

CANADIAN NATURAL RESOURCES LTD
Form 40-F/A
November 01, 2013

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 40-F/A
(AMENDMENT NO. 1)

Registration Statement pursuant to section 12 of the Securities Exchange Act of 1934

Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2012

Commission File Number: 333-12138

CANADIAN NATURAL RESOURCES LIMITED
(Exact name of Registrant as specified in its charter)

ALBERTA, CANADA
(Province or other jurisdiction of incorporation or organization)

1311
(Primary Standard Industrial Classification Code Numbers)

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

2500, 855-2nd Street S.W., Calgary, Alberta, Canada, T2P 4J8
Telephone: (403) 517-7345
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111-Eighth Avenue, New York, New York 10011
(212) 894-8940
(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of each exchange on which registered:
Common Shares, no par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Title of Each Class: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form

Audited annual financial statements

Number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,092,072,098 Common Shares outstanding as of December 31, 2012

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes]

No]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes _____

No _____

This Annual Report on Form 40-F shall be incorporated by reference into, or as an exhibit to, as applicable, the Registrant's Registration Statement on Form F-9 (File No. 333-177401) under the Securities Act of 1933 as amended.

EXPLANATORY NOTE

This Amendment to the Registrant's Annual Report on Form 40-F filed on March 28, 2013 for the fiscal year ended December 31, 2012 (the "Original Filing"), is being filed to include the signature of the Registrant's independent auditor, PricewaterhouseCoopers LLP, in the independent auditor's report dated March 6, 2013, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of the Registrant and the signatures of the Registrant's directors in the consolidated balance sheets of the Registrant, which signatures were inadvertently omitted from the Original Filing.

Other than as expressly set forth above, this Amendment does not, and does not purport to, update or restate the information in the Original Filing or reflect any events that have occurred after the Original Filing was filed.

The following document has been filed as part of this Amendment to the Annual Report on Form 40-F, starting on the following page:

A. Audited Annual Financial Statements

Canadian Natural's audited consolidated financial statements for the years ended December 31, 2012 and 2011, including the auditor's report with respect thereto.

Management's Report

The accompanying consolidated financial statements and all other information contained elsewhere in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the accompanying notes. Where necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared in accordance with International Financial Reporting Standards appropriate in the circumstances. The financial information presented elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized and recorded, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to audit and provide their independent audit opinions on the following:

- the Company's consolidated financial statements as at and for the year ended December 31, 2012; and
- the effectiveness of the Company's internal control over financial reporting as at December 31, 2012.

Their report is presented with the consolidated financial statements.

The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through the Audit Committee of the Board, which is comprised entirely of independent directors. The Audit Committee meets with management and the independent auditors to satisfy itself that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval. The consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

(signed) "Steve W. Laut"
Steve W. Laut
President

(signed) "Douglas A. Proll"
Douglas A. Proll, CA
Chief Financial Officer &
Senior Vice-President, Finance

(signed) "Murray G. Harris"
Murray G. Harris, CA
Vice-President, Financial Controller
& Horizon Accounting

Calgary, Alberta, Canada
March 6, 2013

Management's Assessment of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934, as amended.

Management, including the Company's President and the Company's Chief Financial Officer and Senior Vice-President, Finance, performed an assessment of the Company's internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on the assessment, management has concluded that the Company's internal control over financial reporting is effective as at December 31, 2012. Management recognizes that all internal control systems have inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has provided an opinion on the Company's internal control over financial reporting as at December 31, 2012, as stated in their Auditor's Report.

(signed) "Steve W. Laut"
Steve W. Laut
President

(signed) "Douglas A. Proll"
Douglas A. Proll, CA
Chief Financial Officer &
Senior Vice-President, Finance

Calgary, Alberta, Canada
March 6, 2013

Independent Auditor's Report

To the Shareholders of
Canadian Natural Resources Limited

We have completed integrated audits of Canadian Natural Resources Limited's 2012 and 2011 consolidated financial statements and its internal control over financial reporting as at December 31, 2012 and an audit of its 2010 consolidated financial statements. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Canadian Natural Resources Limited, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Natural Resources Limited as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting

We have also audited Canadian Natural Resources Limited's internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report.

Auditor's responsibility

Our responsibility is to express an opinion on Canadian Natural Resources Limited's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on Canadian Natural Resources Limited's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Canadian Natural Resources Limited maintained, in all material respects, effective internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by COSO.

/s/ PricewaterhouseCoopers
LLP

Chartered Accountants

Calgary, Alberta, Canada
March 6, 2013

Consolidated Balance Sheets

As at December 31
(millions of Canadian dollars)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents		\$37	\$34
Accounts receivable		1,197	2,077
Inventory	4	554	550
Prepays and other		126	120
		1,914	2,781
Exploration and evaluation assets	5	2,611	2,475
Property, plant and equipment	6	44,028	41,631
Other long-term assets	7	427	391
		\$48,980	\$47,278
LIABILITIES			
Current liabilities			
Accounts payable		\$465	\$526
Accrued liabilities		2,273	2,347
Current income tax liabilities		285	347
Current portion of long-term debt	8	798	359
Current portion of other long-term liabilities	9	155	455
		3,976	4,034
Long-term debt	8	7,938	8,212
Other long-term liabilities	9	4,609	3,913
Deferred income tax liabilities	11	8,174	8,221
		24,697	24,380
SHAREHOLDERS' EQUITY			
Share capital	12	3,709	3,507
Retained earnings		20,516	19,365
Accumulated other comprehensive income	13	58	26
		24,283	22,898
		\$48,980	\$47,278

Commitments and contingencies (note 18)

Approved by the Board of Directors on March 6, 2013

/s/ Catherine M. Best
Catherine M. Best
Chair of the Audit Committee and
Director

/s/ N. Murray Edwards
N. Murray Edwards
Chairman of the Board of Directors
and Director

Consolidated Statements of Earnings

For the years ended December 31

(millions of Canadian dollars, except per common share amounts)

	Note	2012	2011	2010
Product sales		\$ 16,195	\$ 15,507	\$ 14,322
Less: royalties		(1,606)	(1,715)	(1,421)
Revenue		14,589	13,792	12,901
Expenses				
Production		4,249	3,671	3,449
Transportation and blending		2,752	2,327	1,783
Depletion, depreciation and amortization	6	4,328	3,604	4,120
Administration		270	235	211
Share-based compensation	9	(214)	(102)	203
Asset retirement obligation accretion	9	151	130	123
Interest and other financing costs	16	364	373	448
Risk management activities	17	120	(27)	(134)
Foreign exchange (gain) loss		(49)	1	(163)
Horizon asset impairment provision	10	–	396	–
Insurance recovery – property damage	10	–	(393)	–
Insurance recovery – business interruption	10	–	(333)	–
Equity loss from jointly controlled entity	7	9	–	–
		11,980	9,882	10,040
Earnings before taxes		2,609	3,910	2,861
Current income tax expense	11	747	860	789
Deferred income tax (recovery) expense	11	(30)	407	399
Net earnings		\$ 1,892	\$ 2,643	\$ 1,673
Net earnings per common share				
Basic	15	\$ 1.72	\$ 2.41	\$ 1.54
Diluted	15	\$ 1.72	\$ 2.40	\$ 1.53

Consolidated Statements of Comprehensive Income

For the years ended December 31

(millions of Canadian dollars)

	2012	2011	2010
Net earnings	\$ 1,892	\$ 2,643	\$ 1,673
Net change in derivative financial instruments designated as cash flow hedges			
Unrealized income (loss), net of taxes of \$4 million (2011 – \$5 million, 2010 – \$13 million)	31	(23)	(40)
Reclassification to net earnings, net of taxes of \$nil (2011 – \$17 million, 2010 – \$1 million)	(7)	52	(4)
	24	29	(44)
Foreign currency translation adjustment			
Translation of net investment	8	(12)	(24)
Other comprehensive income (loss), net of taxes	32	17	(68)
Comprehensive income	\$ 1,924	\$ 2,660	\$ 1,605

Consolidated Statements of Changes in Equity

For the years ended December 31

(millions of Canadian dollars)

	Note	2012	2011	2010
Share capital	12			
Balance – beginning of year		\$3,507	\$3,147	\$2,834
Issued upon exercise of stock options		194	255	170
Previously recognized liability on stock options exercised for common shares		45	115	149
Purchase of common shares under Normal Course Issuer Bid		(37)	(10)	(6)
Balance – end of year		3,709	3,507	3,147
Retained earnings				
Balance – beginning of year		19,365	17,212	15,927
Net earnings		1,892	2,643	1,673
Purchase of common shares under Normal Course Issuer Bid	12	(281)	(94)	(62)
Dividends on common shares	12	(460)	(396)	(326)
Balance – end of year		20,516	19,365	17,212
Accumulated other comprehensive income	13			
Balance – beginning of year		26	9	77
Other comprehensive income (loss), net of taxes		32	17	(68)
Balance – end of year		58	26	9
Shareholders' equity		\$24,283	\$22,898	\$20,368

Consolidated Statements of Cash Flows

For the years ended December 31

(millions of Canadian dollars)

	Note	2012	2011	2010
Operating activities				
Net earnings		\$ 1,892	\$ 2,643	\$ 1,673
Non-cash items				
Depletion, depreciation and amortization		4,328	3,604	4,120
Share-based compensation		(214)	(102)	203
Asset retirement obligation accretion		151	130	123
Unrealized risk management gain		(42)	(128)	(24)
Unrealized foreign exchange loss (gain)		129	215	(161)
Realized foreign exchange gain on repayment of US dollar debt securities		(210)	(225)	–
Equity loss from jointly controlled entity		9	–	–
Deferred income tax (recovery) expense		(30)	407	399
Horizon asset impairment provision	6,10	–	396	–
Insurance recovery – property damage	10	–	(393)	–
Other		(47)	(55)	(8)
Abandonment expenditures		(204)	(213)	(179)
Net change in non-cash working capital	19	447	(36)	136
		6,209	6,243	6,282
Financing activities				
Issue (repayment) of bank credit facilities, net		172	(647)	(472)
Issue (repayment) of medium-term notes, net		498	–	(400)
(Repayment) issue of US dollar debt securities, net	8	(344)	621	–
Issue of common shares on exercise of stock options		194	255	170
Purchase of common shares under Normal Course Issuer Bid		(318)	(104)	(68)
Dividends on common shares		(444)	(378)	(302)
Net change in non-cash working capital	19	(37)	(15)	(12)
		(279)	(268)	(1,084)
Investing activities				
Expenditures on exploration and evaluation assets and property, plant and equipment	19	(6,104)	(6,201)	(5,335)
Investment in other long-term assets		2	(321)	–
Net change in non-cash working capital	19	175	559	146
		(5,927)	(5,963)	(5,189)
Increase in cash and cash equivalents		3	12	9
Cash and cash equivalents – beginning of year		34	22	13
Cash and cash equivalents – end of year		\$ 37	\$ 34	\$ 22
Interest paid		\$ 464	\$ 456	\$ 471
Income taxes paid		\$ 639	\$ 706	\$ 213
Supplemental disclosure of cash flow information (note 19)				

Notes to the Consolidated Financial Statements

(tabular amounts in millions of Canadian dollars, unless otherwise stated)

1. ACCOUNTING POLICIES

Canadian Natural Resources Limited (the “Company”) is a senior independent crude oil and natural gas exploration, development and production company. The Company’s exploration and production operations are focused in North America, largely in Western Canada; the United Kingdom (“UK”) portion of the North Sea; and Côte d’Ivoire, Gabon, and South Africa in Offshore Africa.

The Horizon Oil Sands Mining and Upgrading segment (“Horizon”) produces synthetic crude oil through bitumen mining and upgrading operations.

Within Western Canada, the Company maintains certain midstream activities that include pipeline operations, an electricity co-generation system and an investment in the North West Redwater Partnership (“Redwater”).

The Company was incorporated in Alberta, Canada. The address of its registered office is 2500, 855-2 Street S.W., Calgary, Alberta, Canada.

The Company’s consolidated financial statements and the related notes have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies adopted by the Company under IFRS are set out below. The Company has consistently applied the same accounting policies throughout all periods presented.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise required.

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies and wholly owned partnerships.

Certain of the Company’s activities are conducted through joint ventures. Where the Company has a direct ownership interest in jointly controlled assets, the assets, liabilities, revenue and expenses related to the jointly controlled assets are included in the consolidated financial statements in proportion to the Company’s interest. Where the Company has an interest in jointly controlled entities, it uses the equity method of accounting. Under the equity method, the Company’s initial and subsequent investments are recognized at cost and subsequently adjusted for the Company’s share of the jointly controlled entity’s income or loss, less dividends received.

(B) SEGMENTED INFORMATION

Operating segments have been determined based on the nature of the Company’s activities and the geographic locations in which the Company operates, and are consistent with the level of information regularly provided to and reviewed by the Company’s chief operating decision makers.

(C) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Other investments (term deposits and certificates of deposit) with an original term to maturity at purchase of three months or less are reported as cash equivalents in the consolidated balance sheets.

(D) INVENTORY

Inventory is primarily comprised of product inventory and materials and supplies. Product inventory includes crude oil held for sale, pipeline linefill and crude oil stored in floating production, storage and offloading vessels. Inventories are carried at the lower of cost and net realizable value. Cost consists of purchase costs, direct production costs, directly attributable overhead and depletion, depreciation and amortization and is determined on a first-in, first-out basis. Net realizable value for product inventory is determined by reference to forward prices, and for materials and supplies is based on current market prices as at the date of the consolidated balance sheets.

(E) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (“E&E”) assets consist of the Company’s crude oil and natural gas exploration projects that are pending the determination of proved reserves.

E&E costs are initially capitalized and include costs directly associated with the acquisition of licenses, technical services and studies, seismic acquisition, exploration drilling and evaluation, overhead and administration expenses, and the estimate of any asset retirement costs. E&E costs do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area. These costs are recognized in net earnings.

Once the technical feasibility and commercial viability of E&E assets are determined and a development decision is made by management, the E&E assets are tested for impairment upon reclassification to property, plant and equipment. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when an assessment of proved reserves is made.

E&E assets are also tested for impairment when facts and circumstances suggest that the carrying amount of E&E assets may exceed their recoverable amount, by comparing the relevant costs to the fair value of Cash Generating Units (“CGUs”), aggregated at the segment level. Indications of impairment include leases approaching expiry, the existence of low benchmark commodity prices for an extended period of time, significant downward revisions in estimated probable reserves volumes, significant increases in estimated future exploration or development expenditures, or significant adverse changes in the applicable legislative or regulatory frameworks.

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less accumulated depletion and depreciation and impairment provisions. Assets under construction are not depleted or depreciated until available for their intended use. The capitalized value of a finance lease is included in property, plant and equipment.

Exploration and Production

When significant components of an item of property, plant and equipment, including crude oil and natural gas interests, have different useful lives, they are accounted for separately.

The cost of an asset comprises its acquisition, construction and development costs, costs directly attributable to bringing the asset into operation, the estimate of any asset retirement costs, and applicable borrowing costs. Property acquisition costs are comprised of the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Crude oil and natural gas properties are depleted using the unit-of-production method over proved reserves, except for major components, which are depreciated using a straight-line method over their estimated useful lives. The unit-of-production rate takes into account expenditures incurred to date, together with future development expenditures required to develop proved reserves.

Oil Sands Mining and Upgrading

Capitalized costs for the Oil Sands Mining and Upgrading segment are reported separately from the Company’s North America Exploration and Production segment. Capitalized costs include property acquisition, construction and development costs, the estimate of any asset retirement costs, and applicable borrowing costs.

Mine-related costs are amortized on the unit-of-production method based on Horizon proved reserves. Costs of the upgrader and related infrastructure located on the Horizon site are amortized on the unit-of-production method based on productive capacity of the upgrader and related infrastructure. Other equipment is depreciated on a straight-line basis over its estimated useful life ranging from 2 to 15 years.

Midstream and Head Office

The Company capitalizes all costs that expand the capacity or extend the useful life of the assets. Midstream assets are depreciated on a straight-line basis over their estimated useful lives ranging from 5 to 30 years. Head office assets are amortized on a declining balance basis.

Useful lives

The expected useful lives of property, plant and equipment are reviewed on an annual basis, with changes in useful lives accounted for prospectively.

Derecognition

An item of property, plant and equipment is 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 on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in net earnings.

Major maintenance expenditures

Inspection costs associated with major maintenance turnarounds are capitalized and amortized over the period to the next major maintenance turnaround. All other maintenance costs are expensed as incurred.

Impairment

The Company assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Indications of impairment include the existence of low benchmark commodity prices for an extended period of time, significant downward revisions of estimated reserves volumes, significant increases in estimated future development expenditures, or significant adverse changes in the applicable legislative or regulatory frameworks. If any such indication of impairment exists, the Company performs an impairment test related to the assets. Individual assets are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

In subsequent periods, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is re-estimated and the net carrying amount of the asset is increased to its revised recoverable amount. The recoverable amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in net earnings. After a reversal, the depletion charge is adjusted in future periods to allocate the asset's revised carrying amount over its remaining useful life.

(G) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed in a business combination are recognized at their fair value at the date of the acquisition.

(H) OVERBURDEN REMOVAL COSTS

Overburden removal costs incurred during the initial development of a mine are capitalized to property, plant and equipment. Overburden removal costs incurred during the production of a mine are included in the cost of inventory, unless the overburden removal activity has resulted in a probable inflow of future economic benefits to the Company, in which case the costs are capitalized to property, plant and equipment. Capitalized overburden removal costs are amortized over the life of the mining reserves that directly benefit from the overburden removal activity.

(I) CAPITALIZED BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets until such time as the assets are substantially available for their intended use. Qualifying assets are comprised of those significant assets that require a period greater than one year to be available for their intended use. All other borrowing costs are recognized in net earnings.

(J) LEASES

Finance leases, which transfer substantially all of the risks and rewards incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized in net earnings over the lease term.

(K) ASSET RETIREMENT OBLIGATIONS

The Company provides for asset retirement obligations on all of its property, plant and equipment based on current legislation and industry operating practices. Provisions for asset retirement obligations related to property, plant and equipment are recognized as a liability in the period in which they are incurred. Provisions are measured at the present value of management's best estimate of expenditures required to settle the obligation as at the date of the balance sheet. Subsequent to the initial measurement, the obligation is adjusted to reflect the passage of time, changes in credit adjusted interest rates, and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as asset retirement obligation accretion expense whereas changes due to discount rates or the estimated future cash flows are capitalized to or derecognized from property, plant, and equipment. Actual costs incurred upon settlement of the asset retirement obligation are charged against the provision.

(L) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of the Company's subsidiary companies and partnerships are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The assets and liabilities of subsidiaries that have a functional currency different from that of the Company are translated into Canadian dollars at the closing rate at the date of the balance sheet, and revenue and expenses are translated at the average rate for the period. Cumulative foreign currency translation adjustments are recognized in other comprehensive income.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in net earnings.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency of the Company or its subsidiaries are recognized in net earnings.

(M) REVENUE RECOGNITION AND COSTS OF GOODS SOLD

Revenue from the sale of crude oil and natural gas is recognized when title passes to the customer, delivery has taken place and collection is reasonably assured. The Company assesses customer creditworthiness, both before entering into contracts and throughout the revenue recognition process.

Revenue represents the Company's share net of royalty payments to governments and other mineral interest owners. Related costs of goods sold are comprised of production, transportation and blending, and depletion, depreciation and amortization expenses. These amounts have been separately presented in the consolidated statements of earnings.

(N) PRODUCTION SHARING CONTRACTS

Production generated from Offshore Africa is shared under the terms of various Production Sharing Contracts ("PSCs"). Product sales are divided into cost recovery oil and profit oil. Cost recovery oil allows the Company to recover its capital and production costs and the costs carried by the Company on behalf of the respective Government State Oil Companies (the "Governments"). Profit oil is allocated to the joint venture partners in accordance with their respective equity interests, after a portion has been allocated to the Governments. The Governments' share of profit oil attributable to the Company's equity interest is allocated to royalty expense and current income tax expense in accordance with the terms of the respective PSCs.

(O) INCOME TAX

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences in the carrying amount of assets and liabilities in the consolidated financial statements and their respective tax bases.

Deferred income tax assets and liabilities are calculated using the substantively enacted income tax rates that are expected to apply when the asset or liability is recovered. Deferred income tax assets or liabilities are not recognized when they arise on the initial recognition of an asset or liability in a transaction (other than in a business combination) that, at the time of the transaction, affects neither accounting nor taxable profit. Deferred income tax assets or liabilities are also not recognized on possible future distributions of retained earnings of subsidiaries where the timing of the distribution can be controlled by the Company and it is probable that a distribution will not be made in the

foreseeable future, or when distributions can be made without incurring income taxes.

Deferred income tax assets for deductible temporary differences and tax loss carryforwards are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences or tax loss carryforwards can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date, and is reduced if it is no longer probable that sufficient future taxable profits will be available against which the temporary differences or tax loss carryforwards can be utilized.

Current income tax is calculated based on net earnings for the period, adjusted for items that are non-taxable or taxed in different periods, using income tax rates that are substantively enacted at each reporting date.

Income taxes are recognized in net earnings or other comprehensive income, consistent with the items to which they relate.

(P) SHARE-BASED COMPENSATION

The Company's Stock Option Plan (the "Option Plan") provides current employees with the right to elect to receive common shares or a cash payment in exchange for stock options surrendered. The liability for awards granted to employees is initially measured based on the grant date fair value of the awards and the number of awards expected to vest. The awards are re-measured each reporting period for subsequent changes in the fair value of the liability. Fair value is determined using the Black-Scholes valuation model. Expected volatility is estimated based on historic results. When stock options are surrendered for cash, the cash settlement paid reduces the outstanding liability. When stock options are exercised for common shares under the Option Plan, consideration paid by the employee and any previously recognized liability associated with the stock options are recorded as share capital.

(Q) FINANCIAL INSTRUMENTS

The Company classifies its financial instruments into one of the following categories: fair value through profit or loss; held-to-maturity investments; loans and receivables; and financial liabilities measured at amortized cost. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

Fair value through profit or loss financial instruments are subsequently measured at fair value with changes in fair value recognized in net earnings. All other categories of financial instruments are measured at amortized cost using the effective interest method.

Cash, cash equivalents, and accounts receivable are classified as loans and receivables. Accounts payable, accrued liabilities, certain other long-term liabilities, and long-term debt are classified as other financial liabilities measured at amortized cost. Risk management assets and liabilities are classified as fair value through profit or loss.

Financial assets and liabilities are also categorized using a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements for these assets and liabilities. The fair values of financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of financial assets and liabilities in Level 2 are based on inputs other than Level 1 quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The fair values of Level 3 financial assets and liabilities are not based on observable market data. The disclosure of the fair value hierarchy excludes financial assets and liabilities where book value approximates fair value due to the liquid nature of the asset or liability.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in net earnings. Transaction costs in respect of other financial instruments are included in the initial measurement of the financial instrument.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, an impairment loss is recognized.

Impairment losses on financial assets carried at amortized cost including loans and receivables are calculated as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(R) RISK MANAGEMENT ACTIVITIES

The Company uses derivative financial instruments to manage its commodity price, foreign currency and interest rate exposures. These financial instruments are entered into solely for hedging purposes and are not used for speculative purposes. All derivative financial instruments are recognized in the consolidated balance sheets at their estimated fair value. The estimated fair value of derivative financial instruments has been determined based on appropriate internal valuation methodologies and/or third party indications. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of future cash flows and discount rates. In determining these assumptions, the Company primarily relied on external, readily-observable market inputs including quoted commodity

prices and volatility, interest rate yield curves, and foreign exchange rates. The Company's own credit risk is not included in the carrying amount of a risk management liability.

The Company documents all derivative financial instruments that are formally designated as hedging transactions at the inception of the hedging relationship, in accordance with the Company's risk management policies. The effectiveness of the hedging relationship is evaluated, both at inception of the hedge and on an ongoing basis.

The Company periodically enters into commodity price contracts to manage anticipated sales and purchases of crude oil and natural gas in order to protect its cash flow for its capital expenditure programs. The effective portion of changes in the fair value of derivative commodity price contracts formally designated as cash flow hedges is initially recognized in other comprehensive income and is reclassified to risk management activities in net earnings in the same period or periods in which the commodity is sold or purchased. The ineffective portion of changes in the fair value of these designated contracts is recognized in risk management activities in net earnings. All changes in the fair value of non-designated crude oil and natural gas commodity price contracts are recognized in risk management activities in net earnings.

The Company periodically enters into interest rate swap contracts to manage its fixed to floating interest rate mix on certain of its long-term debt. The interest rate swap contracts require the periodic exchange of payments without the exchange of the notional principal amounts on which the payments are based. Changes in the fair value of interest rate swap contracts designated as fair value hedges and corresponding changes in the fair value of the hedged long-term debt are recognized in interest expense in net earnings. Changes in the fair value of non-designated interest rate swap contracts are recognized in risk management activities in net earnings.

Cross currency swap contracts are periodically used to manage currency exposure on US dollar denominated long-term debt. The cross currency swap contracts require the periodic exchange of payments with the exchange at maturity of notional principal amounts on which the payments are based. Changes in the fair value of the foreign exchange component of cross currency swap contracts designated as cash flow hedges related to the notional principal amounts are recognized in foreign exchange gains and losses in net earnings. The effective portion of changes in the fair value of the interest rate component of cross currency swap contracts designated as cash flow hedges is initially recognized in other comprehensive income and is reclassified to interest expense when realized, with the ineffective portion recognized in risk management activities in net earnings. Changes in the fair value of non-designated cross currency swap contracts are recognized in risk management activities in net earnings.

Realized gains or losses on the termination of financial instruments that have been designated as cash flow hedges are deferred under accumulated other comprehensive income on the consolidated balance sheets and amortized into net earnings in the period in which the underlying hedged items are recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any unrealized derivative gain or loss is recognized in net earnings. Realized gains or losses on the termination of financial instruments that have not been designated as hedges are recognized in net earnings.

Upon termination of an interest rate swap designated as a fair value hedge, the interest rate swap is derecognized on the consolidated balance sheets and the related long-term debt hedged is no longer revalued for subsequent changes in fair value. The fair value adjustment on the long-term debt at the date of termination of the interest rate swap is amortized to interest expense over the remaining term of the long-term debt.

Foreign currency forward contracts are periodically used to manage foreign currency cash requirements. The foreign currency forward contracts involve the purchase or sale of an agreed upon amount of US dollars at a specified future date at forward exchange rates. Changes in the fair value of foreign currency forward contracts designated as cash flow hedges are initially recorded in other comprehensive income and are reclassified to foreign exchange gains and losses when realized. Changes in the fair value of non-designated foreign currency forward contracts are recognized in risk management activities in net earnings.

Embedded derivatives are derivatives that are included in a non-derivative host contract. Embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to the host contract.

(S) COMPREHENSIVE INCOME

Comprehensive income is comprised of the Company's net earnings and other comprehensive income. Other comprehensive income includes the effective portion of changes in the fair value of derivative financial instruments designated as cash flow hedges and foreign currency translation gains and losses arising from the net investment in foreign operations that do not have a Canadian dollar functional currency. Other comprehensive income is shown net of related income taxes.

(T) PER COMMON SHARE AMOUNTS

The Company calculates basic earnings per common share by dividing net earnings by the weighted average number of common shares outstanding during the period. As the Company's Option Plan allows for the settlement of stock options in either cash or shares at the option of the holder, diluted earnings per common share is calculated using the more dilutive of cash settlement or share settlement under the treasury stock method.

(U) SHARE CAPITAL

Common shares are classified as equity. Costs directly attributable to the issue of new shares or options are included in equity as a deduction from proceeds, net of tax. When the Company acquires its own common shares, share capital is reduced by the average carrying value of the shares purchased. The excess of the purchase price over the average carrying value is recognized as a reduction of retained earnings. Shares are cancelled upon purchase.

(V) DIVIDENDS

Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are approved by the Board of Directors.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

In May 2011, the IASB issued the following new accounting standards, which are required to be adopted effective January 1, 2013:

- IFRS 10 “Consolidated Financial Statements” replaces IAS 27 “Consolidated and Separate Financial Statements” (IAS 27 still contains guidance for Separate Financial Statements) and Standing Interpretations Committee (“SIC”) 12 “Consolidation – Special Purpose Entities”. IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements. The standard defines the principle of control and establishes control as the basis for consolidation, as well as providing guidance on how to apply the control principle to determine whether an investor controls an investee.
- IFRS 11 “Joint Arrangements” replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. The new standard defines two types of joint arrangements, joint operations and joint ventures. In a joint operation, the parties with joint control have rights to the assets and obligations for the liabilities of the joint arrangement and are required to recognize their proportionate interest in the assets, liabilities, revenues and expenses of the joint arrangement. In a joint venture, the parties have an interest in the net assets of the arrangement and are required to apply the equity method of accounting.
- IFRS 12 “Disclosure of Interests in Other Entities”. The standard includes disclosure requirements for investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard does not impact the Company’s accounting for investments in other entities, but may impact the related disclosures.
- Adoption of the above standards is not expected to result in a significant accounting change to the Company’s consolidated financial statements, but may impact the related disclosures.

In May 2011, the IASB also issued IFRS 13 “Fair Value Measurement”, effective January 1, 2013, which provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS. The standard includes a definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs that require or permit the use of fair value. The Company will be required to include its own credit risk in measuring the carrying amount of a risk management liability. In addition, the new standard may impact certain fair value disclosures.

The Company is required to adopt IFRS 9, “Financial Instruments”, effective January 1, 2015, with earlier adoption permitted. IFRS 9 replaces existing requirements included in IAS 39, “Financial Instruments - Recognition and Measurement”. The new standard replaces the multiple classification and measurement models for financial assets and liabilities with a new model that has only two categories: amortized cost and fair value through profit and loss. Under IFRS 9, fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

In June 2011, the IASB issued amendments to IAS 1 “Presentation of Financial Statements” that require items of other comprehensive income that may be reclassified to net earnings to be grouped together. The amendments also require that items in other comprehensive income and net earnings be presented as either a single statement or two consecutive statements. The standard is effective for fiscal years beginning on or after July 1, 2012. Adoption of this amended standard is not expected to result in a significant change in the presentation of the Company’s consolidated financial statements.

In October 2011, the IASB issued IFRS Interpretation Committee (“IFRIC”) 20 “Stripping Costs in the Production Phase of a Surface Mine”. The IFRIC requires overburden removal costs during the production phase to be capitalized and depreciated if the Company can demonstrate that probable future economic benefits will be realized, the costs can be reliably measured, and the Company can identify the component of the ore body for which access has been improved. The IFRIC is effective for fiscal periods beginning on or after January 1, 2013. Adoption of this standard is not expected to result in a significant change to the Company’s consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company has made estimates, assumptions and judgements regarding certain assets, liabilities, revenues and expenses in the preparation of the consolidated financial statements, primarily related to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(A) Crude Oil and Natural Gas Reserves

Purchase price allocations, depletion, depreciation and amortization, and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties, interpretations and judgements. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in commodity prices.

(B) Asset Retirement Obligations

The Company provides for asset retirement obligations on its property, plant and equipment based on current legislation and operating practices. Estimated future costs include assumptions on dates of future abandonment and technological advances and estimates of future inflation rates and discount rates. Actual costs may vary from the estimated provision due to changes in environmental legislation, the impact of inflation, changes in technology, changes in operating practices, and changes in the date of abandonment due to changes in reserve life, and may have a material impact on the estimated provision.

(C) Income Taxes

The Company is subject to income taxes in numerous legal jurisdictions. Accounting for income taxes requires the Company to interpret frequently changing laws and regulations, including changing income tax rates, and make certain judgements with respect to the application of tax law, estimating the timing of temporary difference reversals, and estimating the realizability of tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for potential tax audit issues based on assessments of whether additional taxes will likely be due.

(D) Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period. The Company uses directly and indirectly observable inputs in measuring the value of financial instruments that are not traded in active markets, including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates.

(E) Purchase Price Allocations

Purchase prices related to business combinations and asset acquisitions are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires

the Company to make estimates, assumptions and judgements regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities, including the fair value of crude oil and natural gas properties. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future depletion, depreciation, and amortization expense and impairment tests.

(F) Share-Based Compensation

The Company has made various assumptions in estimating the fair values of the stock options granted under the Option Plan, including expected volatility, expected exercise timing and future forfeiture rates. At each period end, stock options outstanding are remeasured for changes in the fair value of the liability.

(G) Identification of CGUs

CGUs 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 CGUs requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, shared infrastructures, and the way in which management monitors the Company's operations.

(H) Impairment of Assets

The recoverable amount of a CGU or an individual asset has been determined as the higher of the CGU's or the asset's fair value less costs to sell and its value in use. These calculations require the use of estimates and assumptions and are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates and income taxes 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.

(I) Contingencies

Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

4. INVENTORY

	2012	2011
Product inventory	\$315	\$328
Materials and supplies	239	222
	\$554	\$550

5. EXPLORATION AND EVALUATION ASSETS

	Exploration and Production			Oil Sands	Total
	North America	North Sea	Offshore Africa	Mining and Upgrading	
Cost					
At December 31, 2010	\$2,366	\$5	\$31	\$-	\$2,402
Additions	309	1	2	-	312
Transfers to property, plant and equipment	(233)	(6)	-	-	(239)
At December 31, 2011	2,442	-	33	-	2,475
Additions	295	-	14	-	309
Transfers to property, plant and equipment	(173)	-	-	-	(173)
At December 31, 2012	\$2,564	\$-	\$47	\$-	\$2,611

6. PROPERTY, PLANT AND EQUIPMENT

	Exploration and Production			Oil Sands Mining and Upgrading	Midstream	Head Office	Total
	North America	North Sea	Offshore Africa				
Cost							
At December 31, 2010	\$ 40,861	\$ 3,813	\$ 2,928	\$ 14,169	\$ 291	\$ 216	\$ 62,278
Additions	5,026	235	76	1,545	7	18	6,907
Transfers from E&E assets	233	6	—	—	—	—	239
Disposals/derecognitions (1)	—	—	(29)	(503)	—	—	(532)
Foreign exchange adjustments and other	—	93	69	—	—	—	162
At December 31, 2011	46,120	4,147	3,044	15,211	298	234	69,054
Additions	4,160	556	75	1,757	14	36	6,598
Transfers from E&E assets	173	—	—	—	—	—	173
Disposals/derecognitions	(129)	(39)	(8)	(5)	—	—	(181)
Foreign exchange adjustments and other	—	(90)	(66)	—	—	—	(156)
At December 31, 2012	\$ 50,324	\$ 4,574	\$ 3,045	\$ 16,963	\$ 312	\$ 270	\$ 75,488
Accumulated depletion and depreciation							
At December 31, 2010	\$ 18,895	\$ 2,205	\$ 1,904	\$ 607	\$ 89	\$ 149	\$ 23,849
Expense	2,826	248	242	266	7	15	3,604
Impairment (1)	—	—	—	396	—	—	396
Disposals/derecognitions (1)	—	—	(29)	(503)	—	—	(532)
Foreign exchange adjustments and other	—	59	35	10	—	2	106
At December 31, 2011	21,721	2,512	2,152	776	96	166	27,423
Expense	3,399	294	165	447	7	16	4,328
Disposals/derecognitions	(129)	(39)	(6)	(5)	—	—	(179)
Foreign exchange adjustments and other	—	(58)	(38)	(16)	—	—	(112)
At December 31, 2012	\$ 24,991	\$ 2,709	\$ 2,273	\$ 1,202	\$ 103	\$ 182	\$ 31,460
Net book value							
- at December 31, 2012	\$ 25,333	\$ 1,865	\$ 772	\$ 15,761	\$ 209	\$ 88	\$ 44,028
- at December 31, 2011	\$ 24,399	\$ 1,635	\$ 892	\$ 14,435	\$ 202	\$ 68	\$ 41,631

(1) During 2011, the Company derecognized certain property, plant and equipment related to the coker fire at Horizon in the amount of \$411 million based on estimated replacement cost, net of accumulated depletion and depreciation of \$15 million, resulting in an impairment charge of \$396 million. For additional information, refer to note 10.

Horizon project costs not subject to depletion

At December 31, 2012	\$	2,066
At December 31, 2011	\$	1,443

In addition, the Company has capitalized costs to date of \$1,021 million (2011 – \$528 million) related to the development of the Kirby Thermal Oil Sands Project which are not subject to depletion.

During 2012, the Company acquired a number of producing crude oil and natural gas assets in the North American Exploration and Production segment for total cash consideration of \$144 million (2011 – \$1,012 million; 2010 – \$1,482 million), net of associated asset retirement obligations of \$12 million (2011 – \$79 million; 2010 – \$22 million). Interests in jointly controlled assets were acquired with full tax basis. No working capital or debt obligations were assumed.

The Company capitalizes construction period interest for qualifying assets based on costs incurred and the Company's cost of borrowing. Interest capitalization to a qualifying asset ceases once construction is substantially complete and the asset is available for its intended use. During 2012, pre-tax interest of \$98 million was capitalized to property, plant and equipment (2011 – \$59 million; 2010 – \$28 million) using a capitalization rate of 4.8% (2011 – 4.7%; 2010 – 4.9%).

7. OTHER LONG-TERM ASSETS

	2012	2011
Investment in North West Redwater Partnership	\$310	\$321
Other	117	70
	\$427	\$391

Other long-term assets include an investment in the 50% owned Redwater. The investment is accounted for using the equity method. Redwater has entered into an agreement to construct and operate a 50,000 barrel per day bitumen upgrader and refinery (the "Project") under processing agreements that target to process 12,500 barrels per day of bitumen feedstock for the Company and 37,500 barrels per day of bitumen feedstock for the Alberta Petroleum Marketing Commission, an agent of the Government of Alberta, under a 30 year fee-for-service tolling agreement. During 2012, the Project received board sanction from Redwater and its partners.

The assets, liabilities, partners' equity and equity loss related to Redwater and the Company's 50% interest at December 31, 2012 were comprised as follows:

	Redwater 100% interest	Company 50% interest
Current assets	\$40	\$20
Non-current assets	\$810	\$405
Current liabilities	\$68	\$34
Non-current liabilities	\$162	\$81
Partners' equity	\$620	\$310
Equity loss	\$18	\$9

Non-current liabilities represent interim borrowings by Redwater under credit facilities totaling \$600 million which mature no later than December 2017. These facilities are secured by a floating charge on the assets of Redwater with a mandatory repayment required from future financing proceeds. At maturity, under its processing agreement, the

Company would be obligated to pay its 25% pro rata share of any shortfall.

Redwater has entered into various agreements related to the engineering and procurement of the Project. These contracts can be cancelled by Redwater upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.

8. LONG-TERM DEBT

	2012	2011
Canadian dollar denominated debt		
Bank credit facilities	\$971	\$796
Medium-term notes		
4.50% unsecured debentures due January 23, 2013	400	400
4.95% unsecured debentures due June 1, 2015	400	400
3.05% unsecured debentures due June 19, 2019	500	–
	2,271	1,596
US dollar denominated debt		
US dollar debt securities		
5.45% due October 1, 2012 (2012 – US\$ nil; 2011 – US\$350 million)	–	356
5.15% due February 1, 2013 (US\$400 million)	398	406
1.45% due November 14, 2014 (US\$500 million)	498	509
4.90% due December 1, 2014 (US\$350 million)	348	356
6.00% due August 15, 2016 (US\$250 million)	249	255
5.70% due May 15, 2017 (US\$1,100 million)	1,094	1,119
5.90% due February 1, 2018 (US\$400 million)	398	406
3.45% due November 15, 2021 (US\$500 million)	498	509
7.20% due January 15, 2032 (US\$400 million)	398	406
6.45% due June 30, 2033 (US\$350 million)	348	356
5.85% due February 1, 2035 (US\$350 million)	348	356
6.50% due February 15, 2037 (US\$450 million)	448	458
6.25% due March 15, 2038 (US\$1,100 million)	1,094	1,119
6.75% due February 1, 2039 (US\$400 million)	398	406
Less: original issue discount on US dollar debt securities (1)	(20)	(21)
	6,497	6,996
Fair value impact of interest rate swaps on US dollar debt securities (2)	19	31
	6,516	7,027
Long-term debt before transaction costs	8,787	8,623
Less: transaction costs (1) (3)	(51)	(52)
	8,736	8,571
Less: current portion (1) (2) (4)	798	359
	\$7,938	\$8,212

(1)The Company has included unamortized original issue discounts and directly attributable transaction costs in the carrying amount of the outstanding debt.

(2)The carrying amount of US\$350 million of 4.90% unsecured notes due December 2014 was adjusted by \$19 million to reflect the fair value impact of hedge accounting. At December 31, 2011, the carrying amounts of US\$350 million of 5.45% unsecured notes due October 2012 and US\$350 million of 4.90% unsecured notes due December 2014 were adjusted by \$31 million to reflect the fair value impact of hedge accounting.

(3)Transaction costs primarily represent underwriting commissions charged as a percentage of the related debt offerings, as well as legal, rating agency and other professional fees.

(4)Subsequent to December 31, 2012, \$400 million of 4.50% medium-term notes due January 2013 and US\$400 million of 5.15% unsecured notes due February 2013 were repaid. This indebtedness was retired utilizing cash flow

from operating activities generated in excess of capital expenditures and available bank credit facilities as necessary.

Bank Credit Facilities

As at December 31, 2012, the Company had in place unsecured bank credit facilities of \$4,724 million, comprised of:

- a \$200 million demand credit facility;
- a revolving syndicated credit facility of \$3,000 million maturing June 2015;
- a revolving syndicated credit facility of \$1,500 million maturing June 2016; and
- a £15 million demand credit facility related to the Company's North Sea operations.

During 2012, the \$1,500 million revolving syndicated credit facility was extended to June 2016. Each of the \$3,000 million and \$1,500 million facilities is extendible annually for one-year periods at the mutual agreement of the Company and the lenders. If the facilities are not extended, the full amount of the outstanding principal would be repayable on the maturity date. Borrowings under these facilities may be made by way of pricing referenced to Canadian dollar or US dollar bankers' acceptances, or LIBOR, US base rate or Canadian prime loans.

The Company's weighted average interest rate on bank credit facilities outstanding as at December 31, 2012, was 2.2% (December 31, 2011 – 2.2%), and on long-term debt outstanding for the year ended December 31, 2012 was 4.8% (December 31, 2011 – 4.7%).

In addition to the outstanding debt, letters of credit and financial guarantees aggregating \$467 million, including an \$87 million financial guarantee related to Horizon and \$276 million of letters of credit related to North Sea operations, were outstanding at December 31, 2012. Subsequent to December 31, 2012, the letters of credit related to North Sea operations were increased to \$347 million.

Medium-Term Notes

During 2012, the Company issued \$500 million of 3.05% medium-term notes due June 2019. After issuing these securities, the Company has \$2,500 million remaining on its outstanding \$3,000 million base shelf prospectus that allows for the issue of medium-term notes in Canada, which expires in November 2013. If issued, these securities will bear interest as determined at the date of issuance.

US Dollar Debt Securities

During 2012, the Company repaid US\$350 million of 5.45% unsecured notes.

During 2011, the Company repaid US\$400 million of 6.70% unsecured notes and issued US\$1,000 million of unsecured notes under the US base shelf prospectus, comprised of US\$500 million of 1.45% unsecured notes due November 2014 and US\$500 million of 3.45% unsecured notes due November 2021. Concurrently, the Company entered into cross currency swaps to fix the Canadian dollar interest and principal repayment amounts on the US\$500 million of 3.45% unsecured notes due November 2021 at 3.96% and C\$511 million (note 17).

The Company has US\$2,000 million remaining on its outstanding US\$3,000 million base shelf prospectus that allows for the issue of US dollar debt securities in the United States, which expires in November 2013. If issued, these securities will bear interest as determined at the date of issuance.

Scheduled Debt Repayments

Scheduled debt repayments are as follows:

Year	Repayment
2013	\$798
2014	\$846
2015	\$593
2016	\$1,027
2017	\$1,094
Thereafter	\$4,430

9. OTHER LONG-TERM LIABILITIES

	2012	2011
Asset retirement obligations	\$4,266	\$3,577
Share-based compensation	154	432
Risk management (note 17)	257	274
Other	87	85
	4,764	4,368
Less: current portion	155	455
	\$4,609	\$3,913

Asset Retirement Obligations

The Company's asset retirement obligations are expected to be settled on an ongoing basis over a period of approximately 60 years and have been discounted using a weighted average discount rate of 4.3% (2011 – 4.6%; 2010 – 5.1%). Reconciliations of the discounted asset retirement obligations were as follows:

	2012	2011	2010
Balance – beginning of year	\$3,577	\$2,624	\$2,214
Liabilities incurred	51	42	26
Liabilities acquired	12	79	22
Liabilities settled	(204)	(213)	(179)
Asset retirement obligation accretion	151	130	123
Revision of estimates	384	472	49
Change in discount rate	315	422	411
Foreign exchange adjustments	(20)	21	(42)
Balance – end of year	\$4,266	\$3,577	\$2,624

Segmented Asset Retirement Obligations

	2012	2011
Exploration and Production		
North America	\$2,079	\$1,862
North Sea	1,030	723
Offshore Africa	218	192
Oil Sands Mining and Upgrading	937	798
Midstream	2	2
	\$4,266	\$3,577

Share-Based Compensation

As the Company's Option Plan provides current employees with the right to elect to receive common shares or a cash payment in exchange for stock options surrendered, a liability for potential cash settlements is recognized. The current portion represents the maximum amount of the liability payable within the next twelve month period if all vested stock options are surrendered for cash settlement.

	2012	2011	2010
Balance – beginning of year	\$432	\$663	\$622
Share-based compensation (recovery) expense	(214)	(102)	203
Cash payment for stock options surrendered	(7)	(14)	(45)
Transferred to common shares	(45)	(115)	(149)
(Recovered from) capitalized to Oil Sands Mining and Upgrading	(12)	–	32
Balance – end of year	154	432	663
Less: current portion	129	384	623
	\$25	\$48	\$40

The intrinsic value of vested stock options at December 31, 2012 was \$36 million (2011 – \$173 million; 2010 – \$325 million).

The share-based compensation liability of \$154 million at December 31, 2012 (2011 – \$432 million; 2010 – \$663 million) was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

	2012	2011	2010
Fair value	\$4.60	\$10.84	\$16.49
Share price	\$28.64	\$38.15	\$44.35
Expected volatility	32.6%	36.9%	33.5%
Expected dividend yield	1.5%	0.9%	0.7%
Risk free interest rate	1.3%	1.1%	1.9%
Expected forfeiture rate	4.2%	4.7%	5.0%
Expected stock option life (1)	4.5 years	4.5 years	4.5 years

(1) At original time of grant.

10. HORIZON ASSET IMPAIRMENT PROVISION AND INSURANCE RECOVERY

In 2011, the Company recognized an asset impairment provision in the Oil Sands Mining and Upgrading segment of \$396 million, net of accumulated depletion and amortization, related to the property damage resulting from a fire in the Horizon primary upgrading coking plant. The Company also recorded final property damage insurance recoveries of \$393 million and business interruption insurance recoveries of \$333 million in 2011. In 2012, upon final settlement of its insurance claims, all outstanding insurance proceeds were collected.

11. INCOME TAXES

The provision for income tax was as follows:

	2012	2011	2010
Current corporate income tax – North America	\$ 366	\$ 315	\$ 431
Current corporate income tax – North Sea	115	245	203
Current corporate income tax – Offshore Africa	206	140	64
Current PRT(1) expense – North Sea	44	135	68
Other taxes	16	25	23
Current income tax expense	747	860	789
Deferred corporate income tax expense	–	412	408
Deferred PRT(1) recovery – North Sea	(30)	(5)	(9)
Deferred income tax (recovery) expense	(30)	407	399
Income tax expense	\$ 717	\$ 1,267	\$ 1,188
(1)	Petroleum Revenue Tax.		

The provision for income tax is different from the amount computed by applying the combined statutory Canadian federal and provincial income tax rates to earnings before taxes. The reasons for the difference are as follows:

	2012	2011	2010
Canadian statutory income tax rate	25.1 %	26.6 %	28.1 %
Income tax provision at statutory rate	\$655	\$1,040	\$802
Effect on income taxes of:			
UK PRT and other taxes	30	155	82
Impact of deductible UK PRT and other taxes on corporate income tax	(13)	(77)	(30)
Foreign and domestic tax rate differentials	63	84	15
Non-taxable portion of foreign exchange (gain) loss	(2)	6	(17)
Stock options exercised for common shares	(56)	(31)	217
Income tax rate and other legislative changes	58	104	–
Non-deductible Offshore Africa impairment charge	–	–	130
Other	(18)	(14)	(11)
Income tax expense	\$717	\$1,267	\$1,188

The following table summarizes the temporary differences that give rise to the net deferred income tax liability:

	2012	2011
Deferred income tax liabilities		
Property, plant and equipment and exploration and evaluation assets	\$8,834	\$8,404
Timing of partnership items	831	1,065
Unrealized foreign exchange gain on long-term debt	142	149
Deferred PRT	42	74
	9,849	9,692
Deferred income tax assets		
Asset retirement obligations	(1,362)	(1,136)
Loss carryforwards	(119)	(119)
Unrealized risk management activities	(36)	(40)
Other	(158)	(176)
	(1,675)	(1,471)
Net deferred income tax liability	\$8,174	\$8,221

Movements in deferred tax assets and liabilities recognized in net earnings during the year were as follows:

	2012	2011	2010
Property, plant and equipment and exploration and evaluation assets	\$465	\$662	\$684
Timing of partnership items	(234)	77	(139)
Unrealized foreign exchange (gain) loss on long-term debt	(7)	(45)	42
Unrealized risk management activities	–	44	(8)
Asset retirement obligations	(238)	(321)	(127)
Share-based compensation	–	–	132
Loss carryforwards	–	25	(60)
Deferred PRT	(30)	(5)	(9)
Other	14	(30)	(116)
	\$(30)	\$407	\$399

The following table summarizes the movements of the net deferred income tax liability during the year:

	2012	2011	2010
Balance – beginning of year	\$8,221	\$7,788	\$7,462
Deferred income tax (recovery) expense	(30)	407	399
Deferred income tax expense (recovery) included in other comprehensive income	4	12	(14)
Foreign exchange adjustments	(21)	20	(59)
Other	–	(6)	–
Balance – end of year	\$8,174	\$8,221	\$7,788

Current income taxes recognized in each operating segment will vary depending upon available income tax deductions related to the nature, timing and amount of capital expenditures incurred in any particular year.

During 2012, the UK government enacted legislation to restrict the combined corporate and supplementary income tax relief on UK North Sea decommissioning expenditures to 50%. As a result of the income tax rate change, the Company's deferred income tax liability was increased by \$58 million.

During 2011, the UK government enacted legislation to increase the supplementary income tax rate charged on profits from UK North Sea crude oil and natural gas production, increasing the combined corporate and supplementary income tax rate from 50% to 62%. As a result of the income tax rate change, the Company's deferred income tax liability was increased by \$104 million. During 2011, the Canadian Federal government enacted legislation to implement several taxation changes. These changes include a requirement that, beginning in 2012, partnership income must be included in the taxable income of each corporate partner based on the tax year of the partner, rather than the fiscal year of the partnership. The legislation includes a five-year transition provision and has no impact on net earnings.

During 2010, deferred income tax expense included a charge of \$132 million related to enacted changes in Canada to the taxation of stock options surrendered by employees for cash.

The Company files income tax returns in the various jurisdictions in which it operates. These tax returns are subject to periodic examinations in the normal course by the applicable tax authorities. The tax returns as prepared may include filing positions that could be subject to differing interpretations of applicable tax laws and regulations, which may take several years to resolve. The Company does not believe the ultimate resolution of these matters will have a material impact upon the Company's results of operations, financial position or liquidity.

Deferred income tax assets are recognized for temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets with respect to taxable capital loss carryforwards in excess of \$1,000 million in North America, which can be carried forward indefinitely and only applied against future taxable capital gains.

Deferred income tax liabilities have not been recognized on the unremitted net earnings of wholly controlled subsidiaries. The Company is able to control the timing and amount of distributions and no taxes are payable on distributions from these subsidiaries provided that the distributions remain within certain limits.

12. SHARE CAPITAL

Authorized

Preferred shares issuable in a series.

Unlimited number of common shares without par value.

Issued

	2012		2011	
	Number of shares (thousands)	Amount	Number of shares (thousands)	Amount
Common shares				
Balance – beginning of year	1,096,460	\$3,507	1,090,848	\$3,147
Issued upon exercise of stock options	6,625	194	8,683	255
Previously recognized liability on stock options exercised for common shares	–	45	–	115
Purchase of common shares under Normal Course Issuer Bid	(11,013)	(37)	(3,071)	(10)
Balance – end of year	1,092,072	\$3,709	1,096,460	\$3,507

Preferred Shares

During 2012, the Company amended its Articles by special resolution of the shareholders, changing the designation of its Class 1 preferred shares to “Preferred Shares” which may be issuable in series. If issued, the number of shares in each series, and the designation, rights, privileges, restrictions and conditions attached to the shares will be determined by the Board of Directors of the Company.

Dividend Policy

The Company has paid regular quarterly dividends in January, April, July and October of each year since 2001. The dividend policy undergoes periodic review by the Board of Directors and is subject to change.

On March 6, 2013, the Board of Directors set the regular quarterly dividend at \$0.125 per common share (2012 – \$0.105 per common share; 2011 – \$0.09 per common share).

Normal Course Issuer Bid

In 2012, the Company announced a Normal Course Issuer Bid to purchase, through the facilities of the Toronto Stock Exchange and the New York Stock Exchange, during the twelve month period commencing April 2012 and ending April 2013, up to 55,027,447 common shares. The Company’s Normal Course Issuer Bid announced in 2011 expired April 2012.

During 2012, the Company purchased for cancellation 11,012,700 common shares (2011 – 3,071,100 common shares; 2010 – 2,000,000 common shares) at a weighted average price of \$28.91 per common share (2011 – \$33.68 per common share; 2010 – \$33.77 per common share), for a total cost of \$318 million (2011 – \$104 million; 2010 – \$68 million). Retained earnings were reduced by \$281 million (2011 – \$94 million; 2010 – \$62 million), representing the excess of the purchase price of the common shares over their average carrying value.

Share Split

The Company's shareholders passed a Special Resolution subdividing the common shares of the Company on a two-for-one basis at the Company's Annual and Special Meeting held on May 6, 2010 with such subdivision taking effect on May 21, 2010. All common share, per common share, and stock option amounts were restated to reflect the common share split.

Stock Options

The Company's Option Plan provides for the granting of stock options to employees. Stock options granted under the Option Plan have terms ranging from five to six years to expiry and vest over a five-year period. The exercise price of each stock option granted is determined at the closing market price of the common shares on the Toronto Stock Exchange on the day prior to the grant. Each stock option granted provides the holder the choice to purchase one common share of the Company at the stated exercise price or receive a cash payment equal to the difference between the stated exercise price and the market price of the Company's common shares on the date of surrender of the stock option.

The Option Plan is a "rolling 9%" plan, whereby the aggregate number of common shares that may be reserved for issuance under the plan shall not exceed 9% of the common shares outstanding from time to time.

The following table summarizes information relating to stock options outstanding at December 31, 2012 and 2011:

	2012		2011	
	Stock options (thousands)	Weighted average exercise price	Stock options (thousands)	Weighted average exercise price
Outstanding – beginning of year	73,486	\$ 34.85	66,844	\$ 33.31
Granted (1)	14,779	\$ 29.27	19,516	\$ 37.54
Surrendered for cash settlement	(998)	\$ 29.82	(1,124)	\$ 29.84
Exercised for common shares	(6,625)	\$ 29.19	(8,683)	\$ 29.34
Forfeited (1)	(6,895)	\$ 36.68	(3,067)	\$ 35.87
Outstanding – end of year	73,747	\$ 34.13	73,486	\$ 34.85
Exercisable – end of year	29,366	\$ 33.73	26,486	\$ 32.13

(1) Subsequent to December 31, 2012, 3,479,000 stock options at a weighted average exercise price of \$28.74 were granted and 8,228,000 stock options at a weighted average exercise price of \$35.27 were forfeited.

The range of exercise prices of stock options outstanding and exercisable at December 31, 2012 was as follows:

Range of exercise prices	Stock options outstanding (thousands)	Stock options outstanding		Stock options exercisable	
		Weighted average remaining term (years)	Weighted average exercise price	Stock options exercisable (thousands)	Weighted average exercise price
\$ 22.98 - \$24.99	8,690	1.18	\$ 23.17	6,478	\$ 23.15
\$ 25.00 - \$29.99	9,993	5.17	\$ 28.02	98	\$ 29.09
\$ 30.00 - \$34.99	17,019	3.22	\$ 33.45	6,289	\$ 34.07
\$ 35.00 - \$39.99	25,583	2.70	\$ 36.48	11,926	\$ 35.80
\$ 40.00 - \$44.99	10,432	3.16	\$ 42.23	3,757	\$ 42.24
\$ 45.00 - \$46.25	2,030	2.79	\$ 45.68	818	\$ 46.22
	73,747	3.04	\$ 34.13	29,366	\$ 33.73

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income, net of taxes, were as follows:

	2012	2011
Derivative financial instruments designated as cash flow hedges	\$86	\$62
Foreign currency translation adjustment	(28)	(36)
	\$58	\$26

14. CAPITAL DISCLOSURES

The Company does not have any externally imposed regulatory capital requirements for managing capital. The Company has defined its capital to mean its long-term debt and consolidated shareholders' equity, as determined at each reporting date.

The Company's objectives when managing its capital structure are to maintain financial flexibility and balance to enable the Company to access capital markets to sustain its on-going operations and to support its growth strategies. The Company primarily monitors capital on the basis of an internally derived financial measure referred to as its "debt to book capitalization ratio", which is the arithmetic ratio of current and long-term debt divided by the sum of the carrying value of shareholders' equity plus current and long-term debt. The Company's internal targeted range for its debt to book capitalization ratio is 25% to 45%. This range may be exceeded in periods when a combination of capital projects, acquisitions, or lower commodity prices occurs. The Company may be below the low end of the targeted range when cash flow from operating activities is greater than current investment activities. At December 31, 2012, the ratio was within the target range at 26%.

Readers are cautioned that the debt to book capitalization ratio is not defined by IFRS and this financial measure may not be comparable to similar measures presented by other companies. Further, there are no assurances that the Company will continue to use this measure to monitor capital or will not alter the method of calculation of this measure in the future.

	2012	2011
Long-term debt (1)	\$8,736	\$8,571
Total shareholders' equity	\$24,283	\$22,898
Debt to book capitalization	26%	27%

(1) Includes the current portion of long-term debt.

15. NET EARNINGS PER COMMON SHARE

	2012	2011	2010
Weighted average common shares outstanding – basic (thousands of shares)	1,097,084	1,095,582	1,088,096
Effect of dilutive stock options (thousands of shares)	2,435	7,000	7,552
Weighted average common shares outstanding – diluted (thousands of shares)	1,099,519	1,102,582	1,095,648
Net earnings	\$ 1,892	\$ 2,643	\$ 1,673
Net earnings per common share – basic	\$ 1.72	\$ 2.41	\$ 1.54

– diluted

\$ 1.72

\$ 2.40

\$ 1.53

In 2012, the Company excluded 62,400,000 potentially anti-dilutive stock options from the calculation of diluted earnings per common share.

16. INTEREST AND OTHER FINANCING COSTS

	2012	2011	2010
Interest expense:			
Long-term debt	\$464	\$450	\$485
Other financing costs	(1)	(4)	(6)
	463	446	479
Less: amounts capitalized on qualifying assets	98	59	28
Total interest and other financing costs	365	387	451
Total interest income	(1)	(14)	(3)
Net interest and other financing costs	\$364	\$373	\$448

17. FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments by category were as follows:

Asset (liability)	2012				Total
	Loans and receivables at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	
Accounts receivable	\$1,197	\$-	\$-	\$-	\$1,197
Accounts payable	-	-	-	(465)	(465)
Accrued liabilities	-	-	-	(2,273)	(2,273)
Other long-term liabilities	-	4	(261)	(79)	(336)
Long-term debt (1)	-	-	-	(8,736)	(8,736)
	\$1,197	\$4	\$(261)	\$(11,553)	\$(10,613)

Asset (liability)	2011				Total
	Loans and receivables at amortized cost	Fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortized cost	
Accounts receivable	\$2,077	\$-	\$-	\$-	\$2,077
Accounts payable	-	-	-	(526)	(526)
Accrued liabilities	-	-	-	(2,347)	(2,347)
Other long-term liabilities	-	(38)	(236)	(75)	(349)
Long-term debt (1)	-	-	-	(8,571)	(8,571)
	\$2,077	\$(38)	\$(236)	\$(11,519)	\$(9,716)

(1) Includes the current portion of long-term debt.

The carrying amounts of the Company's financial instruments approximated their fair value, except for fixed rate long-term debt as noted below. The fair values of the Company's other long-term liabilities and fixed rate long-term debt are outlined below:

Asset (liability) (1)	Carrying amount	2012	
		Fair value	
		Level 1	Level 2
Other long-term liabilities	\$ (257)	\$ –	\$ (257)
Fixed rate long-term debt (2) (3) (4)	(7,765)	(9,118)	–
	\$ (8,022)	\$ (9,118)	\$ (257)

Asset (liability) (1)	Carrying amount	2011	
		Fair value	
		Level 1	Level 2
Other long-term liabilities	\$ (274)	\$ –	\$ (274)
Fixed rate long-term debt (2) (3) (4)	(7,775)	(9,120)	–
	\$ (8,049)	\$ (9,120)	\$ (274)

(1) Excludes financial assets and liabilities where the carrying amount approximates fair value due to the liquid nature of the asset or liability (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities).

(2) The carrying amount of US\$350 million of 4.90% unsecured notes due December 2014 was adjusted by \$19 million to reflect the fair value impact of hedge accounting. At December 31, 2011, the carrying amounts of US\$350 million of 5.45% unsecured notes due October 2012 and US\$350 million of 4.90% unsecured notes due December 2014 were adjusted by \$31 million to reflect the fair value impact of hedge accounting.

(3) The fair value of fixed rate long-term debt has been determined based on quoted market prices.

(4) Includes the current portion of long-term debt.

The following provides a summary of the carrying amounts of derivative contracts held and a reconciliation to the Company's consolidated balance sheets.

Asset (liability)	2012	2011
Derivatives held for trading		
Crude oil price collars	\$(16)	\$(13)
Foreign currency forward contracts	20	(25)
Cash flow hedges		
Cross currency swaps	(261)	(236)
	\$(257)	\$(274)
Included within:		
Current portion of other long-term liabilities	\$(4)	\$(43)
Other long-term liabilities	(253)	(231)
	\$(257)	\$(274)

During 2012, the Company recognized a gain of \$1 million (2011 – loss of \$2 million; 2010 – loss of \$1 million) related to ineffectiveness arising from cash flow hedges.

Risk Management

The changes in estimated fair values of derivative financial instruments included in the risk management asset (liability) were recognized in the financial statements as follows:

Asset (liability)	2012	2011
Balance – beginning of year	\$(274)	\$(485)
Net change in fair value of outstanding derivative financial instruments attributable to:		
Risk management activities	42	128
Foreign exchange	(53)	42
Other comprehensive income	28	41
Balance – end of year	(257)	(274)
Less: current portion	(4)	(43)
	\$(253)	\$(231)

Net losses (gains) from risk management activities for the years ended December 31 were as follows:

	2012	2011	2010
Net realized risk management loss (gain)	\$162	\$101	\$(110)
Net unrealized risk management gain	(42)	(128)	(24)
	\$120	\$(27)	\$(134)

Financial Risk Factors

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk is comprised of commodity price risk, interest rate risk, and foreign currency exchange risk.

Commodity price risk management

The Company periodically uses commodity derivative financial instruments to manage its exposure to commodity price risk associated with the sale of its future crude oil and natural gas production and with natural gas purchases. At December 31, 2012, the Company had the following derivative financial instruments outstanding to manage its commodity price risk:

Sales contracts

	Remaining term	Volume	Weighted average price	Index
Crude oil				
Price collars (1)	Jan 2013 – Jun 2013	50,000 bbl/d	US\$80.00 – US\$145.07	Brent
	Jan 2013 – Dec 2013	50,000 bbl/d	US\$80.00 – US\$135.59	Brent
	Jan 2013 – Dec 2013	50,000 bbl/d	US\$80.00 – US\$97.73	WTI
	Jan 2013 – Dec 2013	50,000 bbl/d	US\$80.00 – US\$110.34	WTI

(1) Subsequent to December 31, 2012, the Company entered into an additional 50,000 bbl/d of US\$80 – US\$111.05 WTI collars for the period April to December 2013 and an additional 50,000 bbl/d of US\$80 – US\$132.18 Brent

collars for the period July to December 2013.

During 2012, US\$65 million of put option costs were settled.

The Company's outstanding commodity derivative financial instruments are expected to be settled monthly based on the applicable index pricing for the respective contract month.

Interest rate risk management

The Company is exposed to interest rate price risk on its fixed rate long-term debt and to interest rate cash flow risk on its floating rate long-term debt. The Company periodically enters into interest rate swap contracts to manage its fixed to floating interest rate mix on long-term debt. The interest rate swap contracts require the periodic exchange of payments without the exchange of the notional principal amounts on which the payments are based. At December 31, 2012, the Company had no interest rate swap contracts outstanding.

Foreign currency exchange rate risk management

The Company is exposed to foreign currency exchange rate risk in Canada primarily related to its US dollar denominated long-term debt and working capital. The Company is also exposed to foreign currency exchange rate risk on transactions conducted in other currencies and in the carrying value of its foreign subsidiaries. The Company periodically enters into cross currency swap contracts and foreign currency forward contracts to manage known currency exposure on US dollar denominated long-term debt and working capital. The cross currency swap contracts require the periodic exchange of payments with the exchange at maturity of notional principal amounts on which the payments are based. At December 31, 2012, the Company had the following cross currency swap contracts outstanding:

		Remaining term	Amount	Exchange rate (US\$/C\$)	Interest rate (US\$)	Interest rate (C\$)
Cross currency Swaps	Jan 2013	–Aug 2016	US\$250	1.116	6.00%	5.40%
	Jan 2013	–May 2017	US\$1,100	1.170	5.70%	5.10%
	Jan 2013	–Nov 2021	US\$500	1.022	3.45%	3.96%
	Jan 2013	–Mar 2038	US\$550	1.170	6.25%	5.76%

All cross currency swap derivative financial instruments designated as hedges at December 31, 2012 were classified as cash flow hedges.

In addition to the cross currency swap contracts noted above, at December 31, 2012, the Company had US\$2,821 million of foreign currency forward contracts outstanding, with terms of approximately 30 days or less.

Financial instrument sensitivities

The following table summarizes the annualized sensitivities of the Company's 2012 net earnings and other comprehensive income to changes in the fair value of financial instruments outstanding as at December 31, 2012, resulting from changes in the specified variable, with all other variables held constant. These sensitivities are prepared on a different basis than those sensitivities disclosed in the Company's other continuous disclosure documents, are limited to the impact of changes in a specified variable applied to financial instruments only and do not represent the impact of a change in the variable on the operating results of the Company taken as a whole. Further, these sensitivities are theoretical, as changes in one variable may contribute to changes in another variable, which may magnify or counteract the sensitivities. In addition, changes in fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

	Impact on net earnings	Impact on other comprehensive income
--	------------------------	--------------------------------------

Increase (decrease)

Commodity price risk

Increase Brent US\$1.00/bbl	\$ (3)	\$ -
Decrease Brent US\$1.00/bbl	\$ 3	\$ -
Increase WTI US\$1.00/bbl	\$ (13)	\$ -
Decrease WTI US\$1.00/bbl	\$ 13	\$ -
Interest rate risk		
Increase interest rate 1%	\$ (5)	\$ 17
Decrease interest rate 1%	\$ 5	\$ (43)
Foreign currency exchange rate risk		
Increase exchange rate by US\$0.01	\$ (8)	\$ -
Decrease exchange rate by US\$0.01	\$ 8	\$ -

33

b) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to discharge an obligation.

Counterparty credit risk management

The Company's accounts receivable are mainly with customers in the crude oil and natural gas industry and are subject to normal industry credit risks. The Company manages these risks by reviewing its exposure to individual companies on a regular basis and where appropriate, ensures that parental guarantees or letters of credit are in place to minimize the impact in the event of default. At December 31, 2012, substantially all of the Company's accounts receivable were due within normal trade terms.

The Company is also exposed to possible losses in the event of nonperformance by counterparties to derivative financial instruments; however, the Company manages this credit risk by entering into agreements with counterparties that are substantially all investment grade financial institutions and other entities. At December 31, 2012, the Company had net risk management assets of \$18 million with specific counterparties related to derivative financial instruments (December 31, 2011 – \$nil).

The carrying amount of financial assets approximates the maximum credit exposure.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of liquidity risk requires the Company to maintain sufficient cash and cash equivalents, along with other sources of capital, consisting primarily of cash flow from operating activities, available credit facilities, and access to debt capital markets, to meet obligations as they become due. The Company believes it has adequate bank credit facilities to provide liquidity to manage fluctuations in the timing of the receipt and/or disbursement of operating cash flows.

The maturity dates for financial liabilities are as follows:

	Less than 1 year	1 to less than 2 years	2 to less than 5 years	Thereafter
Accounts payable	\$465	\$–	\$–	\$–
Accrued liabilities	\$2,273	\$–	\$–	\$–
Risk management	\$4	\$53	\$123	\$77
Other long-term liabilities	\$22	\$24	\$33	\$–
Long-term debt (1)	\$798	\$846	\$2,714	\$4,430

(1) Long-term debt represents principal repayments only and does not reflect fair value adjustments, interest, original issue discounts or transaction costs.

18. COMMITMENTS AND CONTINGENCIES

The Company has committed to certain payments as follows:

	2013	2014	2015	2016	2017	Thereafter
Product transportation and pipeline	\$231	\$218	\$204	\$135	\$117	\$788
Offshore equipment operating leases and offshore drilling	\$156	\$135	\$104	\$76	\$57	\$65
Office leases	\$33	\$34	\$32	\$33	\$35	\$262
Other	\$173	\$95	\$43	\$10	\$2	\$7

In addition to the commitments disclosed above, the Company has entered into various agreements related to the engineering, procurement and construction of subsequent phases of Horizon. These contracts can be cancelled by the Company upon notice without penalty, subject to the costs incurred up to and in respect of the cancellation.

The Company is defendant and plaintiff in a number of legal actions arising in the normal course of business. In addition, the Company is subject to certain contractor construction claims. The Company believes that any liabilities that might arise pertaining to any such matters would not have a material effect on its consolidated financial position.

19. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2012	2011	2010
Changes in non-cash working capital			
Accounts receivable	\$869	\$(198)	\$(321)
Inventory	(9)	(72)	(35)
Prepays and other	(8)	(17)	18
Accounts payable	(64)	251	36
Accrued liabilities	(138)	627	232
Current income tax liabilities	(65)	(83)	340
Net changes in non-cash working capital	\$585	\$508	\$270
Relating to:			
Operating activities	\$447	\$(36)	\$136
Financing activities	(37)	(15)	(12)
Investing activities	175	559	146
	\$585	\$508	\$270
	2012	2011	2010
Expenditures on exploration and evaluation assets	\$309	\$312	\$572
Expenditures on property, plant and equipment	5,804	5,895	4,771
Net proceeds on sale of property, plant and equipment	(9)	(6)	(8)
Net expenditures on exploration and evaluation assets and property, plant and equipment	\$6,104	\$6,201	\$5,335

20. SEGMENTED INFORMATION

The Company's exploration and production activities are conducted in three geographic segments: North America, North Sea and Offshore Africa. These activities include the exploration, development, production and marketing of crude oil, natural gas liquids and natural gas.

The Company's Oil Sands Mining and Upgrading activities are reported in a separate segment from exploration and production activities. The bitumen in the segment is recovered through mining operations.

	Exploration and Production								
	North America		North Sea			Offshore Africa			
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Segmented product sales	\$ 11,607	\$ 11,806	\$ 9,713	\$ 928	\$ 1,224	\$ 1,058	\$ 773	\$ 946	\$ 884
Less: royalties	(1,268)	(1,538)	(1,267)	(2)	(3)	(2)	(199)	(114)	(62)
Segmented revenue	10,339	10,268	8,446	926	1,221	1,056	574	832	822
Segmented expenses									
Production	2,165	1,933	1,675	402	412	387	163	186	167
Transportation and blending	2,735	2,301	1,761	10	13	8	1	1	1
Depletion, depreciation and amortization (1)	3,413	2,840	2,484	296	249	297	165	242	935
Asset retirement obligation accretion	85	70	52	27	33	36	7	7	7
Realized risk management activities	162	101	(110)	–	–	–	–	–	–
Horizon asset impairment provision	–	–	–	–	–	–	–	–	–
Insurance recovery – property damage (note 10)	–	–	–	–	–	–	–	–	–
Insurance recovery – business interruption (note 10)	–	–	–	–	–	–	–	–	–
Equity loss from jointly controlled entity	–	–	–	–	–	–	–	–	–
	8,560	7,245	5,862	735	707	728	336	436	1,110

Total segmented expenses									
Segmented earnings (loss) before the following	\$ 1,779	\$ 3,023	\$ 2,584	\$ 191	\$ 514	\$ 328	\$ 238	\$ 396	\$ (288)
Non-segmented expenses									
Administration									
Share-based compensation									
Interest and other financing costs									
Unrealized risk management activities									
Foreign exchange (gain) loss									
Total non-segmented expenses									
Earnings before taxes									
Current income tax expense									
Deferred income tax (recovery) expense									
Net earnings									

(1) During 2010, the Company recognized a \$637 million impairment relating to the Gabon CGU, in Offshore Africa, which was included in depletion, depreciation and amortization expense.

Midstream activities include the Company's pipeline operations, an electricity co-generation system and Redwater. Production activities that are not included in the above segments are reported in the segmented information as other. Inter-segment eliminations include internal transportation and electricity charges.

Sales between segments are made at prices that approximate market prices, taking into account the volumes involved. Segment revenue and segment results include transactions between business segments. These transactions and any unrealized profits and losses are eliminated on consolidation, unless unrealized losses provide evidence of an impairment of the asset transferred. Sales to external customers are based on the location of the seller.

Operating segments are reported in a manner consistent with the internal reporting provided to senior management.

Oil Sands Mining and Upgrading			Midstream			Inter-segment elimination and other			Total		
2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
\$2,871	\$1,521	\$2,649	\$93	\$88	\$79	\$(77)	\$(78)	\$(61)	\$16,195	\$15,507	\$14,322
(137)	(60)	(90)	–	–	–	–	–	–	(1,606)	(1,715)	(1,421)
2,734	1,461	2,559	93	88	79	(77)	(78)	(61)	14,589	13,792	12,901
1,504	1,127	1,208	29	26	22	(14)	(13)	(10)	4,249	3,671	3,449
61	62	61	–	–	–	(55)	(50)	(48)	2,752	2,327	1,783
447	266	396	7	7	8	–	–	–	4,328	3,604	4,120
32	20	28	–	–	–	–	–	–	151	130	123
–	–	–	–	–	–	–	–	–	162	101	(110)
–	396	–	–	–	–	–	–	–	–	396	–
–	(393)	–	–	–	–	–	–	–	–	(393)	–
–	(333)	–	–	–	–	–	–	–	–	(333)	–
–	–	–	9	–	–	–	–	–	9	–	–
2,044	1,145	1,693	45	33	30	(69)	(63)	(58)	11,651	9,503	9,365
\$690	\$316	\$866	\$48	\$55	\$49	\$(8)	\$(15)	\$(3)	2,938	4,289	3,536
									270	235	211
									(214)	(102)	203
									364	373	448
									(42)	(128)	(24)
									(49)	1	(163)
									329	379	675
									2,609	3,910	2,861
									747	860	789
									(30)	407	399
									\$1,892	\$2,643	\$1,673

Capital Expenditures (1)

	2012			2011		
	Net expenditures	Non cash and fair value changes(2)	Capitalized costs	Net expenditures	Non cash and fair value changes(2)	Capitalized costs
Exploration and evaluation assets						
Exploration and Production						
North America	\$ 295	\$ (173)	\$ 122	\$ 309	\$ (233)	\$ 76
North Sea	–	–	–	1	(6)	(5)
Offshore Africa	14	–	14	2	–	2
	\$ 309	\$ (173)	\$ 136	\$ 312	\$ (239)	\$ 73
Property, plant and equipment						
Exploration and Production						
North America	\$ 3,831	\$ 373	\$ 4,204	\$ 4,427	\$ 832	\$ 5,259
North Sea	254	263	517	226	15	241
Offshore Africa	50	17	67	31	16	47
	4,135	653	4,788	4,684	863	5,547
Oil Sands Mining and Upgrading (3) (4)						
	1,610	142	1,752	1,182	(140)	1,042
Midstream	14	–	14	5	2	7
Head office	36	–	36	18	–	18
	\$ 5,795	\$ 795	\$ 6,590	\$ 5,889	\$ 725	\$ 6,614

(1) This table provides a reconciliation of capitalized costs including derecognitions and does not include the impact of foreign exchange adjustments.

(2) Asset retirement obligations, deferred income tax adjustments related to differences between carrying amounts and tax values, transfers of exploration and evaluation assets, and other fair value adjustments.

(3) Net expenditures for Oil Sands Mining and Upgrading also include capitalized interest and share-based compensation.

(4) During 2011, the Company derecognized certain property, plant and equipment related to the coker fire at Horizon in the amount of \$411 million. This amount was included in non cash and fair value changes.

Segmented Assets

	2012	2011
Exploration and Production		
North America	\$29,012	\$28,233
North Sea	1,993	1,809
Offshore Africa	924	1,070
Other	36	23

Oil Sands Mining and Upgrading	16,291	15,433
Midstream	636	642
Head office	88	68
	\$48,980	\$47,278

21. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of Non-Management Directors

	2012	2011	2010
Fees earned	\$2	\$2	\$2

Remuneration of Senior Management (1)

	2012	2011	2010
Salary	\$2	\$2	\$2
Common stock option based awards	12	18	30
Annual incentive plans	3	2	3
Long-term incentive plans	9	8	16
Other compensation	–	–	2
	\$26	\$30	\$53

(1) Senior management identified above are consistent with the disclosure on Named Executive Officers provided in the Company's Information Circular to shareholders for the respective years.

SIGNATURES

Pursuant to the requirements of the Exchange Act, Canadian Natural certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Amendment to be signed on its behalf by the undersigned, thereto duly authorized.

Dated this 31st day of October, 2013.

CANADIAN NATURAL RESOURCES LIMITED

By: SIGNED "STEVE W. LAUT"
Name: Steve W. Laut
Title: President

Documents filed as part of this report:

EXHIBIT INDEX

Exhibit No. Description

- 1.* Supplementary Oil & Gas Information for the fiscal year ended December 31, 2012.
2. Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
3. Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
4. Certification of Chief Executive Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
5. Certification of Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
6. Consent of PricewaterhouseCoopers LLP, Independent Chartered Accountants.
- 7.* Consent of Sproule Associates Limited, Independent Petroleum Engineering Consultants.
- 8.* Consent of Sproule International Limited, Independent Petroleum Engineering Consultants.
- 9.* Consent of GLJ Petroleum Consultants Ltd., Independent Petroleum Engineering Consultants.

* Previously filed.
