marketing | | Total | | Upgrading | | Canadian Refined Products | | U.S. Refining and Marketing | | Total | | 2019 | 2018 | 2019 | 2018 |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | | | | |
| Primary Geographical Markets | | | | | | | | | | | | | | | | | | |
| Canada | 1,011 | 1,040 | 676 | 601 | 1,687 | 1,641 | 464 | 534 | 871 | 1,001 | — | — | 1,335 | 1,535 | (537) | (521) | 2,485 | 2,655 |
| United States | — | — | — | — | — | — | — | — | — | — | 2,644 | 3,198 | 2,644 | 3,198 | — | — | 2,644 | 3,198 |
| China | 230 | 279 | — | — | 230 | 279 | — | — | — | — | — | — | — | — | — | — | 230 | 279 |
| Total revenue | 1,241 | 1,319 | 676 | 601 | 1,917 | 1,920 | 464 | 534 | 871 | 1,001 | 2,644 | 3,198 | 3,979 | 4,733 | (537) | (521) | 5,359 | 6,132 |
| Major Product Lines | | | | | | | | | | | | | | | | | | |
| Light & medium crude oil | 202 | 296 | — | — | 202 | 296 | — | — | — | — | — | — | — | — | — | — | 202 | 296 |
| Heavy crude oil | 165 | 162 | — | — | 165 | 162 | — | — | — | — | — | — | — | — | — | — | 165 | 162 |
| Bitumen | 594 | 499 | — | — | 594 | 499 | — | — | — | — | — | — | — | — | — | — | 594 | 499 |
| Total crude oil | 961 | 957 | — | — | 961 | 957 | — | — | — | — | — | — | — | — | — | — | 961 | 957 |
| NGL | 57 | 100 | — | — | 57 | 100 | — | — | — | — | — | — | — | — | — | — | 57 | 100 |
| Natural gas | 223 | 262 | — | — | 223 | 262 | — | — | — | — | — | — | — | — | — | — | 223 | 262 |
| Total exploration and production | 1,241 | 1,319 | — | — | 1,241 | 1,319 | — | — | — | — | — | — | — | — | — | — | 1,241 | 1,319 |
| Total infrastructure and marketing | — | — | 676 | 601 | 676 | 601 | — | — | — | — | — | — | — | — | — | — | 676 | 601 |
| Synthetic crude | — | — | — | — | — | — | 406 | 453 | — | — | — | — | 406 | 453 | — | — | 406 | 453 |
| Gasoline | — | — | — | — | — | — | — | — | 245 | 320 | 1,472 | 1,631 | 1,717 | 1,951 | — | — | 1,717 | 1,951 |
| Diesel & distillates | — | — | — | — | — | — | 57 | 74 | 274 | 342 | 930 | 1,135 | 1,261 | 1,551 | — | — | 1,261 | 1,551 |
| Asphalt | — | — | — | — | — | — | — | — | 191 | 177 | 72 | 69 | 263 | 246 | — | — | 263 | 246 |
| Other | — | — | — | — | — | — | 1 | 7 | 161 | 162 | 170 | 363 | 332 | 532 | — | — | 332 | 532 |
| Total refined products | — | — | — | — | — | — | 464 | 534 | 871 | 1,001 | 2,644 | 3,198 | 3,979 | 4,733 | — | — | 3,979 | 4,733 |
| Total revenue | 1,241 | 1,319 | 676 | 601 | 1,917 | 1,920 | 464 | 534 | 871 | 1,001 | 2,644 | 3,198 | 3,979 | 4,733 | (537) | (521) | 5,359 | 6,132 |

| Nine months ended September 30, (\$ millions) | Upstream | | | | | | Downstream | | | | | | Corporate and Eliminations | | Total | | | |
|--|----------------------------|-------|------------------------------|-------|--------------|-------|--------------|-------|---------------------------|-------|-----------------------------|-------|----------------------------|--------|----------------|---------|---------------|--------|
| | Exploration and Production | | Infrastructure and Marketing | | Total | | Upgrading | | Canadian Refined Products | | U.S. Refining and Marketing | | Total | | 2019 | 2018 | 2019 | 2018 |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | | | | |
| Primary Geographical Markets | | | | | | | | | | | | | | | | | | |
| Canada | 2,914 | 2,849 | 1,734 | 1,681 | 4,648 | 4,530 | 1,321 | 1,443 | 2,329 | 2,591 | — | — | 3,650 | 4,034 | (1,533) | (1,381) | 6,765 | 7,183 |
| United States | — | — | — | — | — | — | — | — | — | — | 7,718 | 9,004 | 7,718 | 9,004 | — | — | 7,718 | 9,004 |
| China | 763 | 838 | — | — | 763 | 838 | — | — | — | — | — | — | — | — | — | — | 763 | 838 |
| Total revenue | 3,677 | 3,687 | 1,734 | 1,681 | 5,411 | 5,368 | 1,321 | 1,443 | 2,329 | 2,591 | 7,718 | 9,004 | 11,368 | 13,038 | (1,533) | (1,381) | 15,246 | 17,025 |
| Major Product Lines | | | | | | | | | | | | | | | | | | |
| Light & medium crude oil | 450 | 822 | — | — | 450 | 822 | — | — | — | — | — | — | — | — | — | — | 450 | 822 |
| Heavy crude oil | 454 | 468 | — | — | 454 | 468 | — | — | — | — | — | — | — | — | — | — | 454 | 468 |
| Bitumen | 1,780 | 1,302 | — | — | 1,780 | 1,302 | — | — | — | — | — | — | — | — | — | — | 1,780 | 1,302 |
| Total crude oil | 2,684 | 2,592 | — | — | 2,684 | 2,592 | — | — | — | — | — | — | — | — | — | — | 2,684 | 2,592 |
| NGL | 210 | 285 | — | — | 210 | 285 | — | — | — | — | — | — | — | — | — | — | 210 | 285 |
| Natural gas | 783 | 810 | — | — | 783 | 810 | — | — | — | — | — | — | — | — | — | — | 783 | 810 |
| Total exploration and production | 3,677 | 3,687 | — | — | 3,677 | 3,687 | — | — | — | — | — | — | — | — | — | — | 3,677 | 3,687 |
| Total infrastructure and marketing | — | — | 1,734 | 1,681 | 1,734 | 1,681 | — | — | — | — | — | — | — | — | — | — | 1,734 | 1,681 |
| Synthetic crude | — | — | — | — | — | — | 1,129 | 1,208 | — | — | — | — | 1,129 | 1,208 | — | — | 1,129 | 1,208 |
| Gasoline | — | — | — | — | — | — | — | — | 692 | 823 | 4,198 | 4,766 | 4,890 | 5,589 | — | — | 4,890 | 5,589 |
| Diesel & distillates | — | — | — | — | — | — | 181 | 219 | 848 | 966 | 2,887 | 3,259 | 3,916 | 4,444 | — | — | 3,916 | 4,444 |
| Asphalt | — | — | — | — | — | — | — | — | 362 | 345 | 115 | 145 | 477 | 490 | — | — | 477 | 490 |
| Other | — | — | — | — | — | — | 11 | 16 | 427 | 457 | 518 | 834 | 956 | 1,307 | — | — | 956 | 1,307 |
| Total refined products | — | — | — | — | — | — | 1,321 | 1,443 | 2,329 | 2,591 | 7,718 | 9,004 | 11,368 | 13,038 | — | — | 11,368 | 13,038 |
| Total revenue | 3,677 | 3,687 | 1,734 | 1,681 | 5,411 | 5,368 | 1,321 | 1,443 | 2,329 | 2,591 | 7,718 | 9,004 | 11,368 | 13,038 | (1,533) | (1,381) | 15,246 | 17,025 |

Note 2 Basis of Presentation

The condensed interim consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s 2018 Annual Report.

The condensed interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 3 to the consolidated financial statements for the fiscal year ended December 31, 2018, except for the newly issued standards and amendments as discussed below.

Certain prior period amounts have been reclassified to conform with the current period presentation.

These condensed interim consolidated financial statements were approved by the Audit Committee of the Board of Directors on October 23, 2019.

Note 3 Significant Accounting Policies

Recent Accounting Standards

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Change in Accounting Policies

Leases

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which replaces the existing IFRS guidance on leases: IAS 17 Leases (“IAS 17”). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the balance sheet while operating leases are recognized in the Consolidated Statements of Income when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion, depreciation and amortization, and finance expense, and decreases to production, operating and transportation expense, purchases of crude oil and products, and selling, general and administrative expenses.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics. For leases that were previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease liability remain unchanged upon transition and were determined at the carrying amount immediately before the adoption date. Additionally, instead of an impairment review, the Company adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application.

No adjustments were required upon transition to IFRS 16 for leases where the Company is a lessor. Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of any sub-lease contracts previously assessed under IAS 17. No changes to sublease classification or associated accounting treatment was required.

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional \$1.3 billion of right-of-use assets and associated lease liabilities. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 3.58 percent.

The nature of the Company's leasing activities includes offshore drilling rigs, vessels and associated equipment for the use of developing reserves on oil and gas properties, tanks and terminals with dedicated storage capacity, pipelines where the Company has a right to substantially all the economic benefits, dedicated rail cars, retail marketing locations, and office space. Refer to Note 7 for the values recognized upon implementation in each asset class.

Note 4 Restricted Cash

In accordance with the provisions of the regulations of the People's Republic of China, the Company is required to deposit funds into separate accounts restricted to the funding of future asset retirement obligations in offshore China. As at September 30, 2019, the Company had deposited funds of \$141 million (December 31, 2018 – \$128 million), which are classified as non-current and included in restricted cash in the condensed interim consolidated balance sheets.

Note 5 Exploration and Evaluation Assets

Exploration and Evaluation Assets

(\$ millions)

| | |
|--|------------|
| December 31, 2018 | 997 |
| Additions | 37 |
| Disposals | — |
| Transfers to property, plant and equipment (note 6) | (23) |
| Expensed exploration expenditures previously capitalized | (23) |
| Exchange adjustments | (1) |
| September 30, 2019 | 987 |

Note 6 Property, Plant and Equipment

Property, Plant and Equipment

| (\$ millions) | Oil and Gas Properties | Processing, Transportation and Storage | Upgrading | Refining | Retail and Other | Total |
|---|------------------------|--|----------------|----------------|------------------|-----------------|
| Cost | | | | | | |
| December 31, 2018 | 44,196 | 101 | 2,659 | 10,691 | 3,095 | 60,742 |
| Transfers to right-of-use assets ⁽¹⁾ (note 7) | (336) | — | — | (180) | — | (516) |
| Additions ⁽²⁾ | 1,776 | — | 29 | 639 | 107 | 2,551 |
| Acquisitions | 5 | — | — | — | — | 5 |
| Transfers from exploration and evaluation (note 5) | 23 | — | — | — | — | 23 |
| Transfers from right-of-use assets ⁽³⁾ (note 7) | 83 | — | — | — | — | 83 |
| Intersegment transfers | 2 | — | — | — | (2) | — |
| Changes in asset retirement obligations | 63 | 1 | — | — | (6) | 58 |
| Disposals and derecognition | (11) | (1) | — | (16) | — | (28) |
| Exchange adjustments | (131) | (1) | — | (281) | (2) | (415) |
| September 30, 2019 | 45,670 | 100 | 2,688 | 10,853 | 3,192 | 62,503 |
| Accumulated depletion, depreciation, amortization and impairment | | | | | | |
| December 31, 2018 | (27,379) | (50) | (1,585) | (3,933) | (1,995) | (34,942) |
| Transfers to right-of-use assets ⁽¹⁾ (note 7) | 12 | — | — | 40 | — | 52 |
| Depletion, depreciation, amortization and impairment | (1,308) | (2) | (86) | (360) | (111) | (1,867) |
| Disposals and derecognition | 7 | — | — | 8 | — | 15 |
| Exchange adjustments | 52 | — | — | 102 | — | 154 |
| September 30, 2019 | (28,616) | (52) | (1,671) | (4,143) | (2,106) | (36,588) |
| Net book value | | | | | | |
| December 31, 2018 | 16,817 | 51 | 1,074 | 6,758 | 1,100 | 25,800 |
| September 30, 2019 | 17,054 | 48 | 1,017 | 6,710 | 1,086 | 25,915 |

⁽¹⁾ Transfer to right-of-use assets due to the adoption of IFRS 16 on January 1, 2019.

⁽²⁾ Includes \$5 million of interest expense on lease liabilities allocated to the carrying amount of assets in Oil and Gas Properties.

⁽³⁾ Includes capitalized depreciation from right-of-use assets.

Note 7 Right-of-use Assets and Lease Liabilities

Right-of-use Assets

| (\$ millions) | Oil and Gas Properties | Processing, Transportation and Storage | Upgrading | Refining | Retail and Other | Total |
|--|------------------------|--|-----------|------------|------------------|--------------|
| January 1, 2019 | | | | | | |
| Transfers from property, plant and equipment, net (note 6) | 324 | — | — | 140 | — | 464 |
| Initial recognition | 721 | 100 | — | 70 | 412 | 1,303 |
| | 1,045 | 100 | — | 210 | 412 | 1,767 |
| Additions | 1 | — | — | 27 | 4 | 32 |
| Transfers to property, plant and equipment (note 6) | (83) | — | — | — | — | (83) |
| Disposals and derecognition | (7) | — | — | — | — | (7) |
| Revaluation | (206) | 1 | — | — | 3 | (202) |
| Depreciation | (35) | (8) | — | (38) | (28) | (109) |
| Other | — | — | — | (3) | — | (3) |
| September 30, 2019 | 715 | 93 | — | 196 | 391 | 1,395 |

Lease Liabilities

Balance Sheets

| (\$ millions) | September 30, 2019 |
|--|--------------------|
| Current lease liabilities ⁽¹⁾ | 133 |
| Non-current lease liabilities ⁽¹⁾ | 1,352 |

⁽¹⁾ Includes \$481 million previously recorded in accrued liabilities and other long-term liabilities as at December 31, 2018.

Results of Operations

| (\$ millions) | Three months ended, September 30, 2019 | Nine months ended, September 30, 2019 |
|--|---|--|
| Interest expense on lease liabilities ⁽¹⁾ (note 13) | 26 | 81 |
| Expenses relating to short-term leases | 4 | 16 |

⁽¹⁾ Includes nil and \$5 million of interest allocated to the carrying amount of assets in Oil and Gas Properties for three and nine months ended September 30, 2019, respectively.

Cash Flow Summary

| (\$ millions) | Three months ended, September 30, 2019 | Nine months ended, September 30, 2019 |
|---------------------------------|---|--|
| Total cash flow used for leases | 84 | 255 |

Note 8 Debt and Credit Facilities

Short-term Debt

| (\$ millions) | September 30, 2019 | December 31, 2018 |
|---------------------------------|--------------------|-------------------|
| Commercial paper ⁽¹⁾ | 200 | 200 |

⁽¹⁾ The commercial paper is supported by the Company's syndicated credit facilities and the Company is authorized to issue commercial paper up to a maximum of \$1.0 billion having a term not to exceed 365 days. The weighted average interest rate as at September 30, 2019, was 1.97 percent per annum (December 31, 2018 – 2.20 percent).

| | | Canadian \$ Amount | | U.S. \$ Denominated | |
|---|----------|--------------------|-------------------|---------------------|-------------------|
| (\$ millions) | Maturity | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Long-term Debt | | | | | |
| Long-term debt | | | | | |
| 5.00% notes | 2020 | — | 400 | — | — |
| 3.95% notes ⁽¹⁾ | 2022 | 662 | 682 | 500 | 500 |
| 4.00% notes ⁽¹⁾ | 2024 | 993 | 1,023 | 750 | 750 |
| 3.55% notes | 2025 | 750 | 750 | — | — |
| 3.60% notes | 2027 | 750 | 750 | — | — |
| 4.40% notes | 2029 | 993 | — | 750 | — |
| 6.80% notes ⁽¹⁾ | 2037 | 513 | 528 | 387 | 387 |
| Debt issue costs ⁽²⁾ | | (26) | (19) | — | — |
| Long-term debt | | 4,635 | 4,114 | 2,387 | 1,637 |
| Long-term debt due within one year | | | | | |
| 6.15% notes ⁽¹⁾ | 2019 | — | 410 | — | 300 |
| 7.25% notes ⁽¹⁾ | 2019 | 993 | 1,023 | 750 | 750 |
| 5.00% notes | 2020 | 400 | — | — | — |
| Long-term debt due within one year | | 1,393 | 1,433 | 750 | 1,050 |

⁽¹⁾ The U.S. dollar denominated debt is designated as a hedge of the Company's net investment in selected foreign operations with a U.S. dollar functional currency. Refer to Note 15 for Foreign Currency Risk Management.

⁽²⁾ Calculated using the effective interest rate method.

Credit Facilities

As at September 30, 2019, the covenants under the Company's syndicated credit facilities are debt to capital covenants, calculated as total debt (long-term debt including long-term debt due within one year and short-term debt) and certain adjusting items specified in the agreement divided by total debt, shareholders' equity and certain adjusting items specified in the agreement. These covenants are used to assess the Company's financial strength. If the Company does not comply with the covenants under the syndicated credit facilities, there is the risk that repayment could be accelerated. The Company was in compliance with the syndicated credit facility covenants at September 30, 2019, and assessed the risk of non-compliance to be low. As at September 30, 2019, the Company had no direct borrowings under its \$2.0 billion facility expiring June 19, 2022 (December 31, 2018 – no direct borrowings), and no direct borrowings under its \$2.0 billion facility expiring March 9, 2024 (December 31, 2018 – no direct borrowings).

Notes

On January 29, 2018, the Company filed a universal short form base shelf prospectus (the "2018 U.S. Shelf Prospectus") with the Alberta Securities Commission. On January 30, 2018, the Company's related U.S. registration statement with the SEC containing the 2018 U.S. Shelf Prospectus became effective which enables the Company to offer up to US\$3.0 billion of debt securities, common shares, preferred shares, subscription receipts, warrants and units of the Company in the U.S. up to and including February 29, 2020.

On December 4, 2018, the Company entered into cash flow hedges using forward interest rate swaps to fix the underlying U.S. \$500 million 10-year note fixed rate to December 15, 2019. During the three months ended March 31, 2019, the Company discontinued these cash flow hedges and these interest rate swaps were settled and derecognized during the period. Refer to Note 15.

On March 15, 2019, the Company issued US\$750 million senior unsecured notes. The notes bear an annual interest rate of 4.40 percent and are due on April 15, 2029. The Company intends to use the net proceeds of the offering for general corporate purposes, which may include, among other things, the repayment of certain outstanding debt securities maturing in 2019. The Company may invest funds it does not immediately require in short-term marketable debt securities.

On May 1, 2019, the Company filed a universal short form base shelf prospectus (the "2019 Canadian Shelf Prospectus") with applicable securities regulators in each of the provinces of Canada that enables the Company to offer up to \$3.0 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and other units in Canada up to and including June 1, 2021.

On June 17, 2019, the Company repaid the maturing 6.15 percent notes. The amount paid to note holders was \$402 million.

On June 27, 2019, the maturity date for one of the Company's \$2.0 billion revolving syndicated credit facilities, previously set to expire on March 9, 2020, was extended to March 9, 2024.

At September 30, 2019, the Company had unused capacity of \$3.0 billion under its 2019 Canadian Shelf Prospectus and US\$2.25 billion under the 2018 U.S. Shelf Prospectus and related U.S. registration statement.

The Company's notes, credit facilities and short-term lines of credit rank equally in right of payment.

Note 9 Asset Retirement Obligations

A reconciliation of the carrying amount of asset retirement obligations at September 30, 2019, is set out below:

Asset Retirement Obligations

(\$ millions)

| | |
|---|--------------|
| December 31, 2018 | 2,424 |
| Additions | 47 |
| Liabilities settled | (186) |
| Revaluation | 11 |
| Exchange adjustment | (14) |
| Accretion (note 13) | 79 |
| September 30, 2019 | 2,361 |
| Expected to be incurred within one year | 218 |
| Expected to be incurred beyond one year | 2,143 |

The Company has deposited \$141 million (December 31, 2018 – \$128 million) into the restricted cash account for funding of future asset retirement obligations in offshore China. These amounts have been reflected in restricted cash in the condensed interim consolidated balance sheets.

Note 10 Other Long-term Liabilities

Other Long-term Liabilities

(\$ millions)

| | September 30, 2019 | December 31, 2018 |
|-----------------------------------|--------------------|-------------------|
| Employee future benefits | 215 | 205 |
| Finance lease obligation (note 7) | — | 467 |
| Stock-based compensation | 23 | 42 |
| Deferred revenue | 170 | 205 |
| Other | 123 | 188 |
| End of period | 531 | 1,107 |

Note 11 Share Capital

Common Shares

| Common Shares | Number of Shares | Amount (\$ millions) |
|---------------------------|----------------------|-------------------------|
| December 31, 2018 | 1,005,121,738 | 7,293 |
| September 30, 2019 | 1,005,121,738 | 7,293 |

| Common Share Dividends (\$ millions) | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|----------------------------------|------|----------|------|---------------------------------|------|----------|------|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | Declared | Paid | Declared | Paid | Declared | Paid | Declared | Paid |
| | 125 | 126 | 126 | 75 | 377 | 377 | 277 | 151 |

There were \$125 million of common share dividends declared and payable in the third quarter of 2019 (September 30, 2018 – \$126 million). The dividends were paid on October 1, 2019, to shareholders of record at the close of business on September 3, 2019.

Preferred Shares

| Cumulative Redeemable Preferred Shares | Number of Shares | Amount (\$ millions) |
|--|-------------------|-------------------------|
| December 31, 2018 | 36,000,000 | 874 |
| September 30, 2019 | 36,000,000 | 874 |

| Cumulative Redeemable Preferred Share Dividends (\$ millions) | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|----------------------------------|-----------|----------|------|---------------------------------|-----------|----------|------|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | Declared | Paid | Declared | Paid | Declared | Paid | Declared | Paid |
| Series 1 Preferred Shares | 2 | 3 | 2 | 2 | 5 | 5 | 5 | 5 |
| Series 2 Preferred Shares ⁽¹⁾ | — | — | — | — | 1 | 1 | 1 | 1 |
| Series 3 Preferred Shares | 3 | 6 | 3 | 3 | 8 | 8 | 8 | 8 |
| Series 5 Preferred Shares | 2 | 5 | 2 | 2 | 7 | 7 | 7 | 7 |
| Series 7 Preferred Shares | 2 | 3 | 2 | 2 | 5 | 5 | 5 | 5 |
| | 9 | 17 | 9 | 9 | 26 | 26 | 26 | 26 |

⁽¹⁾ Series 2 Preferred Share dividends declared and paid in the three months ended September 30, 2019 was less than \$1 million (three months ended September 30, 2018 was less than \$1 million).

At September 30, 2019, preferred share dividends payable were nil (September 30, 2018 – \$9 million).

Stock-based Compensation

The following table summarizes the total expense (recovery) recognized in selling, general and administrative expenses in the condensed interim consolidated statements of income for the Company's stock option plan and performance share units ("PSU") for the three and nine months ended September 30, 2019 and 2018:

| Stock-based Compensation (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------|---------------------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock option plan | (6) | 20 | (9) | 42 |
| PSU | (3) | 20 | 20 | 52 |
| Stock-based compensation (note 12) | (9) | 40 | 11 | 94 |

Earnings per Share

| Earnings per Share (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|---------|---------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Net earnings | 273 | 545 | 971 | 1,241 |
| Effect of dividends declared on preferred shares in the period | (9) | (9) | (26) | (26) |
| Net earnings - basic | 264 | 536 | 945 | 1,215 |
| Dilutive effect of accounting for stock options ⁽¹⁾ | (9) | — | (17) | — |
| Net earnings - diluted | 255 | 536 | 928 | 1,215 |
| <i>(millions)</i> | | | | |
| Weighted average common shares outstanding – basic | 1,005.1 | 1,005.1 | 1,005.1 | 1,005.1 |
| Effect of stock dividends declared | — | 2.3 | — | 1.1 |
| Weighted average common shares outstanding – diluted | 1,005.1 | 1,007.4 | 1,005.1 | 1,006.2 |
| <i>(dollars per share)</i> | | | | |
| Earnings per share – basic (\$/share) | 0.26 | 0.53 | 0.94 | 1.21 |
| Earnings per share – diluted (\$/share) | 0.25 | 0.53 | 0.92 | 1.21 |

⁽¹⁾ For the three and nine months ended September 30, 2019, equity-settlement of stock of options was used to calculate diluted earnings per share as it was considered more dilutive than cash-settlement (three and nine months ended September 30, 2018 - cash-settlement method was used). Stock-based compensation recovery was \$3 million and \$8 million based on equity-settlement for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – expense of \$3 million and \$7 million), respectively. Stock-based compensation would have been a recovery of \$6 million and \$9 million based on cash-settlement for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – expense of \$20 million and \$42 million), respectively.

For the three and nine months ended September 30, 2019, 20 million tandem options (three and nine months ended September 30, 2018 – 8 million and 13 million tandem options) were excluded from the calculation of diluted earnings per share as these options were anti-dilutive.

Note 12 Production, Operating and Transportation and Selling, General and Administrative Expenses

The following table summarizes production, operating and transportation expenses in the condensed interim consolidated statements of income for the three and nine months ended September 30, 2019 and 2018:

| Production, Operating and Transportation Expenses (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------|---------------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Services and support costs | 331 | 286 | 888 | 771 |
| Salaries and benefits | 186 | 213 | 568 | 556 |
| Materials, equipment rentals and leases | 65 | 65 | 187 | 181 |
| Energy and utility | 96 | 98 | 355 | 311 |
| Licensing fees | 46 | 46 | 151 | 158 |
| Transportation | 5 | 6 | 15 | 17 |
| Other | (4) | 26 | 57 | 108 |
| Total production, operating and transportation expenses | 725 | 740 | 2,221 | 2,102 |

The following table summarizes selling, general and administrative expenses in the condensed interim consolidated statements of income for the three and nine months ended September 30, 2019 and 2018:

| Selling, General and Administrative Expenses (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Employee costs ⁽¹⁾ | 95 | 76 | 283 | 254 |
| Stock-based compensation expense (recovery) ⁽²⁾ (note 11) | (9) | 40 | 11 | 94 |
| Contract services | 33 | 26 | 93 | 75 |
| Equipment rentals and leases | 2 | 9 | 8 | 28 |
| Maintenance and other | 28 | 36 | 82 | 91 |
| Total selling, general and administrative expenses | 149 | 187 | 477 | 542 |

⁽¹⁾ Employee costs are comprised of salary and benefits earned during the period, plus cash bonuses awarded during the period. Annual bonus awards to be settled in shares are included in stock-based compensation expense.

⁽²⁾ Stock-based compensation expense represents the cost to the Company for participation in share-based payment plans.

Note 13 Financial Items

| Financial Items (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|-------------|---------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Foreign exchange | | | | |
| Non-cash working capital gain (loss) | 16 | (12) | (15) | (12) |
| Other foreign exchange gain (loss) | (24) | 3 | 39 | 28 |
| Net foreign exchange gain (loss) | (8) | (9) | 24 | 16 |
| Finance income | 24 | 15 | 60 | 48 |
| Finance expenses | | | | |
| Long-term debt | (78) | (83) | (238) | (237) |
| Lease liabilities ⁽¹⁾ (note 7) | (26) | — | (81) | — |
| Other | — | (3) | (4) | (5) |
| | (104) | (86) | (323) | (242) |
| Interest capitalized ⁽²⁾ | 46 | 29 | 130 | 76 |
| | (58) | (57) | (193) | (166) |
| Accretion of asset retirement obligations (note 9) | (26) | (23) | (79) | (72) |
| Finance expenses | (84) | (80) | (272) | (238) |
| Total financial items | (68) | (74) | (188) | (174) |

⁽¹⁾ Includes nil and \$5 million of interest allocated to the carrying amount of assets in Oil and Gas Properties for the three and nine months ended September 30, 2019, respectively.

⁽²⁾ Interest capitalized on project costs is calculated using the Company's annualized effective interest rate of 5 percent (2018 – 5 percent).

Note 14 Cash Flows – Change in Non-cash Working Capital

| Non-cash Working Capital (\$ millions) | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Decrease (increase) in non-cash working capital | | | | |
| Accounts receivable | (289) | (190) | (290) | (320) |
| Inventories | (57) | 41 | (442) | (128) |
| Prepaid expenses | (91) | (49) | (46) | 16 |
| Accounts payable and accrued liabilities | 330 | 375 | 198 | 150 |
| Change in non-cash working capital | (107) | 177 | (580) | (282) |
| Relating to: | | | | |
| Operating activities | (221) | (35) | (677) | (600) |
| Financing activities | 10 | 64 | 29 | 139 |
| Investing activities | 104 | 148 | 68 | 179 |

Note 15 Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, short-term debt, long-term debt, and portions of other assets and other long-term liabilities. Derivative instruments are classified as fair value through profit or loss ("FVTPL"). The Company's remaining financial instruments are measured at amortized cost. For financial instruments measured at amortized cost, the carrying values approximate their fair value with the exception of long-term debt.

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

| Financial Instruments at Fair Value <i>(\$ millions)</i> | As at September 30, 2019 | As at December 31, 2018 |
|--|---------------------------------|--------------------------------|
| Commodity contracts – FVTPL | | |
| Natural gas ⁽¹⁾ | 22 | (9) |
| Crude oil ⁽²⁾ | 1 | 89 |
| Crude oil call options ⁽³⁾ | 1 | — |
| Crude oil put options ⁽³⁾ | (1) | — |
| Foreign currency contracts – FVTPL | | |
| Foreign currency forwards | (9) | (1) |
| Other assets – FVTPL | 1 | 1 |
| Derivatives designated as a cash flow hedge - forward starting swaps | — | (14) |
| Hedge of net investment ⁽⁴⁾⁽⁵⁾ | (755) | (846) |
| Total financial instruments at fair value | (740) | (780) |

⁽¹⁾ Natural gas contracts includes a \$6 million decrease as at September 30, 2019 (December 31, 2018 – \$10 million decrease) to the fair value of held-for-trading inventory, recognized in the condensed interim consolidated balance sheets, related to third party physical purchase and sale contracts for natural gas held in storage. Total fair value of the related natural gas storage inventory was \$18 million at September 30, 2019 (December 31, 2018 – \$15 million).

⁽²⁾ Crude oil contracts includes a less than \$1 million increase at September 30, 2019 (December 31, 2018 – \$67 million increase) to the fair value of held-for-trading inventory, recognized in the condensed interim consolidated balance sheets, related to third party crude oil physical purchase and sale contracts. Total fair value of the related crude oil inventory was \$106 million at September 30, 2019 (December 31, 2018 – \$185 million).

⁽³⁾ Excludes net unsettled premiums of \$5 million.

⁽⁴⁾ Hedging instruments are presented net of tax.

⁽⁵⁾ Represents the translation of the Company's U.S. dollar denominated long-term debt designated as a hedge of the Company's net investment in selected foreign operations with a U.S. dollar functional currency.

The fair value of long-term debt represents the present value of future cash flows associated with the debt. Market information, such as treasury rates and credit spreads, are used to determine the appropriate discount rates. These fair value determinations are compared to quotes received from financial institutions to ensure reasonability. As at September 30, 2019, the carrying value of the Company's long-term debt was \$6.0 billion and the estimated fair value was \$6.4 billion (December 31, 2018 carrying value of \$5.5 billion, estimated fair value – \$5.7 billion).

All financial assets and liabilities are classified as Level 2 fair value measurements, except the commodity put and call options under a short-term hedging program, which are classified as Level 1 fair value measurement, as they are determined using quoted market prices. During the three and nine months ended September 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Risk Management Overview

The Company is exposed to risks related to the volatility of commodity prices, foreign exchange rates, and interest rates. It is also exposed to financial risks related to liquidity, credit, and contract risks. Risk management strategies and policies are employed to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. Responsibility for the oversight of risk management is held by the Company's Board of Directors and is implemented and monitored by senior management within the Company.

Market Risk

Commodity Price Risk Management

The Company uses derivative commodity instruments from time to time to manage exposure to price volatility on a portion of its crude oil and natural gas production, and it also uses firm commitments for the purchase or sale of crude oil and natural gas. These contracts meet the definition of a derivative instrument and have been recorded at their fair value in accounts receivable, inventory, other assets, accounts payable and accrued liabilities and other long-term liabilities. All derivatives are measured at fair value through profit or loss other than non-financial derivative contracts that meet the Company's own use requirements.

At September 30, 2019, the Company was party to crude oil purchase and sale derivative contracts to mitigate its exposure to fluctuations in the benchmark price between the time a sales agreement is entered into and the time inventory is delivered. The Company was also party to third party physical natural gas purchase and sale derivative contracts in order to mitigate commodity price fluctuations. For the three and nine months ended September 30, 2019, the net unrealized gain recognized on the derivative contracts was \$3 million and a net unrealized loss of \$57 million (three and nine months ended September 30, 2018 – net unrealized gain of \$22 million and \$134 million), respectively.

During the nine months ended September 30, 2019, the Company entered into a commodity short-term hedging program using put and call options to manage risks related to volatility of commodity prices.

Western Texas Intermediate Crude Oil Call and Put Option Contracts⁽¹⁾

| Type | Transaction | Term | Volume (bbls/day) | Call Price (US\$bbl) | Put Price (US\$bbl) |
|--------------|-------------|-------------------------|-------------------|----------------------|---------------------|
| Call options | Sold | October - December 2019 | 17,935 | 59.35 | — |
| Put options | Bought | October - December 2019 | 23,641 | — | 55.16 |
| Put options | Sold | October - December 2019 | 22,283 | — | 50.40 |

⁽¹⁾ Prices reported are the weighted average prices for the period.

For the three and nine months ended September 30, 2019, the Company incurred an unrealized loss of \$7 million and an unrealized gain of less than \$1 million (three and nine months ended September 30, 2018 – nil). For the three and nine months ended September 30, 2019, the Company incurred a realized gain of \$14 million and \$15 million respectively (three and nine months ended September 30, 2018 – nil). These amounts are recorded in other - net in the condensed consolidated statements of income.

Foreign Exchange Risk Management

The Company's results are affected by the exchange rates between various currencies and the Company's functional currency in Canadian dollars. As the majority of the Company's revenues are denominated in U.S. dollars or based upon a U.S. benchmark price, fluctuations in the value of the Canadian dollar relative to the U.S. dollar may affect revenues significantly. To limit the exposure to foreign exchange risk, the Company hedges against these fluctuations by entering into short-dated foreign exchange contracts to fix the exchange rate for conversion of U.S. revenue dollars.

Foreign exchange fluctuations will result in a change in value of the U.S. dollar denominated debt and related finance expense when expressed in Canadian dollars. At September 30, 2019, the Company had designated US \$2.4 billion denominated debt as a hedge of the Company's selected net investments in its foreign operations with a U.S. dollar functional currency (December 31, 2018 – US \$2.7 billion). For the three and nine months ended September 30, 2019, the Company incurred an unrealized loss of \$32 million and an unrealized gain of \$91 million (three and nine months ended September 30, 2018 – unrealized gain of \$51 million and unrealized loss of \$94 million), respectively, arising from the translation of debt, net of tax recovery of \$5 million and net of tax \$12 million (three and nine months ended September 30, 2018 – net of tax of \$8 million and tax recovery of \$15 million), respectively, which was recorded in hedge of net investment within other comprehensive income (loss).

Interest Rate Risk Management

The Company is exposed to fluctuations in short-term interest rates as Husky maintains a portion of its debt capacity in revolving and floating rate bank facilities and commercial paper and invests surplus cash in short-term debt instruments and money market instruments. The Company is also exposed to interest rate risk when fixed rate debt instruments are maturing and require refinancing or when new debt capital needs to be raised.

By maintaining a mix of both fixed and floating rate debt, the Company mitigates some of its exposure to interest rate changes. The optimal mix maintained will depend on market conditions. The Company may also enter into fair value or cash flow hedges using interest rate swaps.

On March 13, 2019, the Company discontinued the cash flow hedges that were entered into in the fourth quarter of 2018 with respect to forward starting interest rate swaps. These forward interest rate swaps were settled and derecognized. As at September 30, 2019, an accrued loss of \$15 million, net of tax recovery of \$6 million, had been deferred in derivatives designated as cash flow hedges within other comprehensive income (loss). The accrued loss is being amortized into net earnings over the 10-year remaining life of the underlying long-term debt to which the hedging relationship was originally designated.

At September 30, 2019, the net balance deferred in other comprehensive income (loss) related to derivatives designated as cash flow hedges was a loss of \$3 million (December 31, 2018 - gain of \$13 million), net of tax recovery of \$2 million (December 31, 2018 - net of tax of \$4 million). The amortization of the net accrued loss upon settling the interest rate swaps resulted in a decrease to finance expense of less than \$1 million and \$2 million for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - the amortization of a net accrued gain resulted in an offset to finance expense of less than \$1 million and \$2 million), respectively.

Note 16 Subsequent Event

The Company reached an agreement on October 4, 2019 to sell its Prince George Refinery recorded in the Canadian Refined Products segment to Tidewater Midstream and Infrastructure for \$215 million in cash plus a closing adjustment for inventory, and a contingent payment of up to \$60 million over two years. The transaction is subject to regulatory approval and is expected to close in the fourth quarter of 2019.