

CANADIAN NATURAL RESOURCES LTD  
Form 40-F/A  
July 27, 2017  
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, 2016  
Commission File Number:  
001-12138

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))

2100, 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:** Common Shares, no par value **Name of each exchange on which registered:** 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.

1,110,952,000 Common Shares outstanding as of December 31, 2016

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 Statements on Form F-10 (File No. 333-219366 and 333-219367) 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 23, 2017 for the fiscal year ended December 31, 2016 (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 15, 2017, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of the Registrant, which signature was inadvertently omitted from the Original Filing.

Other than 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.

#### Principal Documents

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, 2016 and 2015, including the auditor's report with respect thereto.

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## Management's Report

The accompanying consolidated financial statements of Canadian Natural Resources Limited (the "Company") 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 as issued by the International Accounting Standards Board as 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 Professional 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, 2016; and

the effectiveness of the Company's internal control over financial reporting as at December 31, 2016.

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) "Corey B. Bieber"

Corey B. Bieber, CA  
Chief Financial Officer and Senior  
Vice-President, Finance

(signed) "Murray G. Harris"

Murray G. Harris, CA  
Vice-President, Financial Controller and  
Horizon Accounting

Calgary, Alberta, Canada  
March 15, 2017

Canadian Natural Resources Limited 1 Year Ended December 31, 2016

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Management's Assessment of Internal Control over Financial Reporting

Management of Canadian Natural Resources Limited (the "Company") 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 (2013) 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, 2016. 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 Professional Accountants, has provided an opinion on the Company's internal control over financial reporting as at December 31, 2016, as stated in their Independent Auditor's Report.

(signed) "Steve W. Laut" (signed) "Corey B. Bieber"

Steve W. Laut

Corey B. Bieber, CA

President

Chief Financial Officer and Senior Vice-President, Finance

Calgary, Alberta, Canada

March 15, 2017

Canadian Natural Resources Limited 2 Year Ended December 31, 2016

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Independent Auditor's Report

To the Shareholders of

Canadian Natural Resources Limited

We have completed integrated audits of Canadian Natural Resources Limited's 2016, 2015, and 2014 consolidated financial statements and its internal control over financial reporting as at December 31, 2016. 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, 2016 and December 31, 2015 and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2016, 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 judgement, 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 Canadian Natural Resources Limited'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, 2016 and December 31, 2015 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 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, 2016, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Canadian Natural Resources Limited 3 Year Ended December 31, 2016

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#### 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 Assessment of Internal Control over Financial Reporting.

#### 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, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada  
March 15, 2017

Canadian Natural Resources Limited 4 Year Ended December 31, 2016

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## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of Canadian dollars)

|  | Note | 2016     | 2015     |
|--|------|----------|----------|
| <b>ASSETS</b>                                  |      |          |          |
| Current assets                                 |      |          |          |
| Cash and cash equivalents                      |      | \$17     | \$69     |
| Accounts receivable                            |      | 1,434    | 1,277    |
| Current income taxes                           |      | 851      | 677      |
| Inventory                                      | 5    | 689      | 525      |
| Prepays and other                              |      | 149      | 162      |
| Investments                                    | 8    | 913      | 974      |
| Current portion of other long-term assets      | 9    | 283      | 375      |
|  |      | 4,336    | 4,059    |
| Exploration and evaluation assets              | 6    | 2,382    | 2,586    |
| Property, plant and equipment                  | 7    | 50,910   | 51,475   |
| Other long-term assets                         | 9    | 1,020    | 1,155    |
|  |      | \$58,648 | \$59,275 |
| <b>LIABILITIES</b>                             |      |          |          |
| Current liabilities                            |      |          |          |
| Accounts payable                               |      | \$595    | \$571    |
| Accrued liabilities                            |      | 2,222    | 2,089    |
| Current portion of long-term debt              | 10   | 1,812    | 1,729    |
| Current portion of other long-term liabilities | 11   | 463      | 206      |
|  |      | 5,092    | 4,595    |
| Long-term debt                                 | 10   | 14,993   | 15,065   |
| Other long-term liabilities                    | 11   | 3,223    | 2,890    |
| Deferred income taxes                          | 12   | 9,073    | 9,344    |
|  |      | 32,381   | 31,894   |
| <b>SHAREHOLDERS' EQUITY</b>                    |      |          |          |
| Share capital                                  | 13   | 4,671    | 4,541    |
| Retained earnings                              |      | 21,526   | 22,765   |
| Accumulated other comprehensive income         | 14   | 70       | 75       |
|  |      | 26,267   | 27,381   |
|  |      | \$58,648 | \$59,275 |

Commitments and contingencies (note 19).

Approved by the Board of Directors on March 15, 2017

/s/ Catherine M. Best

Catherine M. Best

Chair of the Audit Committee  
and Director

/s/ N. Murray Edwards

N. Murray Edwards

Executive Chairman of the Board  
of Directors and Director

Canadian Natural Resources Limited 5 Year Ended December 31, 2016

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended December 31

| (millions of Canadian dollars, except per common share amounts)               | Note | 2016      | 2015      | 2014     |
|---|------|-----------|-----------|----------|
| Product sales   |      | \$11,098  | \$13,167  | \$21,301 |
| Less: royalties   |      | (575 )    | (804 )    | (2,438 ) |
| Revenue   |      | 10,523    | 12,363    | 18,863   |
| Expenses  |      |           |           |          |
| Production  |      | 4,099     | 4,726     | 5,265    |
| Transportation and blending   |      | 2,003     | 2,379     | 3,232    |
| Depletion, depreciation and amortization                                      | 6, 7 | 4,858     | 5,483     | 4,880    |
| Administration  |      | 345       | 390       | 367      |
| Share-based compensation  | 11   | 355       | (46 )     | 66       |
| Asset retirement obligation accretion   | 11   | 142       | 173       | 193      |
| Interest and other financing expense  | 17   | 383       | 322       | 323      |
| Risk management activities  | 18   | 33        | (469 )    | (800 )   |
| Foreign exchange (gain) loss  |      | (55 )     | 761       | 303      |
| Gain on disposition of properties and corporate acquisitions and dispositions | 6, 7 | (250 )    | (739 )    | (137 )   |
| (Gain) loss from investments  | 8, 9 | (327 )    | 50        | 8        |
|   |      | 11,586    | 13,030    | 13,700   |
| Earnings (loss) before taxes  |      | (1,063 )  | (667 )    | 5,163    |
| Current income tax (recovery) expense   | 12   | (618 )    | (261 )    | 427      |
| Deferred income tax (recovery) expense  | 12   | (241 )    | 231       | 807      |
| Net earnings (loss)   |      | \$(204 )  | \$(637 )  | \$3,929  |
| Net earnings (loss) per common share  |      |           |           |          |
| Basic   | 16   | \$(0.19 ) | \$(0.58 ) | \$3.60   |
| Diluted   | 16   | \$(0.19 ) | \$(0.58 ) | \$3.58   |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

| (millions of Canadian dollars)   | 2016    | 2015    | 2014    |
|--|---------|---------|---------|
| Net earnings (loss)  | \$(204) | \$(637) | \$3,929 |
| Items that may be reclassified subsequently to net earnings (loss)   |         |         |         |
| Net change in derivative financial instruments designated as cash flow hedges                                    |         |         |         |
| Unrealized (loss) income, net of taxes of \$3 million<br>(2015 – \$2 million, 2014 – \$nil)                      | (18 )   | (23 )   | 5       |
| Reclassification to net earnings (loss), net of taxes of \$2 million<br>(2015 – \$2 million, 2014 – \$1 million) | (13 )   | (13 )   | 8       |
|  | (31 )   | (36 )   | 13      |
| Foreign currency translation adjustment  |         |         |         |
| Translation of net investment  | 26      | 60      | (4 )    |
| Other comprehensive income (loss), net of taxes  | (5 )    | 24      | 9       |
| Comprehensive income (loss)  | \$(209) | \$(613) | \$3,938 |

Canadian Natural Resources Limited 6 Year Ended December 31, 2016

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31

(millions of Canadian dollars)

|  | Note | 2016     | 2015     | 2014     |
|--|------|----------|----------|----------|
| Share capital  | 13   |          |          |          |
| Balance – beginning of year  |      | \$4,541  | \$4,432  | \$3,854  |
| Issued upon exercise of stock options  |      | 559      | 91       | 488      |
| Previously recognized liability on stock options exercised for common shares |      | 117      | 18       | 129      |
| Purchase of common shares under Normal Course Issuer Bid                     |      | —        | —        | (39 )    |
| Return of capital on PrairieSky Royalty Ltd. share distribution              | 8    | (546 )   | —        | —        |
| Balance – end of year  |      | 4,671    | 4,541    | 4,432    |
| Retained earnings  |      |          |          |          |
| Balance – beginning of year  |      | 22,765   | 24,408   | 21,876   |
| Net earnings (loss)  |      | (204 )   | (637 )   | 3,929    |
| Purchase of common shares under Normal Course Issuer Bid                     | 13   | —        | —        | (414 )   |
| Dividends on common shares   | 13   | (1,035 ) | (1,006 ) | (983 )   |
| Balance – end of year  |      | 21,526   | 22,765   | 24,408   |
| Accumulated other comprehensive income                                       | 14   |          |          |          |
| Balance – beginning of year  |      | 75       | 51       | 42       |
| Other comprehensive (loss) income, net of taxes                              |      | (5 )     | 24       | 9        |
| Balance – end of year  |      | 70       | 75       | 51       |
| Shareholders' equity   |      | \$26,267 | \$27,381 | \$28,891 |

Canadian Natural Resources Limited 7 Year Ended December 31, 2016

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(millions of Canadian dollars)

|  | Note | 2016     | 2015     | 2014     |
|--|------|----------|----------|----------|
| <b>Operating activities</b>  |      |          |          |          |
| Net earnings (loss)  |      | \$(204 ) | \$(637 ) | \$3,929  |
| <b>Non-cash items</b>  |      |          |          |          |
| Depletion, depreciation and amortization   |      | 4,858    | 5,483    | 4,880    |
| Share-based compensation   |      | 355      | (46 )    | 66       |
| Asset retirement obligation accretion  |      | 142      | 173      | 193      |
| Unrealized risk management loss (gain)   |      | 25       | 374      | (451 )   |
| Unrealized foreign exchange (gain) loss  |      | (93 )    | 858      | 256      |
| Realized foreign exchange loss on repayment of<br>US dollar debt securities        |      | —        | —        | 36       |
| (Gain) loss from investments   | 8, 9 | (299 )   | 55       | 8        |
| Deferred income tax (recovery) expense   |      | (241 )   | 231      | 807      |
| Gain on disposition of properties and corporate<br>acquisitions and dispositions   |      | (250 )   | (739 )   | (137 )   |
| Current income tax on disposition of properties                                    |      | —        | 33       | —        |
| Other  |      | (32 )    | (22 )    | (38 )    |
| Abandonment expenditures   |      | (267 )   | (370 )   | (346 )   |
| Net change in non-cash working capital   | 20   | (542 )   | 239      | (744 )   |
|  |      | 3,452    | 5,632    | 8,459    |
| <b>Financing activities</b>  |      |          |          |          |
| Issue of bank credit facilities and commercial paper, net                          |      | 342      | 970      | 1,195    |
| Issue of medium-term notes, net  | 10   | 998      | 107      | 992      |
| (Repayment) issue of US dollar debt securities, net                                | 10   | (834 )   | —        | 1,482    |
| Issue of common shares on exercise of stock options                                |      | 559      | 91       | 488      |
| Purchase of common shares under Normal Course Issuer Bid                           |      | —        | —        | (453 )   |
| Dividends on common shares   |      | (758 )   | (1,251)  | (955 )   |
| Net change in non-cash working capital   | 20   | —        | (40 )    | (22 )    |
|  |      | 307      | (123 )   | 2,727    |
| <b>Investing activities</b>  |      |          |          |          |
| Net proceeds (expenditures) on exploration<br>and evaluation assets <sup>(1)</sup> | 20   | 6        | 236      | (1,190 ) |
| Net expenditures on property, plant and equipment <sup>(1) (2)</sup>               | 20   | (3,803)  | (4,704)  | (10,208) |
| Current income tax on disposition of properties                                    |      | —        | (33 )    | —        |
| Investment in other long-term assets   |      | (99 )    | (112 )   | (113 )   |
| Net change in non-cash working capital   | 20   | 85       | (852 )   | 334      |
|  |      | (3,811)  | (5,465)  | (11,177) |
| (Decrease) increase in cash and cash equivalents                                   |      | (52 )    | 44       | 9        |
| Cash and cash equivalents – beginning of year                                      |      | 69       | 25       | 16       |
| Cash and cash equivalents – end of year  |      | \$17     | \$69     | \$25     |
| Interest paid, net   |      | \$617    | \$541    | \$521    |
| Income taxes (received) paid   |      | \$(444 ) | \$42     | \$792    |

Net proceeds on exploration and evaluation assets and net expenditures on property, plant and equipment in 2015 (1) exclude non-cash share consideration of \$985 million received from PrairieSky Royalty Ltd. ("PrairieSky") on the disposition of royalty income assets.

Net expenditures on property, plant and equipment in 2016 exclude non-cash share consideration of \$190 million (2) received from Inter Pipeline Ltd. ("Inter Pipeline") on the disposition of the Company's interest in the Cold Lake Pipeline.

Canadian Natural Resources Limited 8 Year Ended December 31, 2016

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## 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 Partnership”), a general partnership formed in the Province of Alberta.

The Company was incorporated in Alberta, Canada. The address of its registered office is 2100, 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, except where IFRS permits new accounting standards to be adopted prospectively.

#### (A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared under the historical cost basis, unless otherwise required. The consolidated financial statements include the accounts of the Company and all of its subsidiary companies and wholly owned partnerships. Subsidiaries are all entities over which the Company has control. Subsidiaries are consolidated from the date on which the Company obtains control. They are deconsolidated from the date that control ceases.

Certain of the Company’s activities are conducted through joint arrangements in which two or more parties have joint control. Where the Company has a direct ownership interest in jointly controlled assets and obligations for the liabilities (a “joint operation”), the assets, liabilities, revenue and expenses related to the joint operation are included in the consolidated financial statements in proportion to the Company’s interest. Where the Company has an interest in jointly controlled entities (a “joint venture”), 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 joint venture’s income or loss, less distributions received.

Joint ventures accounted for using the equity method of accounting are tested for impairment whenever objective evidence indicates that the carrying amount of the investment may not be recoverable. Indications of impairment include a history of losses, significant capital expenditure overruns, liquidity concerns, financial restructuring of the investee or significant adverse changes in the technological, economic or legal environment. The amount of the impairment is measured as the difference between the carrying amount of the investment and the higher of its fair value less costs of disposal and its value in use. Impairment losses 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.

#### (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.

Canadian Natural Resources Limited 9 Year Ended December 31, 2016

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#### (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 is comprised of crude oil held for sale, including 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. An E&E asset is derecognized upon disposal or when no future economic benefits are expected to arise from its use. Any gain or loss arising on derecognition of the asset is recognized in net earnings within depletion, depreciation and amortization.

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 the related 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

The cost of an asset comprises its acquisition costs, 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.

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.

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 depletion 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 acquisition costs, construction and development costs, costs directly attributable to bringing the asset into operation, the estimate of any asset retirement costs, and applicable borrowing costs.

Mine-related costs are depleted using the unit-of-production method based on Horizon proved reserves. Costs of the upgrader and related infrastructure located on the Horizon site are depreciated on the unit-of-production method based on the estimated 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 midstream and head office 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 depreciated on a declining balance basis.

#### Useful lives

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

#### Derecognition

A property, plant and equipment asset 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 asset) is recognized in net earnings within depletion, depreciation and amortization.

#### Major maintenance expenditures

Inspection costs associated with major maintenance turnarounds are capitalized and depreciated 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 an indication of impairment exists, the Company performs an impairment test related to the assets. Individual assets are grouped for impairment assessment purposes into CGUs, 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 of disposal 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 through depletion, depreciation and amortization expense.

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 revised 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. A reversal of impairment 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. Any excess of the consideration paid over the fair value of the net assets acquired is recognized as an asset. Any excess of the fair value of the net assets acquired over the consideration paid is recognized in net earnings.

**(H) OVERBURDEN REMOVAL COSTS**

Overburden removal costs incurred during the initial development of a mine at Horizon 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 depleted 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 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**

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.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company and its subsidiaries and partnerships 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 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 Côte d'Ivoire and Gabon in 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 under a graded vesting method. 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.

The unamortized costs of employer contributions to the Company's share bonus program are included in other long-term assets.

#### (Q) FINANCIAL INSTRUMENTS

The Company classifies its financial instruments into one of the following categories: financial assets at amortized cost; financial liabilities at amortized cost; and fair value through profit or loss. 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 and cash equivalents, accounts receivable and certain other long-term assets are classified as financial assets at amortized cost since it is the Company's intention to hold these assets to maturity and the related cash flows are mainly payments of principal and interest. Investments in publicly traded shares are classified as fair value through profit or loss. Accounts payable, accrued liabilities, certain other long-term liabilities, and long-term debt are classified as financial liabilities 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 are calculated as the difference between the amortized cost of the financial asset 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 periodically 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, discount rates and credit risk. 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 carrying amount of a risk management liability is adjusted for the Company's own credit risk.

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 the hedged item is recognized in net earnings, 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 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 in the consolidated balance sheets and the related long-term debt hedged is no longer revalued for subsequent changes in fair value due to interest rates changes. The fair value adjustment due to interest rates 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 the hedged item is recognized in net earnings. 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, except when the host contract is an asset.

**(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 declared by the Board of Directors.

**2. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2016, the Company adopted the amendment to IFRS 11 "Joint Arrangements" to clarify the accounting treatment when an entity acquires interests in joint ventures and joint operations. The amendment requires these acquisitions to be accounted for as business combinations. The Company adopted this amendment prospectively. Adoption of this amended standard did not result in an impact to the Company's consolidated financial statements.

**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

In January 2016, the IASB issued IFRS 16 "Leases", which provides guidance on accounting for leases. The new standard replaces IAS 17 "Leases" and related interpretations. IFRS 16 eliminates the distinction between operating leases and financing leases for lessees. The new standard is effective January 1, 2019 with earlier adoption permitted providing that IFRS 15 has been adopted. The new standard is required to be applied retrospectively, with a policy alternative of restating comparative prior periods or recognizing the cumulative adjustment in opening retained earnings at the date of adoption. The Company is assessing the impact of this standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" to provide guidance on the recognition of revenue and cash flows arising from an entity's contracts with customers, and related disclosures. The new standard replaces several existing standards related to recognition of revenue and states that revenue should be recognized as performance obligations related to the goods or services delivered are settled. IFRS 15 also provides revenue accounting guidance for contract modifications and multiple-element contracts and prescribes additional disclosure requirements. In 2015, the IASB deferred the effective date for the new standard to January 1, 2018. The new standard is required to be adopted retrospectively, with earlier adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

Effective January 1, 2014, the Company adopted the version of IFRS 9 “Financial Instruments” issued November 2013. In July 2014, the IASB issued amendments to IFRS 9 to include accounting guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective January 1, 2018. The Company is assessing the impact of this amendment on its consolidated financial statements.

#### 4. 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 of 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. These differences 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 a liability for a tax filing position based on its assessment of the probability that additional taxes may ultimately 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 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 together with deferred income tax effects. 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 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 of disposal 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, asset retirement obligations, future development and operating costs, after-tax discount rates currently ranging from 9.5% to 12%, and income taxes. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGUs.

(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.

5. INVENTORY

|                        | 2016  | 2015  |
|------------------------|-------|-------|
| Product inventory      | \$263 | \$186 |
| Materials and supplies | 426   | 339   |
|                        | \$689 | \$525 |

As a result of fluctuations in crude oil prices, the Company recorded a write-down of its product inventory of \$73 million from cost to net realizable value as at December 31, 2016 (2015 - \$174 million).

## 6. EXPLORATION AND EVALUATION ASSETS

|   | Exploration and<br>Production |              |                    | Oil Sands<br>Mining<br>and<br>Upgrading | Total   |
|---|-------------------------------|--------------|--------------------|---|---------|
|   | North<br>America              | North<br>Sea | Offshore<br>Africa |   |         |
| Cost  |                               |              |                    |   |         |
| At December 31, 2014                          | \$3,426                       | \$ —         | \$ 131             | \$ —                                    | \$3,557 |
| Additions                                     | 132                           | —            | 35                 | —                                       | 167     |
| Transfers to property, plant and<br>equipment | (567 )                        | —            | —                  | —                                       | (567 )  |
| Disposals/derecognitions <sup>(1)</sup>       | (491 )                        | —            | (96 )              | —                                       | (587 )  |
| Foreign exchange adjustments                  | —                             | —            | 16                 | —                                       | 16      |
| At December 31, 2015                          | 2,500                         | —            | 86                 | —                                       | 2,586   |
| Additions                                     | 20                            | —            | 9                  | —                                       | 29      |
| Transfers to property, plant and equipment    | (211 )                        | —            | —                  | —                                       | (211 )  |
| Disposals/derecognitions                      | (3 )                          | —            | (18 )              | —                                       | (21 )   |
| Foreign exchange adjustments                  | —                             | —            | (1 )               | —                                       | (1 )    |
| At December 31, 2016                          | \$2,306                       | \$ —         | \$ 76              | \$ —                                    | \$2,382 |

<sup>(1)</sup> Refer to note 7 regarding the disposition of exploration and evaluation assets in the North America segment in 2015.

During 2016, the Company disposed of a number of North America exploration and evaluation assets totaling \$3 million for consideration of \$35 million, resulting in a pre-tax gain on sale of properties of \$32 million. In addition, in connection with the Company's notice of withdrawal from Block CI-12 in Côte d'Ivoire, Offshore Africa, the Company derecognized \$18 million of exploration and evaluation assets.

During 2015, in connection with the Company's notice of withdrawal from Block CI-514 in Côte d'Ivoire, Offshore Africa, the Company derecognized \$96 million of exploration and evaluation assets.

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## 7. PROPERTY, PLANT AND EQUIPMENT

|   | Exploration and Production |              |                    | Oil Sands<br>Mining<br>and<br>Upgrading | Midstream | Head<br>Office | Total     |
|---|----------------------------|--------------|--------------------|---|-----------|----------------|-----------|
|   | North<br>America           | North<br>Sea | Offshore<br>Africa |   |           |                |           |
| Cost  |                            |              |                    |   |           |                |           |
| At December 31, 2014                                    | \$60,606                   | \$6,182      | \$ 3,858           | \$ 21,948                               | \$ 570    | \$ 352         | \$93,516  |
| Additions   | 691                        | 13           | 524                | 2,523                                   | 7         | 26             | 3,784     |
| Transfers from E&E assets                               | 567                        | —            | —                  | —                                       | —         | —              | 567       |
| Disposals/derecognitions                                | (1,324 )                   | —            | —                  | (128 )                                  | —         | —              | (1,452 )  |
| Foreign exchange adjustments and other                  | —                          | 1,219        | 791                | —                                       | —         | —              | 2,010     |
| At December 31, 2015                                    | 60,540                     | 7,414        | 5,173              | 24,343                                  | 577       | 378            | 98,425    |
| Additions   | 1,462                      | 186          | 116                | 2,822                                   | 6         | 17             | 4,609     |
| Transfers from E&E assets                               | 211                        | —            | —                  | —                                       | —         | —              | 211       |
| Disposals/derecognitions                                | (566 )                     | —            | —                  | (127 )                                  | (349 )    | —              | (1,042 )  |
| Foreign exchange adjustments and other                  | —                          | (220 )       | (157 )             | —                                       | —         | —              | (377 )    |
| At December 31, 2016                                    | \$61,647                   | \$7,380      | \$ 5,132           | \$ 27,038                               | \$ 234    | \$ 395         | \$101,826 |
| Accumulated depletion and depreciation                  |                            |              |                    |   |           |                |           |
| At December 31, 2014                                    | \$31,886                   | \$4,049      | \$ 2,890           | \$ 1,864                                | \$ 120    | \$ 227         | \$41,036  |
| Expense   | 4,226                      | 383          | 177                | 562                                     | 12        | 27             | 5,387     |
| Disposals/derecognitions                                | (758 )                     | —            | —                  | (128 )                                  | —         | —              | (886 )    |
| Foreign exchange adjustments and other                  | (7 )                       | 832          | 592                | (4 )                                    | —         | —              | 1,413     |
| At December 31, 2015                                    | 35,347                     | 5,264        | 3,659              | 2,294                                   | 132       | 254            | 46,950    |
| Expense   | 3,440                      | 457          | 243                | 662                                     | 11        | 27             | 4,840     |
| Disposals/derecognitions                                | (486 )                     | —            | —                  | (127 )                                  | (28 )     | —              | (641 )    |
| Foreign exchange adjustments and other                  | 10                         | (137 )       | (105 )             | (1 )                                    | —         | —              | (233 )    |
| At December 31, 2016                                    | \$38,311                   | \$5,584      | \$ 3,797           | \$ 2,828                                | \$ 115    | \$ 281         | \$50,916  |
| Net book value  |                            |              |                    |   |           |                |           |
| - at December 31, 2016                                  | \$23,336                   | \$1,796      | \$ 1,335           | \$ 24,210                               | \$ 119    | \$ 114         | \$50,910  |
| - at December 31, 2015                                  | \$25,193                   | \$2,150      | \$ 1,514           | \$ 22,049                               | \$ 445    | \$ 124         | \$51,475  |
| Project costs not subject to depletion and depreciation |                            | 2016         | 2015               |   |           |                |           |
| Horizon   |                            | \$—          | \$6,017            |   |           |                |           |
| Kirby Thermal Oil Sands – North                         |                            | \$846        | \$816              |   |           |                |           |

During 2016, the Company acquired a number of producing crude oil and natural gas properties in the North America Exploration and Production segment, including exploration and evaluation assets of \$nil (2015 - \$37 million; 2014 - \$nil), for net cash consideration of \$159 million (2015 - \$406 million; 2014 - \$3,753 million). These transactions were accounted for using the acquisition method of accounting. In connection with these acquisitions, the Company assumed associated asset retirement obligations of \$30 million (2015 - \$133 million; 2014 - \$404 million), other long-term liabilities of \$nil (2015 - \$nil; 2014 - \$49 million) and recognized net deferred income tax assets of \$nil (2015 - \$nil; 2014 - \$91 million) related to temporary differences in the carrying amount of certain of the acquired properties and their tax bases. No debt obligations were assumed and no working capital was acquired (2015 - \$nil; 2014 - \$28 million). No pre-tax gains were recognized on these acquisitions in 2016 (2015 - \$nil; 2014 - \$137 million).

On December 16, 2016, in the Midstream segment, the Company disposed of its interest in the Cold Lake Pipeline, comprising \$321 million of property, plant and equipment for total net consideration of \$539 million, resulting in a pre-tax gain of \$218 million. Total net consideration was comprised of \$349 million in cash, together with \$190 million of non-cash share consideration of approximately 6.4 million common shares of Inter Pipeline Ltd. (“Inter Pipeline”) with a value of \$29.57 per common share, determined as of the closing date.

During 2015, the Company disposed of a number of North America royalty income assets, including exploration and evaluation assets of \$488 million and property, plant and equipment of \$480 million, for total consideration of \$1,658 million, resulting in a pre-tax gain on sale of properties of \$690 million. Total consideration was comprised of \$673 million in cash, together with \$985 million of non-cash share consideration of approximately 44.4 million common shares of PrairieSky Royalty Ltd. (“PrairieSky”) with a value of \$22.16 per common share, determined as of the closing date.

In addition, during 2015 the Company disposed of a number of other North America crude oil and natural gas properties, including exploration and evaluation assets of \$3 million and property, plant and equipment of \$86 million, for total cash consideration of \$134 million, together with associated asset retirement obligations of \$4 million, resulting in a pre-tax gain on sale of properties of \$49 million.

As at December 31, 2016, the Company assessed the recoverability of its property, plant and equipment and its exploration and evaluation assets, and determined the carrying amounts to be recoverable.

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 the asset is substantially available for its intended use. During 2016, pre-tax interest of \$233 million (2015 – \$244 million, 2014 – \$204 million) was capitalized to property, plant and equipment using a weighted average capitalization rate of 3.9% (2015 – 3.9%, 2014 – 3.9%).

## 8. INVESTMENTS

As at December 31, 2016, the Company had the following investments:

|                                       | 2016  | 2015  |
|---------------------------------------|-------|-------|
| Investment in PrairieSky Royalty Ltd. | \$723 | \$974 |
| Investment in Inter Pipeline Ltd.     | 190   | —     |
|                                       | \$913 | \$974 |

Investment in PrairieSky Royalty Ltd.

On December 16, 2015, as partial consideration for the disposal of a number of North America royalty income assets, the Company received non-cash share consideration of \$985 million, comprised of approximately 44.4 million common shares of PrairieSky, at \$22.16 per common share determined as of the closing date (refer to Note 7).

PrairieSky is in the business of acquiring and managing oil and gas royalty income assets through indirect third-party oil and gas development.

During 2016, the Company completed the net distribution of approximately 21.8 million PrairieSky common shares to the shareholders of record of the Company as at June 3, 2016, completing the previously announced Plan of Arrangement. The distribution was recognized as a return of capital of \$546 million. Subsequent to the distribution, the Company’s ownership interest in PrairieSky was less than 10% of the issued and outstanding common shares of PrairieSky.

The Company’s remaining investment of approximately 22.6 million common shares does not constitute significant influence, and is accounted for at fair value through profit or loss, remeasured at each reporting date. As at December 31, 2016, the Company’s investment in PrairieSky was classified as a current asset.

The (gain) loss from the investment in PrairieSky was comprised as follows:

|  | 2016    | 2015  | 2014 |
|--|---------|-------|------|
| Fair value (gain) loss from PrairieSky | \$(292) | \$ 11 | \$ — |
| Dividend income from PrairieSky        | (27 )   | ( 5 ) | —    |
|  | \$(319) | \$ 6  | \$ — |

Investment in Inter Pipeline Ltd.

On December 16, 2016, as partial consideration for the disposal of the Company's interest in the Cold Lake Pipeline, the Company received non-cash share consideration of \$190 million, comprised of approximately 6.4 million common shares of Inter Pipeline at \$29.57 per common share determined as of the closing date (refer to Note 7). Inter Pipeline is in the business of petroleum transportation, natural gas liquids processing, and bulk liquid storage in Western Canada and Europe.

The Company's investment does not constitute significant influence, and is accounted for at fair value through profit or loss, remeasured at each reporting date. As at December 31, 2016, the Company's investment in Inter Pipeline was classified as a current asset.

The gain from the investment in Inter Pipeline was comprised as follows:

|                                     | 2016   | 2015 | 2014 |
|-------------------------------------|--------|------|------|
| Fair value gain from Inter Pipeline | \$ —   | \$ — | \$ — |
| Dividend income from Inter Pipeline | (1 )   | —    | —    |
|                                     | \$(1 ) | \$ — | \$ — |

## 9. OTHER LONG-TERM ASSETS

|  | 2016    | 2015    |
|--|---------|---------|
| Investment in North West Redwater Partnership                    | \$261   | \$254   |
| North West Redwater Partnership subordinated debt <sup>(1)</sup> | 385     | 254     |
| Risk Management (note 18)  | 489     | 854     |
| Other  | 168     | 168     |
|  | 1,303   | 1,530   |
| Less: current portion  | 283     | 375     |
|  | \$1,020 | \$1,155 |

(1) Includes accrued interest.

Investment in North West Redwater Partnership

The Company's 50% interest in Redwater Partnership is accounted for using the equity method based on Redwater Partnership's voting and decision-making structure and legal form. Redwater Partnership has entered into agreements 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 ("APMC"), an agent of the Government of Alberta, under a 30 year fee-for-service tolling agreement.

During 2013, the Company along with APMC, committed each to provide funding up to \$350 million by each party by January 2016 in the form of subordinated debt bearing interest at prime plus 6%. During 2016, the Company and APMC each provided \$99 million of subordinated debt. To date, each party has provided \$324 million of subordinated debt, together with accrued interest thereon of \$61 million for a Company total of \$385 million. Should final Project costs exceed the sanction cost estimate of \$8,500 million, the Company and APMC have agreed, each with a 50% interest, to provide additional subordinated debt as required to reflect an agreed debt to equity ratio and, subject to the Company being able to meet certain funding conditions, to fund any shortfall in available third party commercial lending required to attain Project completion.

During 2016, Redwater Partnership issued \$550 million of 4.25% series F senior secured bonds due June 2029, \$500 million of 4.75% series G senior secured bonds due June 2037, \$500 million of 4.15% series H senior secured bonds due June 2033, and \$500 million of 4.35% series I senior secured bonds due January 2039.

During 2015, Redwater Partnership issued \$500 million of 2.10% series C senior secured bonds due February 2022, \$500 million of 3.70% series D senior secured bonds due February 2043, \$500 million of 3.20% series E senior secured bonds due April 2026, and \$300 million of senior secured bonds through the reopening of its previously issued 4.05% series B senior secured bonds due July 2044.

As at December 31, 2016, Redwater Partnership had additional borrowings of \$1,581 million under its secured \$3,500 million syndicated credit facility.

Under its processing agreement, beginning on the earlier of the commercial operations date of the refinery and June 1, 2018, the Company is unconditionally obligated to pay its 25% pro rata share of the debt portion of the monthly cost of service toll, including interest, fees and principal repayments, of the syndicated credit facility and bonds, over the tolling period of 30 years.

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

The assets, liabilities, partners' equity and equity (income) loss related to Redwater Partnership and the Company's 50% interest at December 31, 2016 and 2015 were comprised as follows:

|                         | 2016                 |          | 2015                 |          |
|-------------------------|----------------------|----------|----------------------|----------|
|                         | Redwater Partnership | Company  | Redwater Partnership | Company  |
|                         | 100%                 | 50%      | 100%                 | 50%      |
|                         | interest             | interest | interest             | interest |
| Current assets          | \$96                 | \$ 48    | \$138                | \$ 69    |
| Non-current assets      | \$8,258              | \$ 4,129 | \$5,834              | \$ 2,917 |
| Current liabilities     | \$572                | \$ 286   | \$678                | \$ 339   |
| Non-current liabilities | \$7,260              | \$ 3,630 | \$4,786              | \$ 2,393 |
| Partners' equity        | \$522                | \$ 261   | \$508                | \$ 254   |
| Equity (income) loss    | \$(14 )              | \$( 7 )  | \$88                 | \$ 44    |

Canadian Natural Resources Limited 23 Year Ended December 31, 2016

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## 10. LONG-TERM DEBT

|  | 2016     | 2015     |
|--|----------|----------|
| Canadian dollar denominated debt, unsecured  |          |          |
| Bank credit facilities   | \$2,758  | \$2,385  |
| Medium-term notes  |          |          |
| 3.05% debentures due June 19, 2019   | 500      | 500      |
| 2.60% debentures due December 3, 2019  | 500      | 500      |
| 2.89% debentures due August 14, 2020   | 1,000    | 1,000    |
| 3.31% debentures due February 11, 2022   | 1,000    | —        |
| 3.55% debentures due June 3, 2024  | 500      | 500      |
|  | 6,258    | 4,885    |
| US dollar denominated debt, unsecured  |          |          |
| Bank credit facilities (December 31, 2016 - US\$905 million;<br>December 31, 2015 - US\$657 million) | 1,213    | 909      |
| Commercial paper (December 31, 2016 - US\$250 million;<br>December 31, 2015 - US\$500 million)       | 336      | 692      |
| US dollar debt securities  |          |          |
| Three-month LIBOR plus 0.375% due March 30, 2016<br>(2016 - US\$nil; 2015 - US\$500 million)         | —        | 692      |
| 6.00% due August 15, 2016 (2016 - US\$nil; 2015 - US\$250 million)                                   | —        | 346      |
| 5.70% due May 15, 2017 (US\$1,100 million)   | 1,477    | 1,523    |
| 1.75% due January 15, 2018 (US\$600 million)   | 806      | 830      |
| 5.90% due February 1, 2018 (US\$400 million)   | 537      | 554      |
| 3.45% due November 15, 2021 (US\$500 million)  | 671      | 692      |
| 3.80% due April 15, 2024 (US\$500 million)   | 671      | 692      |
| 3.90% due February 1, 2025 (US\$600 million)   | 806      | 830      |
| 7.20% due January 15, 2032 (US\$400 million)   | 537      | 554      |
| 6.45% due June 30, 2033 (US\$350 million)  | 470      | 484      |
| 5.85% due February 1, 2035 (US\$350 million)   | 470      | 484      |
| 6.50% due February 15, 2037 (US\$450 million)  | 604      | 622      |
| 6.25% due March 15, 2038 (US\$1,100 million)   | 1,477    | 1,523    |
| 6.75% due February 1, 2039 (US\$400 million)   | 537      | 554      |
|  | 10,612   | 11,981   |
| Long-term debt before transaction costs and original issue discounts, net                            | 16,870   | 16,866   |
| Less: original issue discounts, net <sup>(1)</sup>   | (10 )    | (10 )    |
| transaction costs <sup>(1) (2)</sup>   | (55 )    | (62 )    |
|  | 16,805   | 16,794   |
| Less: current portion of commercial paper  | 336      | 692      |
| current portion of other long-term debt <sup>(1) (2)</sup>   | 1,476    | 1,037    |
|  | \$14,993 | \$15,065 |

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

(2) 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.

#### Bank Credit Facilities and Commercial Paper

As at December 31, 2016, the Company had in place bank credit facilities of \$7,350 million available for general corporate purposes, comprised of:

- \$100 million demand credit facility;
- \$1,500 million non-revolving term credit facility maturing April 2018;
- \$750 million non-revolving term credit facility maturing February 2019;
- \$125 million non-revolving term credit facility maturing February 2019;
- \$2,425 million revolving syndicated credit facility maturing June 2019;
- \$2,425 million revolving syndicated credit facility maturing June 2020; and
- £15 million demand credit facility related to the Company's North Sea operations.

Each of the \$2,425 million revolving facilities is extendible annually 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.

During 2016, the Company prepaid \$250 million of the previously outstanding \$1,000 million non-revolving term credit facility and extended the maturity date to February 2019 from January 2017. Borrowings under this facility may be made by way of pricing referenced to Canadian dollar bankers' acceptances or Canadian prime loans. As at December 31, 2016, the \$750 million facility was fully drawn. During 2016, the Company also entered into a new \$125 million non-revolving term credit facility maturing February 2019, which was fully drawn at December 31, 2016. Borrowings under this facility may be made by way of pricing referenced to Canadian dollar bankers' acceptances or Canadian prime loans.

Borrowings under the \$1,500 million non-revolving credit facility 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. As at December 31, 2016, the \$1,500 million facility was fully drawn.

The Company's credit facilities are subject to a financial covenant that the Consolidated Debt to Capitalization Ratio, as defined in the credit agreements, shall not be more than 0.65 to 1.0.

The Company's borrowings under its US commercial paper program are authorized up to a maximum US\$2,500 million. The Company reserves capacity under its bank credit facilities for amounts outstanding under this program.

The Company's weighted average interest rate on bank credit facilities and commercial paper outstanding as at December 31, 2016 was 1.9% (December 31, 2015 – 1.7%), and on total long-term debt outstanding for the year ended December 31, 2016 was 3.9% (December 31, 2015 – 3.9%).

At December 31, 2016, letters of credit and guarantees aggregating \$219 million, including a \$39 million financial guarantee related to Horizon and \$82 million of letters of credit related to North Sea operations, were outstanding. The letters of credit are supported by dedicated credit facilities.

#### Medium-Term Notes

During 2016, the Company issued \$1,000 million of 3.31% medium-term notes due February 2022. After issuing these securities, the Company has \$2,000 million remaining on its base shelf prospectus that allows for the offer for sale from time to time of up to \$3,000 million of medium-term notes in Canada, which expires in November 2017. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market conditions at the time of issuance.

During 2015, the Company issued \$500 million of series 2 medium-term notes due August 2020, through the reopening of its previously issued 2.89% notes under a previous base shelf prospectus and repaid \$400 million of 4.95% medium-term notes.

## US Dollar Debt Securities

During 2016, the Company repaid US\$500 million of three-month LIBOR plus 0.375% notes and US\$250 million of 6.00% notes.

In October 2015, the Company filed a base shelf prospectus that allows for the offer for sale from time to time of up to US\$3,000 million of debt securities in the United States, which expires in November 2017. If issued, these securities may be offered in amounts and at prices, including interest rates, to be determined based on market conditions at the time of issuance.

## Scheduled Debt Repayments

Scheduled debt repayments are as follows:

| Year       | Repayment |
|------------|-----------|
| 2017       | \$ 1,813  |
| 2018       | \$ 2,841  |
| 2019       | \$ 2,705  |
| 2020       | \$ 1,768  |
| 2021       | \$ 671    |
| Thereafter | \$ 7,072  |

## 11. OTHER LONG-TERM LIABILITIES

|                              | 2016    | 2015    |
|------------------------------|---------|---------|
| Asset retirement obligations | \$3,243 | \$2,950 |
| Share-based compensation     | 426     | 128     |
| Other                        | 17      | 18      |
|                              | 3,686   | 3,096   |
| Less: current portion        | 463     | 206     |
|                              | \$3,223 | \$2,890 |

## 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 5.2% (2015 – 5.9%; 2014 – 4.6%). Reconciliations of the discounted asset retirement obligations were as follows:

|  | 2016    | 2015    | 2014    |
|--|---------|---------|---------|
| Balance – beginning of year                            | \$2,950 | \$4,221 | \$4,162 |
| Liabilities incurred                                   | 3       | 7       | 41      |
| Liabilities acquired, net                              | 30      | 129     | 404     |
| Liabilities settled                                    | (267 )  | (370 )  | (346 )  |
| Asset retirement obligation accretion                  | 142     | 173     | 193     |
| Revision of cost, inflation rates and timing estimates | (68 )   | (313 )  | (907 )  |
| Change in discount rate                                | 493     | (1,150) | 558     |
| Foreign exchange adjustments                           | (40 )   | 253     | 116     |
| Balance – end of year                                  | 3,243   | 2,950   | 4,221   |
| Less: current portion                                  | 95      | 101     | 121     |
|  | \$3,148 | \$2,849 | \$4,100 |

Canadian Natural Resources Limited 26 Year Ended December 31, 2016

## Segmented Asset Retirement Obligations

|                                | 2016    | 2015    |
|--------------------------------|---------|---------|
| Exploration and Production     |         |         |
| North America                  | \$1,444 | \$1,114 |
| North Sea                      | 837     | 975     |
| Offshore Africa                | 244     | 266     |
| Oil Sands Mining and Upgrading | 717     | 594     |
| Midstream                      | 1       | 1       |
|                                | \$3,243 | \$2,950 |

## 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.

|  | 2016  | 2015  | 2014  |
|--|-------|-------|-------|
| Balance – beginning of year                                    | \$128 | \$203 | \$260 |
| Share-based compensation expense (recovery)                    | 355   | (46)  | 66    |
| Cash payment for stock options surrendered                     | (7)   | (1)   | (8)   |
| Transferred to common shares                                   | (117) | (18)  | (129) |
| Capitalized to (recovered from) Oil Sands Mining and Upgrading | 67    | (10)  | 14    |
| Balance – end of year  | 426   | 128   | 203   |
| Less: current portion  | 368   | 105   | 158   |
|  | \$58  | \$23  | \$45  |

The share-based compensation liability of \$426 million at December 31, 2016 (2015 – \$128 million; 2014 – \$203 million) was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

|   | 2016    | 2015    | 2014    |
|---|---------|---------|---------|
| Fair value                                | \$11.41 | \$3.06  | \$5.51  |
| Share price                               | \$42.79 | \$30.22 | \$35.92 |
| Expected volatility                       | 30.7%   | 28.6%   | 25.1%   |
| Expected dividend yield                   | 2.3%    | 3.0%    | 2.5%    |
| Risk free interest rate                   | 0.9%    | 0.6%    | 1.2%    |
| Expected forfeiture rate                  | 5.0%    | 4.8%    | 4.7%    |
|   | 4.6     | 4.5     | 4.5     |
| Expected stock option life <sup>(1)</sup> | years   | years   | years   |

(1) At original time of grant.

The intrinsic value of vested stock options at December 31, 2016 was \$191 million (2015 – \$10 million; 2014 – \$40 million).

## 12. INCOME TAXES

The provision for income tax was as follows:

|   | 2016    | 2015    | 2014    |
|---|---------|---------|---------|
| Current corporate income tax (recovery) expense – North America | \$(377) | \$86    | \$702   |
| Current corporate income tax recovery – North Sea               | (74 )   | (117)   | (68 )   |
| Current corporate income tax expense – Offshore Africa          | 22      | 17      | 43      |
| Current PRT <sup>(1)</sup> recovery – North Sea                 | (198)   | (258)   | (273 )  |
| Other taxes   | 9       | 11      | 23      |
| Current income tax (recovery) expense                           | (618)   | (261)   | 427     |
| Deferred corporate income tax (recovery) expense                | (106)   | 216     | 681     |
| Deferred PRT <sup>(1)</sup> (recovery) expense – North Sea      | (135)   | 15      | 126     |
| Deferred income tax (recovery) expense                          | (241)   | 231     | 807     |
| Income tax (recovery) expense                                   | \$(859) | \$(30 ) | \$1,234 |

(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 (loss) before taxes. The reasons for the difference are as follows:

|   | 2016     | 2015     | 2014    |
|---|----------|----------|---------|
| Canadian statutory income tax rate                                  | 27.0%    | 26.0%    | 25.1%   |
| Income tax provision at statutory rate                              | \$(287 ) | \$(173 ) | \$1,296 |
| Effect on income taxes of:  |          |          |         |
| UK PRT and other taxes  | (324 )   | (232 )   | (124 )  |
| Impact of deductible UK PRT and other taxes on corporate income tax | 131      | 119      | 85      |
| Foreign and domestic tax rate differentials                         | (54 )    | (157 )   | (61 )   |
| Non-taxable portion of capital gains/losses                         | (80 )    | 36       | 36      |
| Stock options exercised for common shares                           | 94       | (12 )    | 14      |
| Income tax rate and other legislative changes                       | (107 )   | 362      | —       |
| Non-taxable gain on corporate acquisitions                          | —        | —        | (34 )   |
| Revisions arising from prior year tax filings                       | (120 )   | 32       | 5       |
| Change in unrecognized capital loss carryforward asset              | (80 )    | 36       | 36      |
| Other   | (32 )    | (41 )    | (19 )   |
| Income tax (recovery) expense                                       | \$(859 ) | \$(30 )  | \$1,234 |

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

|   | 2016      | 2015      |
|---|-----------|-----------|
| Deferred income tax liabilities                                     |           |           |
| Property, plant and equipment and exploration and evaluation assets | \$ 10,259 | \$ 10,257 |
| Timing of partnership items   | —         | 261       |
| Unrealized risk management activities                               | 62        | 111       |
| Deferred PRT  | —         | 65        |
| PRT deduction for corporate income tax                              | 29        | —         |
| Investments   | 98        | 60        |
| Investment in North West Redwater                                   | 222       | 141       |
|   | 10,670    | 10,895    |
| Deferred income tax assets  |           |           |
| Asset retirement obligations  | (983 )    | (976 )    |
| Loss carryforwards  | (390 )    | (170 )    |
| Unrealized foreign exchange loss on long-term debt                  | (149 )    | (212 )    |
| Deferred PRT  | (73 )     | —         |
| PRT deduction for corporate income tax                              | —         | (33 )     |
| Other   | (2 )      | (160 )    |
|   | (1,597 )  | (1,551 )  |
| Net deferred income tax liability                                   | \$9,073   | \$9,344   |

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

|   | 2016    | 2015   | 2014  |
|---|---------|--------|-------|
| Property, plant and equipment and exploration and evaluation assets | \$37    | \$(7 ) | \$647 |
| Timing of partnership items   | (261)   | (176)  | (195) |
| Unrealized foreign exchange loss on long-term debt                  | 63      | (222)  | (77 ) |
| Unrealized risk management activities                               | (44 )   | (5 )   | 142   |
| Asset retirement obligations  | (20 )   | 522    | 119   |
| Loss carryforwards  | (221)   | (53 )  | 109   |
| Investments   | 38      | 60     | —     |
| Investment in North West Redwater                                   | 81      | 106    | 35    |
| Deferred PRT  | (135)   | 15     | 126   |
| PRT deduction for corporate income tax                              | 61      | (5 )   | (77 ) |
| Other   | 160     | (4 )   | (22 ) |
|   | \$(241) | \$231  | \$807 |

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

|   | 2016    | 2015    | 2014    |
|---|---------|---------|---------|
| Balance – beginning of year   | \$9,344 | \$8,970 | \$8,183 |
| Deferred income tax (recovery) expense  | (241 )  | 231     | 807     |
| Deferred income tax (recovery) expense included in other comprehensive income | (5 )    | (4 )    | 1       |
| Foreign exchange adjustments  | (25 )   | 147     | 70      |
| Business combinations   | —       | —       | (91 )   |
| Balance – end of year   | \$9,073 | \$9,344 | \$8,970 |

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 2016, the UK government enacted legislation to reduce the supplementary charge on oil and gas profits from 20% to 10% effective January 1, 2016, resulting in a decrease in the Company's deferred corporate income tax liability of \$107 million.

During 2016, the UK government enacted legislation to reduce the PRT rate from 35% to 0% effective January 1, 2016. Allowable abandonment expenditures eligible for carryback to 2015 and prior taxation years for PRT purposes are still recoverable at a PRT rate of 50%. As a result of these income tax changes, the Company's deferred PRT liability was reduced by \$228 million and the deferred corporate income tax liability was increased by \$114 million. During 2015, the Alberta government enacted legislation that increased the provincial corporate income tax rate from 10% to 12% effective July 1, 2015. As a result of this income tax rate increase, the Company's deferred income tax liability was increased by \$579 million.

During 2015, the UK government enacted legislation that reduced the supplementary charge on oil and gas profits from 32% to 20% effective January 1, 2015. In addition, the legislation reduced the PRT rate from 50% to 35% effective January 1, 2016. Allowable abandonment expenditures eligible for carryback to prior taxation years for PRT purposes were still recoverable at the previous tax rate of 50%. The legislation also replaced the existing Brownfield Allowance with a new Investment Allowance on qualifying capital expenditures, effective April 1, 2015. The new Investment Allowance is deductible for supplementary charge purposes, subject to certain restrictions. As a result of these income tax changes, the Company's deferred income tax liability was reduced by \$217 million and the deferred PRT liability was reduced by \$11 million.

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 has not recognized 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. In addition, the Company has not recognized deferred income tax assets related to North American tax pools of approximately \$650 million, which can only be claimed against income from certain oil and gas properties.

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.

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## 13. SHARE CAPITAL

## Authorized

Preferred shares issuable in a series.

Unlimited number of common shares without par value.

| Issued   | 2016                         |          | 2015                         |          |
|--|------------------------------|----------|------------------------------|----------|
|  | Number of shares (thousands) | Amount   | Number of shares (thousands) | Amount   |
| Common shares  |                              |          |                              |          |
| Balance – beginning of year  | 1,094,668                    | \$ 4,541 | 1,091,837                    | \$ 4,432 |
| Issued upon exercise of stock options  | 16,284                       | 559      | 2,831                        | 91       |
| Previously recognized liability on stock options exercised for common shares | —                            | 117      | —                            | 18       |
| Return of capital on PrairieSky Royalty Ltd. share distribution (note 8)     | —                            | (546 )   | —                            | —        |
| Balance – end of year  | 1,110,952                    | \$ 4,671 | 1,094,668                    | \$ 4,541 |

## Preferred Shares

Preferred shares are issuable in a 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 each year since 2001. The dividend policy undergoes periodic review by the Board of Directors and is subject to change.

On March 1, 2017, the Board of Directors declared a quarterly dividend of \$0.275 per common share, beginning with the dividend payable on April 1, 2017. On November 2, 2016, the Board of Directors declared a quarterly dividend of \$0.25 per common share, beginning with the dividend payable on January 1, 2017. On March 2, 2016, the Board of Directors declared a quarterly dividend of \$0.23 per common share, beginning with the dividend payable on April 1, 2016. On March 4, 2015, the Board of Directors declared a quarterly dividend of \$0.23 per common share, beginning with the dividend payable on April 1, 2015. On March 5, 2014, the Board of Directors declared a quarterly dividend of \$0.225 per common share, beginning with the dividend payable on April 1, 2014.

## Normal Course Issuer Bid

On March 1, 2017, the Board of Directors approved the Company's application for a Normal Course Issuer Bid to purchase through the facilities of the Toronto Stock Exchange, alternative Canadian trading platforms, and the New York Stock Exchange, up to 27,814,309 common shares, over a 12 month period commencing upon receipt of applicable regulatory and other approvals.

During 2016 and 2015, the Company did not purchase any common shares for cancellation. In 2014, the Company purchased for cancellation 10,095,000 common shares at a weighted average price of \$44.85 per common share, for a total cost of \$453 million. Retained earnings were reduced by \$414 million, representing the excess of the purchase price of common shares over their average carrying value.

## 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, 2016 and 2015:

|                                 | 2016                      |                                 | 2015                      |                                 |
|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                                 | Stock options (thousands) | Weighted average exercise price | Stock options (thousands) | Weighted average exercise price |
| Outstanding – beginning of year | 74,615                    | \$ 34.88                        | 71,708                    | \$ 35.60                        |
| Granted                         | 11,002                    | \$ 34.97                        | 13,310                    | \$ 30.56                        |
| Surrendered for cash settlement | (817 )                    | \$ 34.47                        | (185 )                    | \$ 33.30                        |
| Exercised for common shares     | (16,284)                  | \$ 34.31                        | (2,831 )                  | \$ 32.31                        |
| Forfeited                       | (10,217)                  | \$ 39.66                        | (7,387 )                  | \$ 35.12                        |
| Outstanding – end of year       | 58,299                    | \$ 34.22                        | 74,615                    | \$ 34.88                        |
| Exercisable – end of year       | 20,747                    | \$ 33.75                        | 30,567                    | \$ 36.19                        |

The range of exercise prices of stock options outstanding and exercisable at December 31, 2016 was as follows:

| Range of exercise prices | Stock options outstanding             |   |                                 | Stock options exercisable             |                                 |
|--------------------------|---------------------------------------|---|---------------------------------|---------------------------------------|---------------------------------|
|                          | Stock options outstanding (thousands) | Weighted average remaining term (years) | Weighted average exercise price | Stock options exercisable (thousands) | Weighted average exercise price |
| \$22.90 - \$24.99        | 4,188                                 | 4.03                                    | \$ 22.90                        | 666                                   | \$ 22.90                        |
| \$25.00 - \$29.99        | 14,101                                | 2.69                                    | \$ 28.58                        | 5,574                                 | \$ 28.41                        |
| \$30.00 - \$34.99        | 14,599                                | 2.46                                    | \$ 33.20                        | 5,744                                 | \$ 33.45                        |
| \$35.00 - \$39.99        | 13,342                                | 2.29                                    | \$ 36.17                        | 6,680                                 | \$ 36.36                        |
| \$40.00 - \$44.99        | 10,656                                | 4.29                                    | \$ 43.66                        | 1,257                                 | \$ 43.25                        |
| \$45.00 - \$45.09        | 1,413                                 | 2.10                                    | \$ 45.07                        | 826                                   | \$ 45.06                        |
|                          | 58,299                                | 2.92                                    | \$ 34.22                        | 20,747                                | \$ 33.75                        |

#### 14. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

|   | 2016  | 2015  |
|---|-------|-------|
| Derivative financial instruments designated as cash flow hedges | \$ 27 | \$ 58 |
| Foreign currency translation adjustment                         | 43    | 17    |
|   | \$ 70 | \$ 75 |

## 15. 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, 2016, the ratio was within the target range at 39%.

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.

|                               | 2016     | 2015     |
|-------------------------------|----------|----------|
| Long-term debt <sup>(1)</sup> | \$16,805 | \$16,794 |
| Total shareholders' equity    | \$26,267 | \$27,381 |
| Debt to book capitalization   | 39%      | 38%      |

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

## 16. NET EARNINGS (LOSS) PER COMMON SHARE

|  | 2016      | 2015      | 2014      |
|--|-----------|-----------|-----------|
| Weighted average common shares outstanding             |           |           |           |
| – basic (thousands of shares)                          | 1,100,471 | 1,093,862 | 1,091,754 |
| Effect of dilutive stock options (thousands of shares) | —         | —         | 5,068     |
| Weighted average common shares outstanding             |           |           |           |
| – diluted (thousands of shares)                        | 1,100,471 | 1,093,862 | 1,096,822 |
| Net earnings (loss)                                    | \$(204 )  | \$(637 )  | \$3,929   |
| Net earnings (loss) per common share – basic           | \$(0.19 ) | \$(0.58 ) | \$3.60    |
| – diluted  | \$(0.19 ) | \$(0.58 ) | \$3.58    |

In 2016, the Company excluded 27,235,000 potentially anti-dilutive stock options from the calculation of diluted earnings per common share.

## 17. INTEREST AND OTHER FINANCING EXPENSE

|  | 2016  | 2015  | 2014  |
|--|-------|-------|-------|
| Interest and other financing expense:          |       |       |       |
| Long-term debt                                 | \$664 | \$618 | \$542 |
| Other <sup>(1)</sup>                           | —     | 1     | (7 )  |
|  | 664   | 619   | 535   |
| Less: amounts capitalized on qualifying assets | 233   | 244   | 204   |
| Total interest and other financing expense     | 431   | 375   | 331   |
| Total interest income                          | (48 ) | (53 ) | (8 )  |
| Net interest and other financing expense       | \$383 | \$322 | \$323 |

(1) Includes the fair value impact of interest rate swaps on US dollar debt securities.

## 18. FINANCIAL INSTRUMENTS

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

| Asset (liability)             | 2016                               |                                   |                              | Financial                               |            |
|-------------------------------|------------------------------------|-----------------------------------|------------------------------|---|------------|
|                               | Financial assets at amortized cost | Fair value through profit or loss | Derivatives used for hedging | Financial liabilities at amortized cost | Total      |
| Accounts receivable           | \$1,434                            | \$ —                              | \$ —                         | \$ —                                    | \$1,434    |
| Investments                   | —                                  | 913                               | —                            | —                                       | 913        |
| Other long-term assets        | 385                                | 4                                 | 485                          | —                                       | 874        |
| Accounts payable              | —                                  | —                                 | —                            | (595 )                                  | (595 )     |
| Accrued liabilities           | —                                  | —                                 | —                            | (2,222 )                                | (2,222 )   |
| Long-term debt <sup>(1)</sup> | —                                  | —                                 | —                            | (16,805 )                               | (16,805 )  |
|                               | \$1,819                            | \$ 917                            | \$ 485                       | \$(19,622 )                             | \$(16,401) |

| Asset (liability)             | 2015                               |                                   |                              | Financial                               |            |
|-------------------------------|------------------------------------|-----------------------------------|------------------------------|---|------------|
|                               | Financial assets at amortized cost | Fair value through profit or loss | Derivatives used for hedging | Financial liabilities at amortized cost | Total      |
| Accounts receivable           | \$1,277                            | \$ —                              | \$ —                         | \$ —                                    | \$1,277    |
| Investments                   | —                                  | 974                               | —                            | —                                       | 974        |
| Other long-term assets        | 254                                | 36                                | 818                          | —                                       | 1,108      |
| Accounts payable              | —                                  | —                                 | —                            | (571 )                                  | (571 )     |
| Accrued liabilities           | —                                  | —                                 | —                            | (2,089 )                                | (2,089 )   |
| Long-term debt <sup>(1)</sup> | —                                  | —                                 | —                            | (16,794 )                               | (16,794 )  |
|                               | \$1,531                            | \$1,010                           | \$ 818                       | \$(19,454 )                             | \$(16,095) |

(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. The fair values of the Company's recurring other long-term assets and fixed rate long-term debt are outlined below:

| Asset (liability) <sup>(1) (2)</sup>         | 2016            |            | Fair value |           |
|--|-----------------|------------|------------|-----------|
|  | Carrying amount | Fair value | Level 1    | Level 2 3 |
| Investments <sup>(3)</sup>                   | \$913           | \$913      | \$ —       | \$ —      |
| Other long-term assets <sup>(4)</sup>        | \$874           | \$ —       | \$489      | \$385     |
| Fixed rate long-term debt <sup>(5) (6)</sup> | \$(12,498)      | \$(13,217) | \$ —       | \$ —      |

| Asset (liability) <sup>(1) (2)</sup>         | 2015            |            | Fair value |           |
|--|-----------------|------------|------------|-----------|
|  | Carrying amount | Fair value | Level 1    | Level 2 3 |
| Investments <sup>(3)</sup>                   | \$974           | \$974      | \$ —       | \$ —      |
| Other long-term assets <sup>(4)</sup>        | \$1,108         | \$ —       | \$854      | \$254     |
| Fixed rate long-term debt <sup>(5) (6)</sup> | \$(12,808)      | \$(12,431) | \$ —       | \$ —      |

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- (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) There were no transfers between Level 1, 2 and 3 financial instruments.
- (3) The fair value of the investments are based on quoted market prices.
- (4) The fair value of Redwater Partnership subordinated debt is based on the present value of future cash receipts.
- (5) The fair value of fixed rate long-term debt has been determined based on quoted market prices.
- (6) Includes the current portion of fixed rate long-term debt.

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

| Asset (liability)                  | 2016  | 2015  |
|------------------------------------|-------|-------|
| Derivatives held for trading       |       |       |
| Foreign currency forward contracts | \$10  | \$36  |
| Natural gas AECO swaps             | (6 )  | —     |
| Cash flow hedges                   |       |       |
| Foreign currency forward contracts | 16    | 30    |
| Cross currency swaps               | 469   | 788   |
|                                    | \$489 | \$854 |

Included within:

|   |       |       |
|---|-------|-------|
| Current portion of other long-term assets | \$222 | \$305 |
| Other long-term assets                    | 267   | 549   |
|   | \$489 | \$854 |

During 2016, the Company recognized a gain of \$7 million (2015 – gain of \$5 million, 2014 – loss of \$3 million) related to ineffectiveness arising from cash flow hedges.

The estimated fair value of derivative financial instruments in Level 2 at each measurement date have been determined based on appropriate internal valuation methodologies and/or third party indications. Level 2 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 quoted market inputs as applicable, including crude oil and natural gas forward benchmark commodity prices and volatility, Canadian and United States forward interest rate yield curves, and Canadian and United States foreign exchange rates, discounted to present value as appropriate. The resulting fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and these differences may be material.

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## Risk Management

The Company periodically uses derivative financial instruments to manage its commodity price, interest rate and foreign currency exposures. These financial instruments are entered into solely for hedging purposes and are not used for speculative purposes.

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

|   |       |       |
|---|-------|-------|
| Asset (liability)   | 2016  | 2015  |
| Balance – beginning of year   | \$854 | \$599 |
| Net change in fair value of outstanding derivative financial instruments recognized in: |       |       |
| Risk management activities  | (25 ) | (374) |
| Foreign exchange  | (304) | 669   |
| Other comprehensive income (loss)   | (36 ) | (40 ) |
| Balance – end of year   | 489   | 854   |
| Less: current portion   | 222   | 305   |
|   | \$267 | \$549 |

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

|  | 2016  | 2015    | 2014    |
|--|-------|---------|---------|
| Net realized risk management loss (gain)   | \$ 8  | \$(843) | \$(349) |
| Net unrealized risk management loss (gain) | 25    | 374     | (451)   |
|  | \$ 33 | \$(469) | \$(800) |

## 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, 2016, the Company had the following derivative financial instruments outstanding to manage its commodity price risk:

Sales contracts <sup>(1)</sup>

| Remaining term | Volume | Weighted average price | Index |
|----------------|--------|------------------------|-------|
|----------------|--------|------------------------|-------|

### Natural Gas

AECO swaps Jan 2017 - Oct 2017 50,000 GJ/d \$2.80 AECO

Subsequent to December 31, 2016, the Company entered into 50,000 bbl/d of US\$50.00 - US\$60.10 WTI collars (1) for the period February to December 2017, and 17,500 bbl/d of US\$50.00 - US\$60.03 WTI collars for the period March to December 2017.

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. 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, 2016, 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, commercial paper 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, commercial paper 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, 2016, the Company had the following cross currency swap contracts outstanding:

|                | Remaining term      | Amount    | Exchange rate<br>(US\$/C\$) | Interest rate<br>(US\$) | Interest rate<br>(C\$) |
|----------------|---------------------|-----------|-----------------------------|-------------------------|------------------------|
| Cross currency |                     |           |                             |                         |                        |
| Swaps          | Jan 2017 – May 2017 | US\$1,100 | 1.170                       | 5.70 %                  | 5.10 %                 |
|                | Jan 2017 – Nov 2021 | US\$500   | 1.022                       | 3.45 %                  | 3.96 %                 |
|                | Jan 2017 – Mar 2038 | US\$550   | 1.170                       | 6.25 %                  | 5.76 %                 |

All cross currency swap derivative financial instruments were designated as hedges at December 31, 2016 and were classified as cash flow hedges.

In addition to the cross currency swap contracts noted above, at December 31, 2016, the Company had US\$1,928 million of foreign currency forward contracts outstanding, with terms of approximately 30 days or less, including US\$1,155 million designated as cash flow hedges.

## Financial instrument sensitivities

The following table summarizes the annualized sensitivities of the Company's 2016 net loss and other comprehensive loss to changes in the fair value of financial instruments outstanding as at December 31, 2016, 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.

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|                                     | (Increase)<br>decrease<br>to net<br>loss | (Increase)<br>decrease to<br>other<br>comprehensive<br>loss |
|-------------------------------------|--|---|
| Commodity price risk                |  |   |
| Increase AECO \$0.10/Mcf            | \$ (1 )                                  | \$ —  |
| Decrease AECO \$0.10/Mcf            | \$ 1                                     | \$ —  |
| Interest rate risk                  |  |   |
| Increase interest rate 1%           | \$ (19 )                                 | \$ (27 )  |
| Decrease interest rate 1%           | \$ 19                                    | \$ 31   |
| Foreign currency exchange rate risk |  |   |
| Increase exchange rate by US\$0.01  | \$ (73 )                                 | \$ —  |
| Decrease exchange rate by US\$0.01  | \$ 71                                    | \$ —  |

#### 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, 2016, 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. At December 31, 2016, the Company had net risk management assets of \$489 million with specific counterparties related to derivative financial instruments (December 31, 2015 – \$854 million).

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, commercial paper 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 were as follows:

|                               | 1 to<br>Less<br>than<br>1 year | 2 to<br>less<br>than<br>2 years | 2 to<br>less<br>than<br>5 years | Thereafter |
|-------------------------------|--------------------------------|---------------------------------|---------------------------------|------------|
| Accounts payable              | \$595                          | \$—                             | \$—                             | \$ —       |
| Accrued liabilities           | \$2,222                        | \$—                             | \$—                             | \$ —       |
| Long-term debt <sup>(1)</sup> | \$1,813                        | \$2,841                         | \$5,144                         | \$ 7,072   |

<sup>(1)</sup> Long-term debt represents principal repayments only and does not reflect interest, original issue discounts and premiums or transaction costs.



## 19. COMMITMENTS AND CONTINGENCIES

The Company has committed to certain payments as follows:

|  | 2017  | 2018  | 2019  | 2020  | 2021  | Thereafter |
|--|-------|-------|-------|-------|-------|------------|
| Product transportation and pipeline                          | \$441 | \$404 | \$306 | \$300 | \$258 | \$ 2,337   |
| Offshore equipment operating leases<br>and offshore drilling | \$166 | \$105 | \$59  | \$34  | \$33  | \$ 9       |
| Office leases  | \$44  | \$43  | \$43  | \$43  | \$40  | \$ 154     |
| Other  | \$53  | \$2   | \$2   | \$2   | \$2   | \$ 35      |

In addition to the commitments disclosed above, the Company has entered into various agreements related to the engineering, procurement and construction 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.

## 20. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

|   | 2016    | 2015    | 2014    |
|---|---------|---------|---------|
| Changes in non-cash working capital     |         |         |         |
| Accounts receivable                     | \$(142) | \$615   | \$(456) |
| Current income tax assets               | (165)   | (447)   | (586)   |
| Inventory                               | (79 )   | 142     | (31 )   |
| Prepays and other                       | 14      | 11      | (30 )   |
| Accounts payable                        | 31      | 7       | (70 )   |
| Accrued liabilities                     | (116)   | (981)   | 741     |
| Net changes in non-cash working capital | \$(457) | \$(653) | \$(432) |
| Relating to:                            |         |         |         |
| Operating activities                    | \$(542) | \$239   | \$(744) |
| Financing activities                    | —       | (40 )   | (22 )   |
| Investing activities                    | 85      | (852)   | 334     |
|   | \$(457) | \$(653) | \$(432) |

|  | 2016   | 2015     | 2014    |
|--|--------|----------|---------|
| Expenditures on exploration and evaluation assets                        | \$29   | \$180    | \$1,190 |
| Net proceeds on sale of exploration and evaluation assets <sup>(1)</sup> | (35 )  | (416 )   | —       |
| Net (proceeds) expenditures on exploration and evaluation assets         | \$(6 ) | \$(236 ) | \$1,190 |

|  |         |         |          |
|--|---------|---------|----------|
| Expenditures on property, plant and equipment                            | \$4,152 | \$5,118 | \$10,252 |
| Net proceeds on sale of property, plant and equipment <sup>(1) (2)</sup> | (349 )  | (414 )  | (44 )    |
| Net expenditures on property, plant and equipment                        | \$3,803 | \$4,704 | \$10,208 |

Net proceeds on exploration and evaluation assets and net expenditures on property, plant and equipment in 2015  
(1) exclude non-cash share consideration of \$985 million received from PrairieSky on the disposition of royalty income assets.

(2) Net expenditures on property, plant and equipment in 2016 exclude non-cash share consideration of \$190 million received from Inter Pipeline on the disposition of the Company's interest in the Cold Lake Pipeline.

## 21. 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.

|   | North America |         |          | North Sea |          |         | Offshore Africa |         |       |
|---|---------------|---------|----------|-----------|----------|---------|-----------------|---------|-------|
|   | 2016          | 2015    | 2014     | 2016      | 2015     | 2014    | 2016            | 2015    | 2014  |
| Segmented product sales   | \$7,209       | \$9,222 | \$15,963 | \$570     | \$638    | \$701   | \$603           | \$482   | \$503 |
| Less: royalties   | (524 )        | (732 )  | (2,159 ) | (1 )      | (1 )     | (2 )    | (26 )           | (22 )   | (43 ) |
| Segmented revenue   | 6,685         | 8,490   | 13,804   | 569       | 637      | 699     | 577             | 460     | 460   |
| Segmented expenses  |               |         |          |           |          |         |                 |         |       |
| Production  | 2,186         | 2,603   | 2,924    | 403       | 544      | 496     | 200             | 223     | 212   |
| Transportation and blending   | 1,941         | 2,309   | 3,228    | 48        | 61       | 5       | 2               | 2       | 1     |
| Depletion, depreciation and amortization                                      | 3,465         | 4,248   | 3,901    | 458       | 388      | 269     | 262             | 273     | 105   |
| Asset retirement obligation accretion   | 66            | 93      | 98       | 35        | 39       | 38      | 12              | 10      | 10    |
| Realized risk management activities   | 8             | (843 )  | (349 )   | —         | —        | —       | —               | —       | —     |
| Gain on disposition of properties and corporate acquisitions and dispositions | (32 )         | (739 )  | (137 )   | —         | —        | —       | —               | —       | —     |
| (Gain) loss from investments  | (320 )        | 6       | —        | —         | —        | —       | —               | —       | —     |
| Total segmented expenses  | 7,314         | 7,677   | 9,665    | 944       | 1,032    | 808     | 476             | 508     | 328   |
| Segmented earnings (loss) before the following                                | \$(629 )      | \$813   | \$4,139  | \$(375)   | \$(395 ) | \$(109) | \$101           | \$(48 ) | \$132 |
| Non-segmented expenses  |               |         |          |           |          |         |                 |         |       |
| Administration  |               |         |          |           |          |         |                 |         |       |
| Share-based compensation  |               |         |          |           |          |         |                 |         |       |
| Interest and other financing expense  |               |         |          |           |          |         |                 |         |       |
| Unrealized risk management activities   |               |         |          |           |          |         |                 |         |       |
| Foreign exchange (gain) loss  |               |         |          |           |          |         |                 |         |       |
| Total non-segmented expenses  |               |         |          |           |          |         |                 |         |       |
| Earnings (loss) before taxes  |               |         |          |           |          |         |                 |         |       |
| Current income tax (recovery) expense   |               |         |          |           |          |         |                 |         |       |
| Deferred income tax (recovery) expense  |               |         |          |           |          |         |                 |         |       |
| Net earnings (loss)   |               |         |          |           |          |         |                 |         |       |

Canadian Natural Resources Limited 40 Year Ended December 31, 2016

Midstream activities include the Company's pipeline operations, an electricity co-generation system and Redwater Partnership. 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 the Company's chief operating decision makers.

| Oil Sands Mining and Upgrading |         |         | Midstream |       |       | Inter-segment elimination and other |        |        | Total    |          |          |
|--------------------------------|---------|---------|-----------|-------|-------|-------------------------------------|--------|--------|----------|----------|----------|
| 2016                           | 2015    | 2014    | 2016      | 2015  | 2014  | 2016                                | 2015   | 2014   | 2016     | 2015     | 2014     |
| \$2,657                        | \$2,764 | \$4,095 | \$114     | \$136 | \$120 | \$(55)                              | \$(75) | \$(81) | \$11,098 | \$13,167 | \$21,301 |
| (24 )                          | (49 )   | (234 )  | —         | —     | —     | —                                   | —      | —      | (575 )   | (804 )   | (2,438 ) |
| 2,633                          | 2,715   | 3,861   | 114       | 136   | 120   | (55)                                | (75)   | (81)   | 10,523   | 12,363   | 18,863   |
| 1,292                          | 1,332   | 1,609   | 25        | 32    | 34    | (7 )                                | (8 )   | (10)   | 4,099    | 4,726    | 5,265    |
| 80                             | 82      | 75      | —         | —     | —     | (68)                                | (75)   | (77)   | 2,003    | 2,379    | 3,232    |
| 662                            | 562     | 596     | 11        | 12    | 9     | —                                   | —      | —      | 4,858    | 5,483    | 4,880    |
| 29                             | 31      | 47      | —         | —     | —     | —                                   | —      | —      | 142      | 173      | 193      |
| —                              | —       | —       | —         | —     | —     | —                                   | —      | —      | 8        | (843 )   | (349 )   |
| —                              | —       | —       | (218)     | —     | —     | —                                   | —      | —      | (250 )   | (739 )   | (137 )   |
| —                              | —       | —       | (7 )      | 44    | 8     | —                                   | —      | —      | (327 )   | 50       | 8        |
| 2,063                          | 2,007   | 2,327   | (189)     | 88    | 51    | (75)                                | (83)   | (87)   | 10,533   | 11,229   | 13,092   |
| \$570                          | \$708   | \$1,534 | \$303     | \$48  | \$69  | \$20                                | \$8    | \$6    | (10 )    | 1,134    | 5,771    |
|                                |         |         |           |       |       |                                     |        |        | 345      | 390      | 367      |
|                                |         |         |           |       |       |                                     |        |        | 355      | (46 )    | 66       |
|                                |         |         |           |       |       |                                     |        |        | 383      | 322      | 323      |
|                                |         |         |           |       |       |                                     |        |        | 25       | 374      | (451 )   |
|                                |         |         |           |       |       |                                     |        |        | (55 )    | 761      | 303      |
|                                |         |         |           |       |       |                                     |        |        | 1,053    | 1,801    | 608      |
|                                |         |         |           |       |       |                                     |        |        | (1,063 ) | (667 )   | 5,163    |
|                                |         |         |           |       |       |                                     |        |        | (618 )   | (261 )   | 427      |
|                                |         |         |           |       |       |                                     |        |        | (241 )   | 231      | 807      |
|                                |         |         |           |       |       |                                     |        |        | \$(204 ) | \$(637 ) | \$3,929  |

Capital Expenditures <sup>(1)</sup>

|   | 2016                                       |  |                   | 2015                                       |  |                   |
|---|--|--|-------------------|--|--|-------------------|
|   | Net expenditures (proceeds) <sup>(3)</sup> | Non-cash and fair value changes <sup>(2)</sup> | Capitalized costs | Net expenditures (proceeds) <sup>(3)</sup> | Non-cash and fair value changes <sup>(2)</sup> | Capitalized costs |
| Exploration and evaluation assets             |  |  |                   |  |  |                   |
| Exploration and Production                    |  |  |                   |  |  |                   |
| North America <sup>(4) (5)</sup>              | \$ 17                                      | \$ (211 )                                      | \$ (194 )         | \$ (260 )                                  | \$ (666 )                                      | \$ (926 )         |
| North Sea                                     | —  | —  | —                 | —  | —  | —                 |
| Offshore Africa                               | 9  | (18 )  | (9 )              | 35   | (96 )  | (61 )             |
|   | \$ 26                                      | \$ (229 )                                      | \$ (203 )         | \$ (225 )                                  | \$ (762 )                                      | \$ (987 )         |
| Property, plant and equipment                 |  |  |                   |  |  |                   |
| Exploration and Production                    |  |  |                   |  |  |                   |
| North America <sup>(5)</sup>                  | \$ 1,143                                   | \$ (36 )                                       | \$ 1,107          | \$ 1,171                                   | \$ (1,237 )                                    | \$ (66 )          |
| North Sea                                     | 126  | 60   | 186               | 230  | (217 )   | 13                |
| Offshore Africa                               | 142  | (26 )  | 116               | 573  | (49 )  | 524               |
|   | 1,411                                      | (2 )   | 1,409             | 1,974                                      | (1,503 )                                       | 471               |
| Oil Sands Mining and Upgrading <sup>(6)</sup> | 2,718                                      | (23 )  | 2,695             | 2,730                                      | (335 )   | 2,395             |
| Midstream <sup>(7)</sup>                      | (315 )                                     | (28 )  | (343 )            | 8  | (1 )   | 7                 |
| Head office                                   | 17   | —  | 17                | 26   | —  | 26                |
|   | \$ 3,831                                   | \$ (53 )                                       | \$ 3,778          | \$ 4,738                                   | \$ (1,839 )                                    | \$ 2,899          |

(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, transfers of property, plant and equipment to inventory due to change in use, and other fair value adjustments.

(3) Net expenditures (proceeds) in 2015 do not include non-cash share consideration of \$985 million received from PrairieSky on the disposition of royalty income assets.

(4) The above noted figures for 2016 do not include the impact of a pre-tax cash gain of \$32 million on the disposition of exploration and evaluation assets.

(5) The above noted figures for 2015 do not include the impact of other pre-tax gains on the sale of other properties totaling \$49 million recognized in 2015.

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

(7) The above noted figures for 2016 do not include a pre-tax cash and non-cash gain of \$218 million on the disposition of certain Midstream assets to Inter Pipeline.

## Segmented Assets

|                            | 2016      | 2015      |
|----------------------------|-----------|-----------|
| Exploration and Production |           |           |
| North America              | \$ 28,892 | \$ 30,937 |
| North Sea                  | 2,269     | 2,734     |
| Offshore Africa            | 1,580     | 1,755     |

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|                                |          |          |
|--------------------------------|----------|----------|
| Other                          | 29       | 73       |
| Oil Sands Mining and Upgrading | 24,852   | 22,598   |
| Midstream                      | 912      | 1,054    |
| Head office                    | 114      | 124      |
|                                | \$58,648 | \$59,275 |

Canadian Natural Resources Limited 42 Year Ended December 31, 2016

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## 22. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

## Remuneration of Non-Management Directors

|  | 2016 | 2015 | 2014 |
|--|------|------|------|
|--|------|------|------|

|                |   |   |   |
|----------------|---|---|---|
| Fees earned \$ | 2 | 2 | 3 |
|----------------|---|---|---|

Remuneration of Senior Management <sup>(1)</sup>

|                                  | 2016  | 2015  | 2014  |
|----------------------------------|-------|-------|-------|
| Salary                           | \$ 3  | \$ 3  | \$ 3  |
| Common stock option based awards | 9     | 7     | 8     |
| Annual incentive plans           | 5     | 2     | 4     |
| Long-term incentive plans        | 15    | 6     | 17    |
|                                  | \$ 32 | \$ 18 | \$ 32 |

(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.

## 23. EVENT SUBSEQUENT TO DECEMBER 31, 2016

On March 9, 2017, the Company announced that it had entered into agreements to acquire 70% of the Athabasca Oil Sands Project, as well as additional working interests in certain other producing and non-producing oil and gas properties, for preliminary total consideration of approximately \$12.7 billion, comprised of cash of approximately \$8.7 billion and 97,560,975 common shares of the Company, with an estimated value of approximately \$4 billion as at the announcement date. The transaction is expected to close in mid-2017, subject to receipt of all required consents and regulatory and other approvals.

Canadian Natural Resources Limited 43 Year Ended December 31, 2016

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**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 26th day of July, 2017.

**CANADIAN NATURAL  
RESOURCES LIMITED**

By: /s/ Steve W. Laut

Name: Steve W. Laut

Title: President

Documents filed as part of this report:  
EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 23.1               | <u>Consent of PricewaterhouseCoopers LLP, Chartered Professional Accountants.</u>  |
| 23.2*              | Consent of Sproule Associates Limited, Independent Petroleum Engineering Consultants.  |
| 23.3*              | Consent of Sproule International Limited, Independent Petroleum Engineering Consultants.   |
| 23.4*              | Consent of GLJ Petroleum Consultants Ltd., Independent Petroleum Engineering Consultants.  |
| 31.1               | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u>                |
| 31.2               | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u>                |
| 32.1               | <u>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).</u> |
| 32.2               | <u>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).</u> |
| 99.1*              | Supplementary Oil & Gas Information for the fiscal year ended December 31, 2016.   |

\* Previously filed.

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