



Canadian Natural

CANADIAN NATURAL RESOURCES LIMITED

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022**

AUGUST 2, 2023

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As at (millions of Canadian dollars, unaudited)	Note	Jun 30 2023	Dec 31 2022
ASSETS			
Current assets			
Cash and cash equivalents		\$ 122	\$ 920
Accounts receivable		2,790	3,555
Inventory		1,966	1,815
Prepays and other		508	215
Investments	6	524	491
Current portion of other long-term assets	7	47	61
		5,957	7,057
Exploration and evaluation assets	3	2,233	2,226
Property, plant and equipment	4	64,975	64,859
Lease assets	5	1,431	1,447
Other long-term assets	7	563	553
		\$ 75,159	\$ 76,142
LIABILITIES			
Current liabilities			
Accounts payable		\$ 1,120	\$ 1,341
Accrued liabilities		3,860	4,209
Current income taxes payable		—	1,324
Current portion of long-term debt	8	2,319	404
Current portion of other long-term liabilities	5,9	1,270	1,373
		8,569	8,651
Long-term debt	8	9,836	11,041
Other long-term liabilities	5,9	7,960	8,161
Deferred income taxes		10,150	10,114
		36,515	37,967
SHAREHOLDERS' EQUITY			
Share capital	11	10,534	10,294
Retained earnings		27,933	27,672
Accumulated other comprehensive income	12	177	209
		38,644	38,175
		\$ 75,159	\$ 76,142

Commitments and contingencies (note 16)

Approved by the Board of Directors on August 2, 2023.

CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian dollars, except per common share amounts, unaudited)	Note	Three Months Ended		Six Months Ended	
		Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Product sales	17	\$ 8,846	\$ 13,812	\$ 18,394	\$ 25,944
Less: royalties		(956)	(2,337)	(1,874)	(3,792)
Revenue		7,890	11,475	16,520	22,152
Expenses					
Production		2,211	2,287	4,375	4,327
Transportation, blending and feedstock		2,330	2,682	4,664	5,137
Depletion, depreciation and amortization	4,5	1,397	1,363	2,815	2,770
Administration		119	97	225	213
Share-based compensation	9	70	(45)	136	489
Asset retirement obligation accretion	9	91	58	183	117
Interest and other financing expense		178	160	332	323
Risk management activities	15	(31)	(14)	(10)	44
Foreign exchange (gain) loss		(202)	333	(216)	187
(Gain) loss from investments	6	(45)	22	(44)	(64)
		6,118	6,943	12,460	13,543
Earnings before taxes		1,772	4,532	4,060	8,609
Current income tax expense	10	313	899	772	1,750
Deferred income tax (recovery) expense	10	(4)	131	26	256
Net earnings		\$ 1,463	\$ 3,502	\$ 3,262	\$ 6,603
Net earnings per common share					
Basic	14	\$ 1.34	\$ 3.04	\$ 2.97	\$ 5.70
Diluted	14	\$ 1.32	\$ 3.00	\$ 2.94	\$ 5.63

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian dollars, unaudited)	Three Months Ended		Six Months Ended	
	Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Net earnings	\$ 1,463	\$ 3,502	\$ 3,262	\$ 6,603
Items that may be reclassified subsequently to net earnings				
Net change in derivative financial instruments designated as cash flow hedges				
Unrealized income during the period, net of taxes of \$nil (2022 – \$nil) – three months ended; \$nil (2022 – \$1 million) – six months ended	1	1	1	4
Reclassification to net earnings, net of taxes of \$nil (2022 – \$nil) – three months ended; \$nil (2022 – \$1 million) – six months ended	(1)	(1)	(2)	(4)
	—	—	(1)	—
Foreign currency translation adjustment				
Translation of net investment	(30)	85	(31)	48
Other comprehensive (loss) income, net of taxes	(30)	85	(32)	48
Comprehensive income	\$ 1,433	\$ 3,587	\$ 3,230	\$ 6,651

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars, unaudited)	Note	Six Months Ended	
		Jun 30 2023	Jun 30 2022
Share capital	11		
Balance – beginning of period		\$ 10,294	\$ 10,168
Issued upon exercise of stock options		190	309
Previously recognized liability on stock options exercised for common shares		196	253
Purchase of common shares under Normal Course Issuer Bid		(146)	(380)
Balance – end of period		10,534	10,350
Retained earnings			
Balance – beginning of period		27,672	26,778
Net earnings		3,262	6,603
Dividends on common shares	11	(1,972)	(1,730)
Purchase of common shares under Normal Course Issuer Bid	11	(1,029)	(2,708)
Balance – end of period		27,933	28,943
Accumulated other comprehensive income (loss)	12		
Balance – beginning of period		209	(1)
Other comprehensive (loss) income, net of taxes		(32)	48
Balance – end of period		177	47
Shareholders' equity		\$ 38,644	\$ 39,340

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars, unaudited)	Note	Three Months Ended		Six Months Ended	
		Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Operating activities					
Net earnings		\$ 1,463	\$ 3,502	\$ 3,262	\$ 6,603
Non-cash items					
Depletion, depreciation and amortization		1,397	1,363	2,815	2,770
Share-based compensation		70	(45)	136	489
Asset retirement obligation accretion		91	58	183	117
Unrealized risk management (gain) loss		(4)	(21)	16	5
Unrealized foreign exchange (gain) loss		(231)	426	(234)	270
(Gain) loss from investments	6	(40)	25	(33)	(58)
Deferred income tax (recovery) expense		(4)	131	26	256
Realized foreign exchange gain on settlement of cross currency swap		—	(69)	—	(69)
Proceeds on settlement of cross currency swap		—	89	—	89
Other		86	56	(3)	(59)
Abandonment expenditures	9	(100)	(97)	(237)	(202)
Net change in non-cash working capital		17	478	(1,891)	(1,462)
Cash flows from operating activities		2,745	5,896	4,040	8,749
Financing activities					
Issue (repayment) of bank credit facilities and commercial paper, net	8	345	(1,504)	933	(1,156)
Repayment of medium-term notes	8	—	(139)	(11)	(1,139)
Proceeds on settlement of cross currency swap		—	69	—	69
Payment of lease liabilities	5,9	(68)	(50)	(135)	(99)
Issue of common shares on exercise of stock options	11	47	57	190	309
Dividends on common shares		(989)	(871)	(1,927)	(1,560)
Purchase of common shares under Normal Course Issuer Bid	11	(490)	(2,005)	(1,175)	(3,088)
Cash flows used in financing activities		(1,155)	(4,443)	(2,125)	(6,664)
Investing activities					
Net expenditures on exploration and evaluation assets	3,17	(7)	(2)	(35)	(21)
Net expenditures on property, plant and equipment	4,17	(1,562)	(1,378)	(2,791)	(2,747)
Net change in non-cash working capital		9	35	113	172
Cash flows used in investing activities		(1,560)	(1,345)	(2,713)	(2,596)
Increase (decrease) in cash and cash equivalents		30	108	(798)	(511)
Cash and cash equivalents – beginning of period		92	125	920	744
Cash and cash equivalents – end of period		\$ 122	\$ 233	\$ 122	\$ 233
Interest paid on long-term debt, net		\$ 135	\$ 119	\$ 303	\$ 303
Income taxes paid, net		\$ 651	\$ 411	\$ 2,207	\$ 2,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 portion of the North Sea; and Côte d'Ivoire and South Africa in Offshore Africa.

The Oil Sands Mining and Upgrading segment produces synthetic crude oil through bitumen mining and upgrading operations at Horizon Oil Sands ("Horizon") and through the Company's direct and indirect interest in the Athabasca Oil Sands Project ("AOSP").

Within Western Canada in the Midstream and Refining segment, the Company maintains certain activities that include pipeline operations, an electricity co-generation system and an investment in the North West Redwater Partnership ("NWRP"), a general partnership formed to upgrade and refine bitumen 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.

These interim 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"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 "Interim Financial Reporting", following the same accounting policies as the audited consolidated financial statements of the Company as at December 31, 2022, except as disclosed in note 2. These interim consolidated financial statements contain disclosures that are supplemental to the Company's annual audited consolidated financial statements. Certain disclosures normally required to be included in the notes to the annual audited consolidated financial statements have been condensed. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

Critical Accounting Estimates and Judgements

The Company has made estimates, assumptions and judgements regarding certain assets, liabilities, revenues and expenses in the preparation of these interim consolidated financial statements, primarily related to unsettled transactions and events as of the date of these interim consolidated financial statements. Accordingly, actual results may differ from estimated amounts, and those differences may be material.

2. CHANGE IN ACCOUNTING POLICIES

In May 2023, the IASB issued amendments to IAS 12 "Income Taxes" related to the accounting for deferred taxes arising in those jurisdictions implementing the Organization for Economic Co-operation and Development's Pillar Two model rules ("Pillar Two Legislation"). The amendments were effective immediately and adopted in the second quarter of 2023 and did not have a significant impact on the Company's interim consolidated financial statements.

In May 2021, the IASB issued amendments to IAS 12 "Income Taxes" to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments were adopted on January 1, 2023 and did not have a significant impact on the Company's interim consolidated financial statements.

In February 2021, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require companies to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment the IASB also amended IFRS Practice Statement 2 "Making Materiality Judgements". The amendments were adopted on January 1, 2023 and did not have a significant impact on the Company's interim consolidated financial statements.

3. EXPLORATION AND EVALUATION ASSETS

	Exploration and Production			Oil Sands Mining and Upgrading	Total
	North America	North Sea	Offshore Africa		
Cost					
At December 31, 2022	\$ 2,026	\$ —	\$ 98	\$ 102	\$ 2,226
Additions	34	—	1	—	35
Transfers to property, plant and equipment	(26)	—	—	—	(26)
Foreign exchange adjustments	—	—	(2)	—	(2)
At June 30, 2023	\$ 2,034	\$ —	\$ 97	\$ 102	\$ 2,233

4. PROPERTY, PLANT AND EQUIPMENT

	Exploration and Production			Oil Sands Mining and Upgrading	Midstream and Refining	Head Office	Total
	North America	North Sea	Offshore Africa				
Cost							
At December 31, 2022	\$ 81,075	\$ 8,258	\$ 4,332	\$ 47,732	\$ 474	\$ 536	\$ 142,407
Additions / Acquisitions	1,641	8	79	1,055	5	16	2,804
Transfers from exploration & evaluation assets	26	—	—	—	—	—	26
Derecognitions ⁽¹⁾	(307)	—	—	(185)	—	—	(492)
Foreign exchange adjustments and other	—	(181)	(97)	—	—	—	(278)
At June 30, 2023	\$ 82,435	\$ 8,085	\$ 4,314	\$ 48,602	\$ 479	\$ 552	\$ 144,467
Accumulated depletion and depreciation							
At December 31, 2022	\$ 55,835	\$ 8,106	\$ 3,277	\$ 9,712	\$ 198	\$ 420	\$ 77,548
Expense	1,716	8	84	854	8	12	2,682
Derecognitions ⁽¹⁾	(307)	—	—	(185)	—	—	(492)
Foreign exchange adjustments and other	(5)	(170)	(74)	3	—	—	(246)
At June 30, 2023	\$ 57,239	\$ 7,944	\$ 3,287	\$ 10,384	\$ 206	\$ 432	\$ 79,492
Net book value							
At June 30, 2023	\$ 25,196	\$ 141	\$ 1,027	\$ 38,218	\$ 273	\$ 120	\$ 64,975
At December 31, 2022	\$ 25,240	\$ 152	\$ 1,055	\$ 38,020	\$ 276	\$ 116	\$ 64,859

(1) An asset is derecognized when no future economic benefits are expected to arise from its continued use or disposal.

5. LEASES

Lease assets

	Product transportation and storage	Field equipment and power	Offshore vessels and equipment	Office leases and other	Total
At December 31, 2022	\$ 912	\$ 377	\$ 97	\$ 61	\$ 1,447
Additions	17	92	32	1	142
Depreciation	(51)	(52)	(20)	(10)	(133)
Foreign exchange adjustments and other	1	1	(27)	—	(25)
At June 30, 2023	\$ 879	\$ 418	\$ 82	\$ 52	\$ 1,431

Lease liabilities

The Company measures its lease liabilities at the discounted value of its lease payments during the lease term. Lease liabilities as at June 30, 2023 were as follows:

	Jun 30 2023	Dec 31 2022
Lease liabilities	\$ 1,524	\$ 1,540
Less: current portion	227	244
	\$ 1,297	\$ 1,296

Total cash outflows for leases for the three months ended June 30, 2023, including payments related to short-term leases not reported as lease assets, were \$341 million (three months ended June 30, 2022 – \$289 million; six months ended June 30, 2023 – \$678 million; six months ended June 30, 2022 – \$556 million). Interest expense on leases for the three months ended June 30, 2023 was \$16 million (three months ended June 30, 2022 – \$15 million; six months ended June 30, 2023 – \$32 million; six months ended June 30, 2022 – \$30 million).

6. INVESTMENTS

As at June 30, 2023, the Company had the following investment:

	Jun 30 2023	Dec 31 2022
Investment in PrairieSky Royalty Ltd.	\$ 524	\$ 491

The (gain) loss from investments was comprised as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
(Gain) loss from investments	\$ (40)	\$ 25	\$ (33)	\$ (58)
Dividend income	(5)	(3)	(11)	(6)
	\$ (45)	\$ 22	\$ (44)	\$ (64)

The Company's 22.6 million common share investment in PrairieSky Royalty Ltd. does not constitute significant influence, and is accounted for at fair value through profit or loss, measured at each reporting date. As at June 30, 2023, the market price per common share was \$23.16 (December 31, 2022 – \$21.70; June 30, 2022 – \$16.21).

7. OTHER LONG-TERM ASSETS

	Jun 30 2023	Dec 31 2022
Prepaid cost of service tolls	\$ 191	\$ 199
Long-term inventory	140	137
Risk management (note 15)	3	9
Long-term contracts, prepayments and other ⁽¹⁾	276	269
	610	614
Less: current portion	47	61
	\$ 563	\$ 553

(1) Includes physical product sales contracts, accrued interest on the deferred PRT recovery, and the unamortized portion of the Company's share bonus program.

The Company has a 50% equity investment in NWRP. NWRP operates a 50,000 barrels per day bitumen upgrader and refinery that processes approximately 12,500 barrels per day (25% toll payer) of bitumen feedstock for the Company and 37,500 barrels per day (75% toll payer) of bitumen feedstock for the Alberta Petroleum Marketing Commission ("APMC"), an agent of the Government of Alberta. The Company is unconditionally obligated to pay its 25% pro rata share of the debt component of the monthly fee-for-service toll over the 40-year tolling period until 2058 (note 16). Sales of diesel and refined products and associated refining tolls are recognized in the Midstream and Refining segment (note 17).

The carrying value of the Company's interest in NWRP is \$nil, and as at June 30, 2023, the cumulative unrecognized share of the equity loss and partnership distributions from NWRP was \$568 million (December 31, 2022 – \$551 million). For the three months ended June 30, 2023, the unrecognized share of the equity loss was \$1 million (six months ended June 30, 2023 – unrecognized equity loss of \$17 million; three months ended June 30, 2022 – unrecognized equity loss of \$15 million; six months ended June 30, 2022 – unrecognized equity loss of \$25 million).

8. LONG-TERM DEBT

	Jun 30 2023	Dec 31 2022
Canadian dollar denominated debt, unsecured		
Medium-term notes	\$ 1,691	\$ 1,702
US dollar denominated debt, unsecured		
Bank credit facilities (June 30, 2023 – US\$375 million; December 31, 2022 – US\$nil)	496	—
Commercial paper (June 30, 2023 – US\$331 million; December 31, 2022 – US\$nil)	437	—
US dollar debt securities (June 30, 2023 – US\$7,250 million; December 31, 2022 – US\$7,250 million)	9,597	9,812
	10,530	9,812
Long-term debt before transaction costs and original issue discounts, net	12,221	11,514
Less: original issue discounts, net ⁽¹⁾	12	13
transaction costs ^{(1) (2)}	54	56
	12,155	11,445
Less: current portion of commercial paper	437	—
current portion of other long-term debt ^{(1) (2)}	1,882	404
	\$ 9,836	\$ 11,041

(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 June 30, 2023, the Company had undrawn revolving bank credit facilities of \$4,954 million. Details of these facilities are described below. The Company also has certain other dedicated credit facilities supporting letters of credit. At June 30, 2023, the Company had \$437 million drawn under its commercial paper program, and reserves capacity under its revolving bank credit facilities for amounts outstanding under this program.

- a \$100 million demand credit facility;
- a \$500 million revolving credit facility, maturing February 2024;
- a \$2,425 million revolving syndicated credit facility, maturing June 2025; and
- a \$2,425 million revolving syndicated credit facility, maturing June 2027.

During the second quarter of 2023, the Company extended its revolving syndicated credit facility originally maturing June 2024 to June 2027.

Borrowings under the Company's revolving credit facilities may be made by way of pricing referenced to Canadian dollar bankers' acceptances, US dollar bankers' acceptances, SOFR, US base rate or Canadian prime rate.

The Company's borrowings under its US commercial paper program are authorized up to a maximum of US\$2,500 million.

The Company's weighted average interest rate on bank credit facilities and commercial paper outstanding as at June 30, 2023 was 5.5% (June 30, 2022 – N/A), and on total long-term debt outstanding for the six months ended June 30, 2023 was 4.7% (June 30, 2022 – 4.0%).

As at June 30, 2023, letters of credit and guarantees aggregating to \$572 million were outstanding.

Medium-Term Notes

As at June 30, 2023, the Company had \$3,000 million remaining on its base shelf prospectus that allowed for the offer for sale from time to time of medium-term notes in Canada. Subsequent to June 30, 2023, the Company filed a 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 August 2025, replacing the Company's previous base shelf prospectus which would have expired in August 2023. 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.

US Dollar Debt Securities

As at June 30, 2023, the Company had US\$3,000 million remaining on its base shelf prospectus that allowed for the offer for sale from time to time of debt securities in the United States. Subsequent to June 30, 2023, 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 August 2025, replacing the Company's previous base shelf prospectus which would have expired in August 2023. 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.

9. OTHER LONG-TERM LIABILITIES

	Jun 30 2023	Dec 31 2022
Asset retirement obligations	\$ 6,845	\$ 6,908
Lease liabilities (note 5)	1,524	1,540
Share-based compensation	667	832
Transportation and processing contracts	120	159
Risk management (note 15)	5	3
Other	69	92
	9,230	9,534
Less: current portion	1,270	1,373
	\$ 7,960	\$ 8,161

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 discounted using a weighted average discount rate of 5.6% (December 31, 2022 – 5.6%) and inflation rates of up to 2% (December 31, 2022 – up to 2%). Reconciliations of the discounted asset retirement obligations were as follows:

	Jun 30 2023	Dec 31 2022
Balance – beginning of period	\$ 6,908	\$ 6,806
Liabilities incurred	16	20
Liabilities acquired, net	—	11
Liabilities settled	(237)	(449)
Asset retirement obligation accretion	183	281
Revision of cost, inflation and timing estimates ⁽¹⁾	—	897
Impact of regulatory changes ⁽²⁾	—	982
Change in discount rates	—	(1,698)
Foreign exchange adjustments	(25)	58
Balance – end of period	6,845	6,908
Less: current portion	479	495
	\$ 6,366	\$ 6,413

(1) Includes normal course revisions of cost, inflation and timing estimates, as well as revisions related to the acceleration of the abandonment of Ninian field assets in the North Sea at December 31, 2022.

(2) Reflects changes to the estimated timing of settlement of the Company's asset retirement obligations due to provincial regulatory changes in Alberta, British Columbia, and Saskatchewan in 2022.

Share-Based Compensation

The liability for share-based compensation includes costs incurred under the Company's Stock Option Plan and Performance Share Unit ("PSU") plans. The Company's Stock 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 PSU plan provides certain executive employees of the Company with the right to receive a cash payment, the amount of which is determined by individual employee performance and the extent to which certain other performance measures are met.

The Company recognizes a liability for potential cash settlements under these plans. The current portion of the liability represents the maximum amount of the liability payable within the next twelve month period if all vested stock options and PSUs are settled in cash.

	Jun 30 2023	Dec 31 2022
Balance – beginning of period	\$ 832	\$ 489
Share-based compensation expense	136	804
Cash payment for stock options surrendered and PSUs vested	(107)	(79)
Transferred to common shares	(196)	(387)
Other	2	5
Balance – end of period	667	832
Less: current portion	508	559
	\$ 159	\$ 273

10. INCOME TAXES

The provision for income tax was as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Expense (recovery)				
Current corporate income tax – North America ⁽¹⁾	\$ 299	\$ 855	\$ 779	\$ 1,689
Current corporate income tax – North Sea	(4)	15	2	22
Current corporate income tax – Offshore Africa	20	18	30	30
Current PRT ⁽²⁾ – North Sea	(5)	6	(45)	(1)
Other taxes	3	5	6	10
Current income tax	313	899	772	1,750
Deferred corporate income tax	(15)	131	8	256
Deferred PRT ⁽²⁾ – North Sea	11	—	18	—
Deferred income tax	(4)	131	26	256
Income tax	\$ 309	\$ 1,030	\$ 798	\$ 2,006

(1) Includes North America Exploration and Production, Oil Sands Mining and Upgrading, and Midstream and Refining segments.

(2) Petroleum Revenue Tax.

11. SHARE CAPITAL

Authorized

Preferred shares issuable in a series.

Unlimited number of common shares without par value.

Issued Common Shares	Six Months Ended Jun 30, 2023	
	Number of shares (thousands)	Amount
Balance – beginning of period	1,102,636	\$ 10,294
Issued upon exercise of stock options	4,924	190
Previously recognized liability on stock options exercised for common shares	—	196
Purchase of common shares under Normal Course Issuer Bid	(15,300)	(146)
Balance – end of period	1,092,260	\$ 10,534

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, 2023, the Board of Directors approved a 6% increase in the quarterly dividend to \$0.90 per common share, beginning with the dividend paid on April 5, 2023. On November 2, 2022, the Board of Directors approved a 13% increase in the quarterly dividend to \$0.85 per common share. On August 3, 2022, the Board of Directors approved a special dividend of \$1.50 per common share. On March 2, 2022, the Board of Directors approved a 28% increase in the quarterly dividend to \$0.75 per common share, from \$0.5875 per common share.

Normal Course Issuer Bid

On March 8, 2023, the Company's application was approved 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 92,296,006 common shares, representing 10% of the public float, over a 12-month period commencing March 13, 2023 and ending March 12, 2024.

For the six months ended June 30, 2023, the Company purchased 15,300,000 common shares at a weighted average price of \$76.80 per common share for a total cost of \$1,175 million. Retained earnings were reduced by \$1,029 million, representing the excess of the purchase price of common shares over their average carrying value. Subsequent to June 30, 2023, up to and including August 1, 2023, the Company purchased 2,200,000 common shares at a weighted average price of \$76.52 per common share for a total cost of \$168 million.

Share-Based Compensation – Stock Options

The following table summarizes information relating to stock options outstanding as at June 30, 2023:

	Six Months Ended Jun 30, 2023	
	Stock options (thousands)	Weighted average exercise price
Outstanding – beginning of period	31,150	\$ 42.37
Granted	6,058	\$ 79.59
Exercised for common shares	(4,924)	\$ 38.56
Surrendered for cash settlement	(144)	\$ 38.56
Forfeited	(1,198)	\$ 49.31
Outstanding – end of period	30,942	\$ 50.01
Exercisable – end of period	5,635	\$ 37.35

The Stock Option Plan is a "rolling 7%" plan, whereby the aggregate number of common shares that may be reserved for issuance under the plan shall not exceed 7% of the common shares outstanding from time to time.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Jun 30 2023	Jun 30 2022
Derivative financial instruments designated as cash flow hedges	\$ 74	\$ 77
Foreign currency translation adjustment	103	(30)
	\$ 177	\$ 47

13. CAPITAL DISCLOSURES

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 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 ratio of current and long-term debt less cash and cash equivalents divided by the sum of the carrying value of shareholders' equity plus current and long-term debt less cash and cash equivalents. 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. As at June 30, 2023, the ratio was below the target range at 23.7%.

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.

	Jun 30 2023	Dec 31 2022
Long-term debt	\$ 12,155	\$ 11,445
Less: cash and cash equivalents	122	920
Long-term debt, net	\$ 12,033	\$ 10,525
Total shareholders' equity	\$ 38,644	\$ 38,175
Debt to book capitalization	23.7%	21.6%

The Company is subject to a financial covenant that requires debt to book capitalization as defined in its credit facility agreements to not exceed 65%. As at June 30, 2023, the Company was in compliance with this covenant.

14. NET EARNINGS PER COMMON SHARE

	Three Months Ended		Six Months Ended	
	Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Weighted average common shares outstanding – basic (thousands of shares)	1,095,068	1,151,111	1,097,751	1,157,914
Effect of dilutive stock options (thousands of shares)	10,514	15,464	11,038	15,482
Weighted average common shares outstanding – diluted (thousands of shares)	1,105,582	1,166,575	1,108,789	1,173,396
Net earnings	\$ 1,463	\$ 3,502	\$ 3,262	\$ 6,603
Net earnings per common share – basic	\$ 1.34	\$ 3.04	\$ 2.97	\$ 5.70
– diluted	\$ 1.32	\$ 3.00	\$ 2.94	\$ 5.63

15. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of cash and cash equivalents, accounts receivable, investments, risk management assets and liabilities, accounts payable, accrued liabilities, lease liabilities and long-term debt. These financial instruments, with the exception of investments and risk management assets and liabilities, are classified as financial assets and liabilities at amortized cost. Investments are classified as financial assets at fair value through profit or loss. Risk management assets and liabilities are classified as derivatives held for trading or as cash flow hedges.

The estimated fair values 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, including quoted forward prices for commodities, foreign exchange rates, interest yield curves and other volatility factors.

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

Asset (liability)	Jun 30 2023	Dec 31 2022
Balance – beginning of period	\$ 6	\$ 55
Net change in fair value of outstanding derivative financial instruments recognized in:		
Risk management activities ⁽¹⁾	(8)	70
Foreign exchange	—	(119)
Balance – end of period	(2)	6
Less: current portion	(5)	—
	\$ 3	\$ 6

(1) Risk management assets and liabilities are disclosed in note 7 and note 9, respectively.

Net (gain) loss from risk management activities were as follows:

	Three Months Ended		Six Months Ended	
	Jun 30 2023	Jun 30 2022	Jun 30 2023	Jun 30 2022
Net realized risk management (gain) loss	\$ (27)	\$ 7	\$ (26)	\$ 39
Net unrealized risk management (gain) loss	(4)	(21)	16	5
	\$ (31)	\$ (14)	\$ (10)	\$ 44

The carrying amounts of the Company's financial instruments approximated their fair value, except for fixed rate long-term debt. The Company's financial instruments are categorized as Level 1 with the exception of risk management assets and liabilities which are categorized as Level 2. There were no transfers between Level 1, 2, and 3 financial instruments. The fair values of the Company's fixed rate long-term debt is outlined below:

	Jun 30, 2023	
	Carrying amount	Level 1 Fair Value
Fixed rate long-term debt ^{(1) (2)}	\$ (11,222)	\$ (10,894)

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

(2) Includes the current portion of fixed rate long-term debt.

Financial Risk Factors

The Company's financial risks are consistent with those discussed in notes 1, 4 and 19 of the Company's audited financial statements for the year ended December 31, 2022.

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 rate 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.

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. At June 30, 2023, the Company had no significant 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.

As at June 30, 2023, the Company had US\$1,726 million of foreign currency forward contracts outstanding (December 31, 2022 - US\$1,017 million), with original terms of up to 90 days, of which US\$1,020 million were designated as derivatives held for trading (December 31, 2022 - US\$1,017 million) and US\$706 million were designated as cash flow hedges (December 31, 2022 - US\$nil).

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. As at June 30, 2023, 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. As at June 30, 2023, the Company had net risk management assets of \$1 million with specific counterparties related to derivative financial instruments (December 31, 2022 – \$7 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.

As at June 30, 2023, the maturity dates of the Company's financial liabilities were as follows:

		Less than 1 year	1 to less than 2 years	2 to less than 5 years	Thereafter
Accounts payable	\$	1,120	\$ —	\$ —	\$ —
Accrued liabilities	\$	3,860	\$ —	\$ —	\$ —
Long-term debt ⁽¹⁾	\$	2,319	\$ 794	\$ 3,115	\$ 5,993
Other long-term liabilities ⁽²⁾	\$	232	\$ 167	\$ 436	\$ 694
Interest and other financing expense ⁽³⁾	\$	629	\$ 566	\$ 1,386	\$ 3,540

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

(2) Lease payments included within other long-term liabilities reflect principal payments only and are as follows; less than one year, \$227 million; one to less than two years, \$167 million; two to less than five years, \$436 million; and thereafter, \$694 million.

(3) Includes interest and other financing expense on long-term debt and other long-term liabilities. Payments were estimated based upon applicable interest and foreign exchange rates as at June 30, 2023.

16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company has committed to certain payments. The following table summarizes the Company's commitments as at June 30, 2023:

	Remaining 2023	2024	2025	2026	2027	Thereafter
Product transportation and processing ⁽¹⁾	\$ 594	\$ 1,394	\$ 1,262	\$ 1,157	\$ 1,106	\$ 11,337
North West Redwater Partnership service toll ⁽²⁾	\$ 77	\$ 157	\$ 155	\$ 138	\$ 124	\$ 5,055
Offshore vessels and equipment	\$ 19	\$ 34	\$ —	\$ —	\$ —	\$ —
Field equipment and power	\$ 21	\$ 28	\$ 26	\$ 23	\$ 22	\$ 215
Other	\$ 12	\$ 24	\$ 23	\$ 17	\$ —	\$ —

(1) The Company's commitment for the 20-year product transportation agreement on the Trans Mountain Pipeline Expansion ("TMX") is subject to change pending approval of the interim toll filing by the Canada Energy Regulator.

(2) Pursuant to the processing agreements, the Company pays its 25% pro rata share of the debt component of the monthly fee-for-service toll. Included in the toll is \$3,001 million of interest payable over the 40-year tolling period, ending in 2058 (note 7).

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

17. SEGMENTED INFORMATION

	North America				North Sea				Offshore Africa				Total Exploration and Production			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	Jun 30	2022	Jun 30	2022	Jun 30	2022	Jun 30	2022	Jun 30	2022	Jun 30	2022	Jun 30	2022	Jun 30	2022
(millions of Canadian dollars, unaudited)	2023		2023		2023		2023		2023		2023		2023		2023	
Segmented product sales																
Crude oil and NGLs	4,040	6,470	7,789	12,009	194	220	194	347	171	181	263	398	4,405	6,871	8,246	12,754
Natural gas	465	1,501	1,272	2,431	1	1	4	6	13	15	25	29	479	1,517	1,301	2,466
Other income and revenue ⁽¹⁾	(7)	69	4	139	—	2	—	3	5	2	7	4	(2)	73	11	146
Total segmented product sales	4,498	8,040	9,065	14,579	195	223	198	356	189	198	295	431	4,882	8,461	9,558	15,366
Less: royalties	(504)	(1,309)	(995)	(2,216)	(1)	(1)	(1)	(1)	(18)	(19)	(28)	(30)	(523)	(1,329)	(1,024)	(2,247)
Segmented revenue	3,994	6,731	8,070	12,363	194	222	197	355	171	179	267	401	4,359	7,132	8,534	13,119
Segmented expenses																
Production	918	973	1,920	1,860	149	128	152	195	37	25	64	53	1,104	1,126	2,136	2,108
Transportation, blending and feedstock	1,408	1,847	2,954	3,599	5	2	5	4	—	—	—	—	1,413	1,849	2,959	3,603
Depletion, depreciation and amortization	871	855	1,761	1,733	15	50	16	79	65	42	100	93	951	947	1,877	1,905
Asset retirement obligation accretion	58	35	117	70	12	6	23	13	2	1	4	3	72	42	144	86
Risk management activities (commodity derivatives)	(3)	6	17	55	—	—	—	—	—	—	—	—	(3)	6	17	55
Total segmented expenses	3,252	3,716	6,769	7,317	181	186	196	291	104	68	168	149	3,537	3,970	7,133	7,757
Segmented earnings (loss)	742	3,015	1,301	5,046	13	36	1	64	67	111	99	252	822	3,162	1,401	5,362
Non-segmented expenses																
Administration																
Share-based compensation																
Interest and other financing expense																
Risk management activities (other)																
Foreign exchange (gain) loss																
(Gain) loss from investments																
Total non-segmented expenses																
Earnings before taxes																
Current income tax																
Deferred income tax																
Net earnings																

	Oil Sands Mining and Upgrading				Midstream and Refining				Inter-segment elimination and other				Total			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	Jun 30		Jun 30		Jun 30		Jun 30		Jun 30		Jun 30		Jun 30		Jun 30	
(millions of Canadian dollars, unaudited)	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Segmented product sales																
Crude oil and NGLs ⁽²⁾	3,546	4,962	8,028	9,813	15	18	36	38	149	(124)	217	(105)	8,115	11,727	16,527	22,500
Natural gas	—	—	—	—	—	—	—	—	43	88	72	141	522	1,605	1,373	2,607
Other income and revenue ⁽¹⁾	8	80	27	115	203	318	453	567	—	9	3	9	209	480	494	837
Total segmented product sales	3,554	5,042	8,055	9,928	218	336	489	605	192	(27)	292	45	8,846	13,812	18,394	25,944
Less: royalties	(433)	(1,008)	(850)	(1,545)	—	—	—	—	—	—	—	—	(956)	(2,337)	(1,874)	(3,792)
Segmented revenue	3,121	4,034	7,205	8,383	218	336	489	605	192	(27)	292	45	7,890	11,475	16,520	22,152
Segmented expenses																
Production	997	1,077	2,039	2,054	91	70	169	136	19	14	31	29	2,211	2,287	4,375	4,327
Transportation, blending and feedstock ⁽²⁾	582	638	1,132	1,101	162	244	315	423	173	(49)	258	10	2,330	2,682	4,664	5,137
Depletion, depreciation and amortization	442	412	930	857	4	4	8	8	—	—	—	—	1,397	1,363	2,815	2,770
Asset retirement obligation accretion	19	16	39	31	—	—	—	—	—	—	—	—	91	58	183	117
Risk management activities (commodity derivatives)	—	—	—	—	—	—	—	—	—	—	—	—	(3)	6	17	55
Total segmented expenses	2,040	2,143	4,140	4,043	257	318	492	567	192	(35)	289	39	6,026	6,396	12,054	12,406
Segmented earnings (loss)	1,081	1,891	3,065	4,340	(39)	18	(3)	38	—	8	3	6	1,864	5,079	4,466	9,746
Non-segmented expenses																
Administration													119	97	225	213
Share-based compensation													70	(45)	136	489
Interest and other financing expense													178	160	332	323
Risk management activities (other)													(28)	(20)	(27)	(11)
Foreign exchange (gain) loss													(202)	333	(216)	187
(Gain) loss from investments													(45)	22	(44)	(64)
Total non-segmented expenses													92	547	406	1,137
Earnings before taxes													1,772	4,532	4,060	8,609
Current income tax													313	899	772	1,750
Deferred income tax													(4)	131	26	256
Net earnings													1,463	3,502	3,262	6,603

(1) Includes the sale of diesel and other refined products in the Midstream and Refining segment, and other income.

(2) Includes blending and feedstock costs associated with the processing of third party bitumen and other purchased feedstock in the Oil Sands Mining and Upgrading segment.

Capital Expenditures ⁽¹⁾

	Six Months Ended					
	Jun 30, 2023			Jun 30, 2022		
	Net expenditures	Non-cash and fair value changes ⁽²⁾	Capitalized costs	Net expenditures	Non-cash and fair value changes ⁽²⁾	Capitalized costs
Exploration and evaluation assets						
Exploration and Production						
North America	\$ 34	\$ (26)	\$ 8	\$ 20	\$ (33)	\$ (13)
Offshore Africa	1	—	1	1	—	1
	35	(26)	9	21	(33)	(12)
Property, plant and equipment						
Exploration and Production						
North America	1,628	(268)	1,360	1,700	(195)	1,505
North Sea	8	—	8	38	(104)	(66)
Offshore Africa	79	—	79	35	(38)	(3)
	1,715	(268)	1,447	1,773	(337)	1,436
Oil Sands Mining and Upgrading	1,055	(185)	870	956	(499)	457
Midstream and Refining	5	—	5	5	(2)	3
Head Office	16	—	16	13	—	13
	2,791	(453)	2,338	2,747	(838)	1,909
	\$ 2,826	\$ (479)	\$ 2,347	\$ 2,768	\$ (871)	\$ 1,897

(1) This table provides a reconciliation of capitalized costs, reported in note 3 and note 4, to net expenditures reported in the investing activities section of the statements of cash flows. The reconciliation excludes the impact of foreign exchange adjustments.

(2) Derecognitions, asset retirement obligations, transfer of exploration and evaluation assets, and other fair value adjustments.

Segmented Assets

	Jun 30 2023	Dec 31 2022
Exploration and Production		
North America	\$ 29,583	\$ 31,135
North Sea	478	378
Offshore Africa	1,295	1,322
Other	23	54
Oil Sands Mining and Upgrading	42,746	42,102
Midstream and Refining	866	979
Head Office	168	172
	\$ 75,159	\$ 76,142

SUPPLEMENTARY INFORMATION

INTEREST COVERAGE RATIOS

The following financial ratios are provided in connection with the Company's continuous offering of medium-term notes pursuant to the short form prospectus dated July 2021. These ratios are based on the Company's interim consolidated financial statements that are prepared in accordance with accounting principles generally accepted in Canada.

Interest coverage ratios for the twelve month period ended June 30, 2023:

Interest coverage (times)	
Net earnings ⁽¹⁾	17.4x
Adjusted funds flow ⁽²⁾	32.3x

(1) *Net earnings plus income taxes and interest expense; divided by interest expense.*

(2) *Adjusted funds flow plus current income taxes and interest expense; divided by interest expense.*