

APACHE CORP  
Form 10-Q  
November 04, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-4300

APACHE CORPORATION  
(exact name of registrant as specified in its charter)

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Delaware 41-0747868  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400  
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (713) 296-6000

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 (§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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of registrant's common stock outstanding as of October 31, 2016 379,429,334

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### Forward-Looking Statements and Risk

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare our estimate of proved reserves as of December 31, 2015, and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “continue” or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

- the market prices of oil, natural gas, NGLs, and other products or services;
- our commodity hedging arrangements;
- the integration of acquisitions;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative, regulatory, or policy changes;
- terrorism or cyber attacks;
- occurrence of property acquisitions or divestitures;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and
- other factors disclosed under Items 1 and 2—Business and Properties—Estimated Proved Reserves and Future Net Cash Flows, Item 1A—Risk Factors and elsewhere in our most recently filed Annual Report on Form 10-K,

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A—Quantitative and Qualitative Disclosures About Market Risk and elsewhere in our Current Report on Form 8-K dated August 4, 2016, other risks and uncertainties in our third-quarter 2016 earnings release, other factors disclosed under Part II, Item 1A—Risk Factors of this Quarterly Report on Form 10-Q, and other filings that we make with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

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PART I – FINANCIAL INFORMATION  
ITEM 1 – FINANCIAL STATEMENTS  
APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED OPERATIONS  
(Unaudited)

|  | For the Quarter<br>Ended September<br>30,<br>2016 |                  | For the Nine<br>Months Ended<br>September 30,<br>2015 * |                  |
|--|---|------------------|---|------------------|
|  | 2016  | 2015*            | 2016  | 2015 *           |
|  | (In millions, except per common share data)       |                  |   |                  |
| <b>REVENUES AND OTHER:</b>   |   |                  |   |                  |
| Oil and gas production revenues  |   |                  |   |                  |
| Oil revenues   | \$1,117   | \$1,238          | \$3,057   | \$4,149          |
| Gas revenues   | 263   | 318              | 695   | 941              |
| Natural gas liquids revenues   | 59  | 50               | 160   | 166              |
|  | 1,439   | 1,606            | 3,912   | 5,256            |
| Other  | (6 )  | (75 )            | (30 )   | (53 )            |
| Gain (loss) on divestitures  | 5   | (5 )             | 21  | 204              |
|  | 1,438   | 1,526            | 3,903   | 5,407            |
| <b>OPERATING EXPENSES:</b>   |   |                  |   |                  |
| Lease operating expenses   | 382   | 450              | 1,119   | 1,398            |
| Gathering and transportation   | 51  | 58               | 155   | 163              |
| Taxes other than income  | 9   | 104              | 85  | 232              |
| Exploration  | 161   | 223              | 347   | 706              |
| General and administrative   | 102   | 89               | 298   | 284              |
| Depreciation, depletion, and amortization:                                       |   |                  |   |                  |
| Oil and gas property and equipment   | 610   | 793              | 1,875   | 2,247            |
| Other assets   | 38  | 79               | 120   | 245              |
| Asset retirement obligation accretion  | 40  | 37               | 116   | 109              |
| Impairments  | 836   | 3,903            | 1,009   | 6,327            |
| Transaction, reorganization, and separation                                      | 12  | —                | 36  | 120              |
| Financing costs, net   | 102   | 160              | 311   | 401              |
|  | 2,343   | 5,896            | 5,471   | 12,232           |
| <b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>                       | <b>(905 )</b>                                     | <b>(4,370 )</b>  | <b>(1,568 )</b>   | <b>(6,825 )</b>  |
| Current income tax provision (benefit)   | 150   | (270 )           | 284   | 578              |
| Deferred income tax provision (benefit)  | (529 )  | 19               | (755 )  | (1,299 )         |
| <b>NET LOSS FROM CONTINUING OPERATIONS INCLUDING<br/>NONCONTROLLING INTEREST</b> | <b>(526 )</b>                                     | <b>(4,119 )</b>  | <b>(1,097 )</b>   | <b>(6,104 )</b>  |
| Net loss from discontinued operations, net of tax                                | (33 )   | (17 )            | (33 )   | (135 )           |
| <b>NET LOSS INCLUDING NONCONTROLLING INTEREST</b>                                | <b>(559 )</b>                                     | <b>(4,136 )</b>  | <b>(1,130 )</b>   | <b>(6,239 )</b>  |
| Net income attributable to noncontrolling interest                               | 48  | 7                | 93  | 98               |
| <b>NET LOSS ATTRIBUTABLE TO COMMON STOCK</b>                                     | <b>\$(607 )</b>                                   | <b>\$(4,143)</b> | <b>\$(1,223)</b>  | <b>\$(6,337)</b> |
| <b>NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS:</b>                             |   |                  |   |                  |
| Net loss from continuing operations attributable to common shareholders          | \$(574 )  | \$(4,126)        | \$(1,190)   | \$(6,202)        |
| Net loss from discontinued operations  | (33 )   | (17 )            | (33 )   | (135 )           |
| Net loss attributable to common shareholders                                     | \$(607 )  | \$(4,143)        | \$(1,223)   | \$(6,337)        |
| <b>NET LOSS PER COMMON SHARE:</b>  |   |                  |   |                  |
| Basic net loss from continuing operations per share                              | \$(1.51 )   | \$(10.91)        | \$(3.14 )   | \$(16.42)        |
| Basic net loss from discontinued operations per share                            | (0.09 )   | (0.04 )          | (0.08 )   | (0.36 )          |

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|   |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|
| Basic net loss per share                                |  |  |  |  |  |  |  |
|   |  |  |  |  |  |  |  |
| DILUTED NET LOSS PER COMMON SHARE:                      |  |  |  |  |  |  |  |
| Diluted net loss from continuing operations per share   |  |  |  |  |  |  |  |
| Diluted net loss from discontinued operations per share |  |  |  |  |  |  |  |
| Diluted net loss per share                              |  |  |  |  |  |  |  |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:   |  |  |  |  |  |  |  |
| Basic   |  |  |  |  |  |  |  |
| Diluted   |  |  |  |  |  |  |  |
| DIVIDENDS DECLARED PER COMMON SHARE                     |  |  |  |  |  |  |  |

\*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

The accompanying notes to consolidated financial statements are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED CASH FLOWS  
(Unaudited)

|   | For the Nine<br>Months Ended<br>September 30,<br>2016    2015* |                |
|---|--|----------------|
|   | (In millions)  |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                    |  |                |
| Net loss including noncontrolling interest                                      | \$(1,130)  | \$(6,239)      |
| Adjustments to reconcile net loss to net cash provided by operating activities: |  |                |
| Loss from discontinued operations   | 33   | 135            |
| Gain on divestitures  | (21)   | (204)          |
| Exploratory dry hole expense and unproved leasehold impairments                 | 260  | 584            |
| Depreciation, depletion, and amortization                                       | 1,995  | 2,492          |
| Asset retirement obligation accretion   | 116  | 109            |
| Impairments   | 1,009  | 6,327          |
| Deferred income tax benefit   | (755)  | (1,299)        |
| Other   | 126  | 80             |
| Changes in operating assets and liabilities:                                    |  |                |
| Receivables   | 192  | 585            |
| Inventories   | (2)  | 54             |
| Drilling advances   | (36)   | 125            |
| Deferred charges and other  | 40   | (117)          |
| Accounts payable  | (93)   | (463)          |
| Accrued expenses  | (67)   | 109            |
| Deferred credits and noncurrent liabilities                                     | (33)   | 102            |
| <b>NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES</b>                     | <b>1,634</b>   | <b>2,380</b>   |
| <b>NET CASH PROVIDED BY DISCONTINUED OPERATIONS</b>                             | <b>—</b>   | <b>113</b>     |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                | <b>1,634</b>   | <b>2,493</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                    |  |                |
| Additions to oil and gas property   | (1,281)  | (3,562)        |
| Leasehold and property acquisitions   | (169)  | (254)          |
| Additions to gas gathering, transmission, and processing facilities             | (33)   | (113)          |
| Proceeds from sale of Kitimat LNG project                                       | —  | 854            |
| Proceeds from sale of other oil and gas properties                              | 74   | 148            |
| Other, net  | 47   | (99)           |
| <b>NET CASH USED IN CONTINUING INVESTING ACTIVITIES</b>                         | <b>(1,362)</b>   | <b>(3,026)</b> |
| <b>NET CASH PROVIDED BY DISCONTINUED OPERATIONS</b>                             | <b>—</b>   | <b>4,372</b>   |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>                      | <b>(1,362)</b>   | <b>1,346</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                    |  |                |
| Commercial paper and bank credit facilities, net                                | —  | (1,570)        |
| Payment of fixed-rate debt  | (1)  | (939)          |
| Distributions to noncontrolling interest  | (215)  | (97)           |
| Dividends paid  | (284)  | (283)          |
| Other   | (9)  | 26             |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                    | <b>(509)</b>   | <b>(2,863)</b> |

|  |         |   |         |
|--|---------|---|---------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (237    | ) | 976     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR       | 1,467   |   | 679     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD           | \$1,230 |   | \$1,655 |

SUPPLEMENTARY CASH FLOW DATA:

|  |       |  |       |
|--|-------|--|-------|
| Interest paid, net of capitalized interest | \$345 |  | \$385 |
| Income taxes paid, net of refunds          | 256   |  | 270   |

\*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

The accompanying notes to consolidated financial statements are an integral part of this statement.



APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

|   | September 30,<br>2016 | December 31,<br>2015* |
|---|-----------------------|-----------------------|
|   | (In millions)         |                       |
| <b>ASSETS</b>   |                       |                       |
| <b>CURRENT ASSETS:</b>  |                       |                       |
| Cash and cash equivalents   | \$1,230               | \$ 1,467              |
| Receivables, net of allowance   | 1,064                 | 1,253                 |
| Inventories   | 513                   | 570                   |
| Drilling advances   | 209                   | 172                   |
| Prepaid assets and other  | 256                   | 290                   |
|   | 3,272                 | 3,752                 |
| <b>PROPERTY AND EQUIPMENT:</b>  |                       |                       |
| Oil and gas, on the basis of successful efforts accounting:   |                       |                       |
| Proved properties   | 42,591                | 41,728                |
| Unproved properties and properties under development, not being amortized   | 2,061                 | 2,277                 |
| Gathering, transmission and processing facilities   | 886                   | 1,052                 |
| Other   | 1,102                 | 1,093                 |
|   | 46,640                | 46,150                |
| Less: Accumulated depreciation, depletion, and amortization   | (27,178 )             | (25,312 )             |
|   | 19,462                | 20,838                |
| <b>OTHER ASSETS:</b>  |                       |                       |
| Deferred charges and other  | 415                   | 910                   |
|   | \$23,149              | \$ 25,500             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                       |
| <b>CURRENT LIABILITIES:</b>   |                       |                       |
| Accounts payable  | \$557                 | \$ 618                |
| Other current liabilities (Note 5)  | 1,071                 | 1,223                 |
|   | 1,628                 | 1,841                 |
| <b>LONG-TERM DEBT</b>   | 8,721                 | 8,716                 |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>   |                       |                       |
| Income taxes  | 1,783                 | 2,529                 |
| Asset retirement obligation   | 2,742                 | 2,562                 |
| Other   | 326                   | 362                   |
|   | 4,851                 | 5,453                 |
| <b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>   |                       |                       |
| <b>EQUITY:</b>  |                       |                       |
| Common stock, \$0.625 par, 860,000,000 shares authorized, 412,602,756 and 411,218,105 shares issued, respectively | 258                   | 257                   |
| Paid-in capital   | 12,421                | 12,619                |
| Accumulated deficit   | (3,203 )              | (1,980 )              |
| Treasury stock, at cost, 33,173,422 and 33,183,930 shares, respectively   | (2,888 )              | (2,889 )              |
| Accumulated other comprehensive loss  | (119 )                | (119 )                |
| <b>APACHE SHAREHOLDERS' EQUITY</b>  | 6,469                 | 7,888                 |
| Noncontrolling interest   | 1,480                 | 1,602                 |
| <b>TOTAL EQUITY</b>   | 7,949                 | 9,490                 |
|   | \$23,149              | \$ 25,500             |

\*Financial information for 2015 has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

The accompanying notes to consolidated financial statements are an integral part of this statement.

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APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED CHANGES IN EQUITY  
(Unaudited)

|  | Common<br>Stock | Paid-In<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | APACHE<br>SHAREHOLDER<br>EQUITY | Non<br>Controlling<br>Interest | TOTAL<br>EQUITY |
|--|-----------------|--------------------|--|-------------------|---|---------------------------------|--------------------------------|-----------------|
|  | (In millions)   |                    |  |                   |   |                                 |                                |                 |
| BALANCE AT DECEMBER 31, 2014 previously reported | \$ 256          | \$ 12,438          | \$ 16,249  | \$(2,890)         | \$ (116)                                      | \$ 25,937                       | \$ 2,200                       | \$ 28,137       |
| Effect of change in accounting principle         | —               | 152                | (7,594)  | —                 | —   | (7,442)                         | (154)                          | (7,596)         |
| BALANCE AT DECEMBER 31, 2014 as recast           | \$ 256          | \$ 12,590          | \$ 8,655   | \$(2,890)         | \$ (116)                                      | \$ 18,495                       | \$ 2,046                       | \$ 20,541       |
| Net income (loss)                                | —               | —                  | (6,337)  | —                 | —   | (6,337)                         | 98                             | (6,239)         |
| Distributions to noncontrolling interest         | —               | —                  | —  | —                 | —   | —                               | (97)                           | (97)            |
| Common dividends (\$0.75 per share)              | —               | —                  | (283)  | —                 | —   | (283)                           | —                              | (283)           |
| Other  | 1               | 59                 | —  | 1                 | —   | 61                              | —                              | 61              |
| BALANCE AT SEPTEMBER 30, 2015                    | \$ 257          | \$ 12,649          | \$ 2,035   | \$(2,889)         | \$ (116)                                      | \$ 11,936                       | \$ 2,047                       | \$ 13,983       |
| BALANCE AT DECEMBER 31, 2015 previously reported | \$ 257          | \$ 12,467          | \$(7,153)  | \$(2,889)         | \$ (116)                                      | \$ 2,566                        | \$ 1,662                       | \$ 4,228        |
| Effect of change in accounting principle         | —               | 152                | 5,173  | —                 | (3)   | 5,322                           | (60)                           | 5,262           |
| BALANCE AT DECEMBER 31, 2015 as recast           | \$ 257          | \$ 12,619          | \$(1,980)  | \$(2,889)         | \$ (119)                                      | \$ 7,888                        | \$ 1,602                       | \$ 9,490        |
| Net income (loss)                                | —               | —                  | (1,223)  | —                 | —   | (1,223)                         | 93                             | (1,130)         |
| Distributions to noncontrolling interest         | —               | —                  | —  | —                 | —   | —                               | (215)                          | (215)           |
| Common dividends (\$0.75 per share)              | —               | (284)              | —  | —                 | —   | (284)                           | —                              | (284)           |
| Other  | 1               | 86                 | —  | 1                 | —   | 88                              | —                              | 88              |
| BALANCE AT SEPTEMBER 30, 2016                    | \$ 258          | \$ 12,421          | \$(3,203)  | \$(2,888)         | \$ (119)                                      | \$ 6,469                        | \$ 1,480                       | \$ 7,949        |

Financial information for prior periods has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1.

The accompanying notes to consolidated financial statements are an integral part of this statement.

APACHE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

These consolidated financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature and are on a basis consistent with the annual audited consolidated financial statements, except as described in Note 1 below. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, should be read along with Apache's Current Report on Form 8-K dated August 4, 2016, for the fiscal year ended December 31, 2015, which contains a summary of the Company's significant accounting policies and other disclosures.

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements for prior periods include reclassifications that were made to conform to the current-period presentation. During the second quarter of 2015, Apache completed the sale of its Australian LNG business and oil and gas assets. Results of operations and consolidated cash flows for the divested Australia assets are reflected as discontinued operations in the Company's financial statements for all periods presented. For more information regarding these divestitures, please refer to Note 3—Acquisitions and Divestitures.

##### Recast Financial Information for Change in Accounting Principle

In the second quarter of 2016, Apache voluntarily changed its method of accounting for its oil and gas exploration and development activities from the full cost method to the successful efforts method of accounting. As prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 250 "Accounting Changes and Error Corrections," the financial information for prior periods has been recast to reflect retrospective application of the successful efforts method of accounting in accordance with ASC 932 "Extractive Activities—Oil and Gas." Although the full cost method of accounting for oil and gas exploration and development activities continues to be an accepted alternative, the successful efforts method of accounting is the generally preferred method of the U.S. Securities and Exchange Commission (SEC) and is more widely used in the industry such that the change improves comparability of the Company's financial statements to its peers. The Company believes the successful efforts method provides a more representational depiction of assets and operating results. The successful efforts method also provides for the Company's investments in oil and gas properties to be assessed for impairment in accordance with ASC 360 "Property, Plant, and Equipment" rather than valuations based on prices and costs prescribed under the full cost method as of the balance sheet date. For more detailed information regarding the effects of the change to the successful efforts method, please refer to Note 2—Change in Accounting Principle. The Company has recast certain historical information for all periods presented, including the Statement of Consolidated Operations, Statement of Consolidated Cash Flows, Consolidated Balance Sheet, Statement of Consolidated Changes in Equity, and related information in Notes 1, 2, 3, 4, 5, 7, 8, 10, 11, and 12.

In the first quarter of 2016, the Company retrospectively adopted a new accounting standard update ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability, consistent with debt discounts. For more information regarding this update, please refer to Note 7—Debt and Financing Costs.

As of September 30, 2016, Apache's significant accounting policies are consistent with those discussed in Note 1—Summary of Significant Accounting Policies to the consolidated financial statements contained in Apache's Current Report on Form 8-K dated August 4, 2016, for the fiscal year ended December 31, 2015.

##### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these

financial statements include the fair value determination of acquired assets and liabilities, the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom, the assessment of asset retirement obligations, the estimates of fair value for long-lived assets and goodwill, and the estimate of income taxes. Actual results could differ from those estimates.

### Fair Value Measurements

Certain assets and liabilities are reported at fair value on a recurring basis in Apache's consolidated balance sheet. ASC 820-10-35 provides a hierarchy that prioritizes and defines the types of inputs used to measure fair value. The fair value hierarchy gives the highest priority to Level 1 inputs, which consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs that are significant and unobservable; hence, these valuations have the lowest priority.

The valuation techniques that may be used to measure fair value include a market approach, an income approach, and a cost approach. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. An income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectations, including present value techniques, option-pricing models, and the excess earnings method. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Apache also uses fair value measurements on a nonrecurring basis when certain qualitative assessments of its assets indicate a potential impairment. For the third quarter and nine-month period ended September 30, 2016, the Company recorded asset impairments totaling \$951 million and \$1.2 billion, respectively, in connection with fair value assessments. For the third quarter and nine-month period ended September 30, 2016, impairments totaling \$470 million and \$645 million, respectively, were recorded for oil and gas properties in the U.S. and Canada, as discussed in further detail below in "Oil and Gas Property."

During the second quarter of 2016, the Company also recorded an impairment of \$105 million for gas gathering, transmission, and processing (GTP) assets. The fair values of the impaired assets were determined using an income approach, which considered internal estimates of future throughput volumes, processing rates, and costs. These assumptions were applied to develop future cash flow projections that were then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. Apache has classified these non-recurring fair value measurements as Level 3 in the fair value hierarchy. The resulting fair value of \$175 million was reflected in GTP assets.

On September 15, 2016, U.K. Finance Act 2016 received Royal Assent, providing tax relief to exploration and production companies operating in the U.K. North Sea. Under the enacted legislation, the U.K. Petroleum Revenue Tax (PRT) rate was reduced to zero from the previously enacted 35 percent rate in effect from January 1, 2016. PRT expense ceased prospectively from that date. As a further result of this change, the Company reduced the recoverable PRT benefits that would have been realized from future abandonment activities by \$481 million (\$289 million net of tax). This recoverable PRT benefit had an aggregate remaining value of \$13 million as of September 30, 2016, which is recorded in "Deferred charges and other" on the consolidated balance sheet. The recoverable value of the PRT benefit was estimated using the income approach. The expected future cash flows used in the determination were based on anticipated spending and timing of planned future abandonment activities for applicable fields, considering all available information at the date of review. Apache has classified this fair value measurement as Level 3 in the fair value hierarchy.

For the nine-month period ended September 30, 2015, the Company recorded asset impairments totaling \$6.8 billion in connection with fair value assessments in the current low commodity price environment. Impairments totaling \$6.3 billion were recorded for oil and gas properties, which were written down to their fair values. Also, for the nine-month period ended September 30, 2015, the Company recorded \$210 million for the impairment of certain GTP assets, which were written down to their fair values, \$163 million for the impairment of goodwill, \$148 million for the impairment of an equity method investment, and \$9 million for the impairment of inventory.

### Oil and Gas Property

The Company follows the successful efforts method of accounting for its oil and gas property. Under this method of accounting, exploration costs such as exploratory geological and geophysical costs, delay rentals, and exploration overhead are expensed as incurred. All costs related to production, general corporate overhead, and similar activities are expensed as incurred. If an exploratory well provides evidence to justify potential development of reserves, drilling costs associated with the well are initially capitalized, or suspended, pending a determination as to whether a commercially sufficient quantity of proved reserves can be attributed to the area as a result of drilling. This determination may take longer than one year in certain areas depending on, among other things, the amount of hydrocarbons discovered, the outcome of planned geological and engineering studies, the need for additional appraisal drilling activities to determine whether the discovery is sufficient to support an economic development plan, and government sanctioning of development activities in certain international locations. At the end of each quarter, management reviews the status of all suspended exploratory well costs in light of ongoing exploration activities; in particular, whether the Company is making sufficient progress in its ongoing exploration and appraisal efforts or, in the case of discoveries requiring government sanctioning, whether development negotiations are underway and proceeding as planned. If management determines that future appraisal drilling or development activities are unlikely to occur, associated exploratory well costs are expensed as dry hole costs.

Acquisition costs of unproved properties are assessed for impairment at least annually and are transferred to proved oil and gas properties to the extent the costs are associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment based on the Company's current exploration plans. Unproved oil and gas properties with individually insignificant lease acquisition costs are amortized on a group basis over the average lease term at rates that provide for full amortization of unsuccessful leases upon lease expiration or abandonment. Costs of expired or abandoned leases are charged to exploration expense, while costs of productive leases are transferred to proved oil and gas properties. Costs of maintaining and retaining unproved properties, as well as amortization of individually insignificant leases and impairment of unsuccessful leases, are included in exploration costs in the statement of consolidated operations.

Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized. Depreciation of the cost of proved oil and gas properties is calculated using the unit-of-production (UOP) method. The UOP calculation amortizes the remaining historical capitalized costs of oil and gas properties based on the volumes produced. The reserve base used to calculate depreciation for property acquisition costs is the sum of proved developed reserves and proved undeveloped reserves. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves. Estimated future dismantlement, restoration and abandonment costs, net of salvage values, are included in the depreciable cost.

Oil and gas properties are grouped for depreciation in accordance with ASC 932 "Extractive Activities - Oil and Gas." The basis for grouping is a reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field.

When circumstances indicate that proved oil and gas properties may be impaired, the Company compares unamortized capitalized costs to the expected undiscounted pre-tax future cash flows for the associated assets grouped at the lowest level for which identifiable cash flows are independent of cash flows of other assets. If the expected undiscounted pre-tax future cash flows, based on Apache's estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally estimated using the income approach described in the ASC 820 "Fair Value Measurement." If applicable, the Company utilizes accepted bids as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. Apache has classified these fair value measurements as Level 3 in the fair value hierarchy.





The following table represents non-cash impairments of the carrying value of the Company's proved and unproved property and equipment for the third quarters and first nine months of 2016 and 2015:

| Quarter Ended |      | Nine Months Ended |      |
|---------------|------|-------------------|------|
| September 30, |      | September 30,     |      |
| 2016          | 2015 | 2016              | 2015 |

(In millions)

Oil and Gas Property:

|          |       |         |       |         |
|----------|-------|---------|-------|---------|
| Proved   | \$355 | \$3,536 | \$423 | \$5,797 |
| Unproved | 114   | 199     | 222   | 515     |

Proved properties impaired during the second and third quarters of 2016 had aggregate fair values of \$143 million and \$163 million, respectively. Proved properties impaired during the first, second, and third quarters of 2015 had aggregate fair values of \$1.2 billion, \$516 million, and \$1.9 billion, respectively.

On the statement of consolidated operations, unproved impairments are recorded in exploration expense, and proved impairments are recorded in impairments.

Gains and losses on significant divestitures are recognized in the statement of consolidated operations.

New Pronouncements Issued But Not Yet Adopted

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230). ASU 2016-15 seeks to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the provisions of ASU 2016-15 and assessing the impact, if any, it may have on its statement of consolidated cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses." The standard changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. The Company does not expect to adopt the guidance early. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is evaluating the new guidance and does not believe this standard will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, which seeks to simplify accounting for share-based payment transactions including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The new standard requires the Company to recognize the income tax effects of awards in the income statement when the awards vest or are settled. The guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and if an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is evaluating the new guidance and does not believe this standard will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, a new lease standard requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.



In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a joint revenue recognition standard, ASU 2014-09. The new standard removes inconsistencies in existing standards, changes the way companies recognize revenue from contracts with customers, and increases disclosure requirements. The guidance requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, which provides further clarification on the principal versus agent evaluation. The guidance is effective for annual and interim periods beginning after December 15, 2017. The standard is required to be adopted using either the full retrospective approach, with all prior periods presented adjusted, or the modified retrospective approach, with a cumulative adjustment to retained earnings on the opening balance sheet. The Company is currently evaluating the level of effort needed to implement the standard, the impact of adopting this standard on its consolidated financial statements, and whether to use the full retrospective approach or the modified retrospective approach.

## 2. CHANGE IN ACCOUNTING PRINCIPLE

During the second quarter of 2016, the Company voluntarily changed its method of accounting for oil and gas exploration and development activities from the full cost method to the successful efforts method. Accordingly, financial information for prior periods has been recast to reflect retrospective application of the successful efforts method. Under successful efforts, exploration expenditures such as exploratory dry holes, exploratory geological and geophysical costs, delay rentals, unproved impairments, and exploration overhead are charged against earnings, versus being capitalized under the full cost method of accounting. Successful efforts also provides for the assessment of potential property impairments under ASC 360 by comparing the net carrying value of oil and gas properties with associated projected undiscounted pre-tax future net cash flows. If the expected undiscounted pre-tax future net cash flows are lower than the unamortized capitalized costs, the capitalized cost is reduced to fair value. Under the full cost method of accounting, a write-down would be required if the net carrying value of oil and gas properties exceeds a full cost "ceiling," using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months. In addition, gains or losses, if applicable, are generally recognized on the dispositions of oil and gas property and equipment under the successful efforts method, as opposed to an adjustment to the net carrying value of the remaining assets under the full cost method. Apache's consolidated financial statements have been recast to reflect these differences.

The following tables present the effects of the change to the successful efforts method in the statement of consolidated operations:

| For the Quarter Ended September 30, 2016   | Changes to the Statement of Consolidated Operations |         |                                      |
|--|---|---------|--------------------------------------|
|  | Under Full Cost                                     | Changes | As Reported Under Successful Efforts |
|  | (In millions, except per share data)                |         |                                      |
| Oil revenues                               | \$1,058   | \$ 59   | \$ 1,117                             |
| Natural gas revenues                       | 273   | (10 )   | 263                                  |
| NGL revenues                               | 59  | —       | 59                                   |
| Oil and gas production revenues            | 1,390   | 49      | 1,439                                |
| Other                                      | (5 )  | (1 )    | (6 )                                 |
| Gain on divestiture                        | 2   | 3       | 5                                    |
| Exploration                                | —   | 161     | 161                                  |
| Depreciation, depletion, and amortization: |   |         |                                      |
| Oil and Gas Property and Equipment         |   |         |                                      |
| Recurring                                  | 473   | 137     | 610                                  |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Additional   | 328       | (328 )    | —         |
| Impairments  | 481       | 355       | 836       |
| Financing costs, net   | 92        | 10        | 102       |
| Current income tax provision   | 101       | 49        | 150       |
| Deferred income tax provision (benefit)                                    | (407 )    | (122 )    | (529 )    |
| NET LOSS FROM CONTINUING OPERATIONS INCLUDING<br>NONCONTROLLING INTEREST   | (315 )    | (211 )    | (526 )    |
| Net income (loss) attributable to noncontrolling interest                  | 37        | 11        | 48        |
| NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON<br>SHAREHOLDERS | (352 )    | (222 )    | (574 )    |
| Net income (loss) from discontinued operations                             | (33 )     | —         | (33 )     |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                               | (385 )    | (222 )    | (607 )    |
| Per common share   |           |           |           |
| Basic net loss from continuing operations per share                        | \$(0.96 ) | \$(0.55 ) | \$(1.51 ) |
| Basic net loss from discontinued operations per share                      | (0.06 )   | —         | (0.09 )   |
| Basic net loss per share   | \$(1.02 ) | \$(0.55 ) | \$(1.60 ) |
| Diluted net loss from continuing operations per share                      |           |           |           |
| Diluted net loss from discontinued operations per share                    | (0.06 )   | —         | (0.09 )   |
| Diluted net loss per share   | \$(1.02 ) | \$(0.55 ) | \$(1.60 ) |

|   | Changes to the Statement of Consolidated Operations |          |                                      |
|---|---|----------|--------------------------------------|
|   | Under Full Cost                                     | Changes* | As Reported Under Successful Efforts |
| For the Quarter Ended September 30, 2015                                |   |          |                                      |
|   | (In millions, except per share data)                |          |                                      |
| Oil revenues  | \$1,213   | \$ 25    | \$ 1,238                             |
| Natural gas revenues  | 309   | 9        | 318                                  |
| NGL revenues  | 50  | —        | 50                                   |
| Oil and gas production revenues   | 1,572   | 34       | 1,606                                |
| Other   | (76   | ) 1      | (75 )                                |
| Loss on divestiture   | —   | (5       | ) (5 )                               |
| Exploration   | —   | 223      | 223                                  |
| General and administrative  | 86  | 3        | 89                                   |
| Depreciation, depletion, and amortization:                              |   |          |                                      |
| Oil and Gas Property and Equipment                                      |   |          |                                      |
| Recurring   | 829   | (36      | ) 793                                |
| Additional  | 5,721   | (5,721   | ) —                                  |
| Impairments   | 367   | 3,536    | 3,903                                |
| Financing costs, net  | 107   | 53       | 160                                  |
| Current income tax benefit  | (84   | ) (186   | ) (270 )                             |
| Deferred income tax provision (benefit)                                 | (707  | ) 726    | 19                                   |
| NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST   | (5,551  | ) 1,432  | (4,119 )                             |
| Net income attributable to noncontrolling interest                      | 9   | (2       | ) 7                                  |
| NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS | (5,560  | ) 1,434  | (4,126 )                             |
| Net loss from discontinued operations                                   | (95   | ) 78     | (17 )                                |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                            | (5,655  | ) 1,512  | (4,143 )                             |
| Per common share  |   |          |                                      |
| Basic net loss from continuing operations per share                     | \$(14.70)   | \$ 3.79  | \$(10.91 )                           |
| Basic net loss from discontinued operations per share                   | (0.25   | ) 0.21   | (0.04 )                              |
| Basic net loss per share  | \$(14.95)   | \$ 4.00  | \$(10.95 )                           |
| Diluted net loss from continuing operations per share                   | \$(14.70)   | \$ 3.79  | \$(10.91 )                           |
| Diluted net loss from discontinued operations per share                 | (0.25   | ) 0.21   | (0.04 )                              |
| Diluted net loss per share  | \$(14.95)   | \$ 4.00  | \$(10.95 )                           |

|  | Changes to the Statement of Consolidated Operations |          |                                      |
|--|---|----------|--------------------------------------|
|  | Under Full Cost                                     | Changes* | As Reported Under Successful Efforts |
| For the Nine Months Ended September 30, 2016 |   |          |                                      |

|   | (In millions, except per share data) |          |            |
|---|--------------------------------------|----------|------------|
| Oil revenues  | \$2,915                              | \$ 142   | \$ 3,057   |
| Natural gas revenues  | 715                                  | (20 )    | 695        |
| NGL revenues  | 160                                  | —        | 160        |
| Oil and gas production revenues   | 3,790                                | 122      | 3,912      |
| Other   | (33 )                                | 3        | (30 )      |
| Gain on divestiture   | 5                                    | 16       | 21         |
| Exploration   | —                                    | 347      | 347        |
| Depreciation, depletion, and amortization:                              |                                      |          |            |
| Oil and Gas Property and Equipment                                      |                                      |          |            |
| Recurring   | 1,532                                | 343      | 1,875      |
| Additional  | 1,486                                | (1,486 ) | —          |
| Impairments   | 587                                  | 422      | 1,009      |
| Financing costs, net  | 272                                  | 39       | 311        |
| Current income tax provision  | 162                                  | 122      | 284        |
| Deferred income tax provision (benefit)                                 | (708 )                               | (47 )    | (755 )     |
| NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST   | (1,498 )                             | 401      | (1,097 )   |
| Net income (loss) attributable to noncontrolling interest               | (56 )                                | 149      | 93         |
| NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS | (1,442 )                             | 252      | (1,190 )   |
| Net income (loss) from discontinued operations                          | (33 )                                | —        | (33 )      |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                            | (1,475 )                             | 252      | (1,223 )   |
| Per common share  |                                      |          |            |
| Basic net loss from continuing operations per share                     | \$(3.83 )                            | \$ 0.69  | \$( 3.14 ) |
| Basic net loss from discontinued operations per share                   | (0.06 )                              | —        | (0.08 )    |
| Basic net loss per share  | \$(3.89 )                            | \$ 0.69  | \$( 3.22 ) |
| Diluted net loss from continuing operations per share                   | \$(3.83 )                            | \$ 0.69  | \$( 3.14 ) |
| Diluted net loss from discontinued operations per share                 | (0.06 )                              | —        | (0.08 )    |
| Diluted net loss per share  | \$(3.89 )                            | \$ 0.69  | \$( 3.22 ) |

|   | Changes to the Statement of Consolidated Operations |          |                                      |
|---|---|----------|--------------------------------------|
|   | Under Full Cost                                     | Changes* | As Reported Under Successful Efforts |
| For the Nine Months Ended September 30, 2015                            |   |          |                                      |
|   | (In millions, except per share data)                |          |                                      |
| Oil revenues  | \$4,092   | \$ 57    | \$ 4,149                             |
| Natural gas revenues  | 904   | 37       | 941                                  |
| NGL revenues  | 166   | —        | 166                                  |
| Oil and gas production revenues   | 5,162   | 94       | 5,256                                |
| Other   | (59   | ) 6      | (53                                  |
| Gain on divestiture   | —   | 204      | 204                                  |
| Exploration   | —   | 706      | 706                                  |
| General and administrative  | 279   | 5        | 284                                  |
| Depreciation, depletion, and amortization:                              |   |          |                                      |
| Oil and Gas Property and Equipment                                      |   |          |                                      |
| Recurring   | 2,751   | (504     | ) 2,247                              |
| Additional  | 18,757  | (18,757  | ) —                                  |
| Impairments   | 367   | 5,960    | 6,327                                |
| Financing costs, net  | 240   | 161      | 401                                  |
| Current income tax provision  | 496   | 82       | 578                                  |
| Deferred income tax provision (benefit)                                 | (5,167  | ) 3,868  | (1,299                               |
| NET LOSS FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST   | (14,887)  | 8,783    | (6,104                               |
| Net income attributable to noncontrolling interest                      | 60  | 38       | 98                                   |
| NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO COMMON SHAREHOLDERS | (14,947)  | 8,745    | (6,202                               |
| Net loss from discontinued operations                                   | (959  | ) 824    | (135                                 |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                            | (15,906)  | 9,569    | (6,337                               |
| Per common share  |   |          |                                      |
| Basic net loss from continuing operations per share                     | \$(39.58)   | \$ 23.16 | \$ (16.42                            |
| Basic net loss from discontinued operations per share                   | (2.54   | ) 2.18   | (0.36                                |
| Basic net loss per share  | \$(42.12)   | \$ 25.34 | \$ (16.78                            |
| Diluted net loss from continuing operations per share                   | \$(39.58)   | \$ 23.16 | \$ (16.42                            |
| Diluted net loss from discontinued operations per share                 | (2.54   | ) 2.18   | (0.36                                |
| Diluted net loss per share  | \$(42.12)   | \$ 25.34 | \$ (16.78                            |

The following tables present the effects of the change to the successful efforts method in the statement of consolidated cash flows:

|  | Changes to the Statement of Consolidated Cash Flows |          |             |
|--|---|----------|-------------|
|  | Under Full  | Changes* | As Reported |
| For the Nine Months Ended September 30, 2016 |   |          |             |

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|   | Cost             | Under<br>Successful<br>Efforts |
|---|------------------|--------------------------------|
|   | (In millions)    |                                |
| Net loss including noncontrolling interest                      | \$(1,531) \$ 401 | \$ (1,130 )                    |
| Gain on divestitures, net                                       | (5 ) (16 )       | (21 )                          |
| Exploratory dry hole expense and unproved leasehold impairments | — 260            | 260                            |
| Depreciation, depletion, and amortization                       | 3,138 (1,143 )   | 1,995                          |
| Impairments   | 587 422          | 1,009                          |
| Provision for (benefit from) deferred income taxes              | (708 ) (47 )     | (755 )                         |
| Changes in operating assets and liabilities                     | 3 (2 )           | 1                              |
| Net cash provided by operating activities                       | 1,759 (125 )     | 1,634                          |
| Additions to oil and gas property                               | (1,406 ) 125     | (1,281 )                       |
| Net cash used in investing activities                           | (1,487 ) 125     | (1,362 )                       |
| NET INCREASE (DECREASE) IN CASH                                 | (237 ) —         | (237 )                         |
| BEGINNING CASH BALANCE  | 1,467 —          | 1,467                          |
| ENDING CASH BALANCE   | 1,230 —          | 1,230                          |



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| For the Nine Months Ended September 30, 2015                        | Changes to the Statement of Consolidated Cash Flows |           |                                      |
|---|---|-----------|--------------------------------------|
|   | Under Full Cost                                     | Changes*  | As Reported Under Successful Efforts |
|   | (In millions)                                       |           |                                      |
| Net loss including noncontrolling interest                          | \$(15,846)  | \$ 9,607  | \$ (6,239 )                          |
| Loss from discontinued operations                                   | 959   | (824 )    | 135                                  |
| Gain on divestitures, net   | —   | (204 )    | (204 )                               |
| Exploratory dry hole expense and unproved leasehold impairments     | —   | 584       | 584                                  |
| Depreciation, depletion, and amortization                           | 21,753  | (19,261 ) | 2,492                                |
| Impairments   | 367   | 5,960     | 6,327                                |
| Provision for (benefit from) deferred income taxes                  | (5,167 )  | 3,868     | (1,299 )                             |
| Changes in operating assets and liabilities                         | 317   | 78        | 395                                  |
| Net cash provided by operating activities - continuing operations   | 2,572   | (192 )    | 2,380                                |
| Net cash provided by operating activities - discontinued operations | 150   | (37 )     | 113                                  |
| Additions to oil and gas property                                   | (3,844 )  | 282       | (3,562 )                             |
| Net cash used in investing activities - continuing operations       | (3,308 )  | 282       | (3,026 )                             |
| Net cash provided by investing activities - discontinued operations | 4,335   | 37        | 4,372                                |
| NET INCREASE (DECREASE) IN CASH                                     | 886   | 90        | 976                                  |
| BEGINNING CASH BALANCE  | 769   | (90 )     | 679                                  |
| ENDING CASH BALANCE   | 1,655   | —         | 1,655                                |

The following tables present the effects of the change to the successful efforts method in the consolidated balance sheet:

| September 30, 2016  | Changes to the Consolidated Balance Sheet |            |                                      |
|---|---|------------|--------------------------------------|
|   | Under Full Cost                           | Changes    | As Reported Under Successful Efforts |
|   | (In millions)                             |            |                                      |
| <b>PROPERTY AND EQUIPMENT:</b>                              |   |            |                                      |
| Property and equipment - cost                               | \$95,107                                  | \$(48,467) | \$ 46,640                            |
| Less: Accumulated depreciation, depletion, and amortization | (82,717 )                                 | 55,539     | (27,178 )                            |
| PROPERTY AND EQUIPMENT, NET                                 | 12,390                                    | 7,072      | 19,462                               |
| TOTAL ASSETS  | 16,077                                    | 7,072      | 23,149                               |
| Deferred income taxes                                       | 364                                       | 1,419      | 1,783                                |
| Paid-in capital   | 12,279                                    | 142        | 12,421                               |
| Accumulated deficit   | (8,628 )                                  | 5,425      | (3,203 )                             |
| Accumulated other comprehensive loss                        | (116 )                                    | (3 )       | (119 )                               |
| Noncontrolling interest                                     | 1,391                                     | 89         | 1,480                                |
| TOTAL EQUITY  | 2,296                                     | 5,653      | 7,949                                |

| December 31, 2015 | Changes to the Consolidated Balance Sheet |          |             |
|-------------------|---|----------|-------------|
|                   | Under Full Cost                           | Changes* | As Reported |

|   |               |              | Under<br>Successful<br>Efforts |
|---|---------------|--------------|--------------------------------|
|   | (In millions) |              |                                |
| <b>PROPERTY AND EQUIPMENT:</b>                              |               |              |                                |
| Property and equipment - cost                               | \$93,825      | \$(47,675)   | \$ 46,150                      |
| Less: Accumulated depreciation, depletion, and amortization | (79,706 )     | 54,394       | (25,312 )                      |
| <b>PROPERTY AND EQUIPMENT, NET</b>                          | <b>14,119</b> | <b>6,719</b> | <b>20,838</b>                  |
| <b>TOTAL ASSETS</b>   | <b>18,781</b> | <b>6,719</b> | <b>25,500</b>                  |
| Deferred income taxes                                       | 1,072         | 1,457        | 2,529                          |
| Paid-in capital   | 12,467        | 152          | 12,619                         |
| Accumulated deficit <sup>(1)</sup>                          | (7,153 )      | 5,173        | (1,980 )                       |
| Accumulated other comprehensive loss                        | (116 )        | (3 )         | (119 )                         |
| Noncontrolling interest                                     | 1,662         | (60 )        | 1,602                          |
| <b>TOTAL EQUITY</b>   | <b>4,228</b>  | <b>5,262</b> | <b>9,490</b>                   |

\*In conjunction with recasting the financial information for the adoption of the successful efforts method of accounting, we corrected certain immaterial errors in the North Sea pertaining to the improper calculation of deferred tax liabilities associated with capitalized interest under the full cost method.

<sup>(1)</sup> The cumulative effect of the change to the successful efforts method on retained earnings (accumulated deficit) as of January 1, 2015 was a decrease of \$7.6 billion.

### 3. ACQUISITIONS AND DIVESTITURES

#### 2016 Activity

##### Leasehold and Property Acquisitions

During the third quarter and first nine months of 2016, Apache completed \$51 million and \$169 million, respectively, of leasehold and property acquisitions primarily in our North America onshore and Egypt regions.

##### Transaction, Reorganization, and Separation

During the third quarter and first nine months of 2016, Apache recorded \$12 million and \$36 million, respectively, in expense related to various asset transactions, company reorganization, and employee separation.

#### 2015 Activity

##### Yara Pilbara Holdings Pty Limited Sale

In October 2015, Apache completed the sale of its 49 percent interest in Yara Pilbara Holdings Pty Limited (YPHPL) for total cash proceeds of \$391 million. The investment in YPHPL was accounted for under the equity method of accounting, with the balance recorded as a component of "Deferred charges and other" in Apache's consolidated balance sheet, and the results of operations recorded as a component of "Other" under "Revenue and other" in the Company's statement of consolidated operations. As of September 30, 2015, Apache recognized an impairment of \$148 million on the YPHPL equity investment based on negotiated sale proceeds. No additional gain or loss was recorded upon completion of the sale.

##### Canada Divestiture

In April 2015, Apache's subsidiaries completed the sale of its 50 percent interest in the Kitimat LNG project and upstream acreage in the Horn River and Liard natural gas basins to Woodside Petroleum Limited (Woodside).

Proceeds at closing were \$854 million, of which approximately \$344 million were associated with LNG assets and \$510 million were associated with upstream assets.

The Kitimat LNG assets classified as held for sale as of December 31, 2014 were impaired \$655 million in the fourth quarter of 2014. Apache recognized a \$146 million gain on the sale of the upstream assets upon completion of the sale.

##### Australia Divestitures

**Woodside Sale** In April 2015, Apache's subsidiaries completed the sale of its interest in the Wheatstone LNG project and associated upstream oil and gas assets to Woodside. Proceeds at closing were \$2.8 billion, of which approximately \$1.4 billion were associated with LNG assets and \$1.4 billion were associated with the upstream assets. The Wheatstone LNG assets and associated upstream assets were impaired \$833 million in the fourth quarter of 2014 and classified as held for sale on the consolidated balance sheet as of December 31, 2014. An additional impairment of approximately \$49 million was recognized in the first quarter of 2015. During the third quarter of 2016, Apache recognized an additional \$23 million loss on the sale related to post-closing adjustments.

**Consortium Sale** In June 2015, Apache's subsidiaries completed the sale of the Company's Australian subsidiary Apache Energy Limited (AEL) to a consortium of private equity funds managed by Macquarie Capital Group Limited and Brookfield Asset Management Inc. Total proceeds of \$1.9 billion included customary, post-closing adjustments for the period between the effective date, October 1, 2014, and closing. A loss of approximately \$139 million was recognized for the sale of AEL.

Upon closing of the sale of substantially all Australian operations, the associated results of operations for the divested Australian assets and the losses on disposal were classified as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q. Sales and other operating revenues and loss from discontinued operations related to the Australia dispositions were as follows:

|  | For the<br>Quarter<br>Ended<br>September<br>30,<br>2016 |        | For the Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |         |
|--|---|--------|---|---------|
|  | 2016  | 2015   | 2016  | 2015    |
|  | (In millions)   |        |   |         |
| Revenues and other from discontinued operations          | \$—   | \$—    | \$—   | \$288   |
| Impairment on Woodside sale                              | \$—   | \$—    | \$—   | \$(49 ) |
| Loss on Woodside sale                                    | (23 )   | —      | (23 )   | —       |
| Loss on Consortium sale                                  | —   | —      | —   | (139 )  |
| Income from divested Australian operations               | —   | —      | —   | 28      |
| Income tax benefit (expense)                             | —   | (17 )  | —   | 25      |
| Loss from Australian discontinued operations, net of tax | \$(23)  | \$(17) | \$(23)  | \$(135) |

#### Leasehold and Property Acquisitions

During the third quarter and first nine months of 2015, Apache completed \$126 million and \$254 million, respectively, of leasehold and property acquisitions primarily in our North America onshore regions.

#### Transaction, Reorganization, and Separation

During the first nine months of 2015, Apache recorded \$120 million in expense related to various asset transactions, company reorganization, and employee separation.

#### 4. CAPITALIZED EXPLORATORY WELL COSTS

The Company's capitalized exploratory well costs were \$283 million and \$245 million at September 30, 2016 and December 31, 2015, respectively. Exploratory well costs that have been capitalized for a period greater than one year since the completion of drilling were \$32 million and \$61 million at September 30, 2016 and December 31, 2015, respectively. The exploratory well costs that had been capitalized for a period greater than one year at December 31, 2015 were associated with the Aviat discovery in the North Sea and comprised exploration and appraisal activities. The wells associated with the Aviat discovery were reclassified as proved properties during the nine months ended September 30, 2016. The amount of exploratory well costs capitalized for a period greater than one year increased by \$32 million during the second quarter as a result of exploration drilling in Suriname. No suspended exploratory well costs previously capitalized for greater than one year at December 31, 2015 were charged to dry hole expense during the nine months ended September 30, 2016.

## 5. OTHER CURRENT LIABILITIES

The following table provides detail of our other current liabilities as of September 30, 2016 and December 31, 2015:

|                                     | September<br>30,<br>2016 | December<br>31, 2015 |
|-------------------------------------|--------------------------|----------------------|
|                                     | (In millions)            |                      |
| Accrued operating expenses          | \$ 117                   | \$ 139               |
| Accrued exploration and development | 495                      | 637                  |
| Accrued compensation and benefits   | 147                      | 166                  |
| Accrued interest                    | 109                      | 144                  |
| Accrued income taxes                | 66                       | 47                   |
| Current debt                        | 1                        | 1                    |
| Current asset retirement obligation | 36                       | 36                   |
| Other                               | 100                      | 53                   |
| Total other current liabilities     | \$ 1,071                 | \$ 1,223             |

## 6. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the nine-month period ended September 30, 2016:

|   | (In millions) |
|---|---------------|
| Asset retirement obligation at December 31, 2015  | \$ 2,598      |
| Liabilities incurred                              | 7             |
| Liabilities acquired                              | 34            |
| Liabilities divested                              | (1 )          |
| Liabilities settled                               | (35 )         |
| Accretion expense                                 | 116           |
| Revisions in estimated liabilities                | 59            |
| Asset retirement obligation at September 30, 2016 | 2,778         |
| Less current portion                              | 36            |
| Asset retirement obligation, long-term            | \$ 2,742      |

## 7. DEBT AND FINANCING COSTS

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt as of September 30, 2016 and December 31, 2015:

|  | September 30,<br>2016 |               | December 31,<br>2015 |               |
|--|-----------------------|---------------|----------------------|---------------|
|  | Carrying<br>Amount    | Fair<br>Value | Carrying<br>Amount   | Fair<br>Value |
|  | (In millions)         |               |                      |               |
| Commercial paper and committed bank facilities | \$—                   | \$—           | \$—                  | \$—           |
| Notes and debentures                           | 8,722                 | 9,429         | 8,717                | 8,330         |
| Total Debt                                     | \$8,722               | \$9,429       | \$8,717              | \$8,330       |

The Company's debt is recorded at the carrying amount, net of related unamortized discount and debt issuance costs, on its consolidated balance sheet. The carrying amount of the Company's commercial paper, committed bank facilities, and uncommitted bank lines approximates fair value because the interest rates are variable and reflective of market rates. Apache uses a market approach to determine the fair value of its notes and debentures using estimates provided by an independent investment financial data services firm (a Level 2 fair value measurement).

As of September 30, 2016, the Company had a \$3.5 billion five-year revolving credit facility that matures in June 2020. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its \$3.5 billion commercial paper program. The commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of September 30, 2016, the Company had no debt outstanding under commercial paper, committed bank facilities, and uncommitted bank lines.

As of September 30, 2016, the Company had a £900 million letter of credit facility that matures in February 2019. The facility is available for letters of credit and loans to cash collateralize letter of credit obligations to the extent letters of credit are unavailable under the facility. As of September 30, 2016, a letter of credit for approximately £96 million was outstanding under this facility.

In April 2015, the FASB issued ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability. The Company adopted this update in the first quarter of 2016 and applied the changes retrospectively for all periods presented. At December 31, 2015, the Company had debt issuance costs of \$61 million classified as a long-term asset as a component of "deferred charges and other" on the balance sheet that have been netted against "long-term debt" in these unaudited interim financial statements. As of September 30, 2016, long-term debt is presented net of debt issuance costs of \$58 million.

## Financing Costs, Net

The following table presents the components of Apache's financing costs, net:

|                                     | For the<br>Quarter<br>Ended<br>September<br>30,<br>2016 |       | For the Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |       |
|-------------------------------------|---|-------|---|-------|
|                                     | 2016  | 2015  | 2016  | 2015  |
|                                     | (In millions)   |       |   |       |
| Interest expense                    | \$116   | \$120 | \$348   | \$371 |
| Amortization of deferred loan costs | 2   | 6     | 5   | 10    |
| Capitalized interest                | (13 )   | (3 )  | (36 )   | (12 ) |

|                                |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|
| Loss on extinguishment of debt | —     | 39    | —     | 39    |
| Interest income                | (3 )  | (2 )  | (6 )  | (7 )  |
| Financing costs, net           | \$102 | \$160 | \$311 | \$401 |

## 8. INCOME TAXES

The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Non-cash impairments of the carrying value of the Company's oil and gas properties, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the third quarter of 2016, Apache's effective income tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, the impact of the change in U.K. statutory income tax rate, and an increase in the amount of valuation allowances on U.S. and Canadian deferred tax assets.

On September 15, 2016, U.K. Finance Act 2016 received Royal Assent. Under the enacted legislation, the corporate income tax rate on North Sea oil and gas profits was reduced from 50 percent to 40 percent effective January 1, 2016. As a result of the enacted legislation in the third quarter of 2016, the Company recorded a deferred tax benefit of \$235 million related to the remeasurement of the Company's December 31, 2015 U.K. deferred income tax liability.

During the third quarter of 2015, Apache's effective tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets, U.S. foreign tax credits, and U.S. net operating loss carryforwards.

Apache's 2016 year-to-date effective tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, the impact of the change in U.K. statutory income tax rate, and an increase in the amount of valuation allowances on U.S. and Canadian deferred tax assets. Apache's 2015 year-to-date effective tax rate was primarily impacted by non-cash impairments of the carrying value of the Company's oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets, U.S. foreign tax credits, and U.S. net operating loss carryforwards, offset by a \$414 million deferred tax benefit associated with a reduction in the U.K. statutory income tax rate from 62 percent to 50 percent.

## 9. COMMITMENTS AND CONTINGENCIES

### Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. As of September 30, 2016, the Company has an accrued liability of approximately \$38 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating, and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position, results of operations, or liquidity after consideration of recorded accruals. For material matters that Apache believes an unfavorable outcome is reasonably possible, the Company has disclosed the nature of the matter and a range of potential exposure, unless an estimate cannot be made at this time. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

For additional information on each of the Legal Matters described below, please see Note 9—Commitments and Contingencies to the consolidated financial statements contained in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### Argentine Environmental Claims and Argentina Tariff

No material change in the status of the YPF Sociedad Anónima and Pioneer Natural Resources Company indemnities matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### Louisiana Restoration

As more fully described in Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either express or implied lease terms or Louisiana law, the companies are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages for contamination



and cleanup.

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On or about September 29, 2016, in a case captioned *The Parish of St. Bernard v. Atlantic Richfield Company et al*, Docket No. 16-1228, in the 34<sup>th</sup> Judicial District Court for the Parish of St Bernard, State of Louisiana plaintiff asserts coastal zone claims against the Company and various other oil and gas producers. The claims by St. Bernard Parish are similar to the claims filed previously in lawsuits filed by the Parish of Plaquemines against the Company and other oil and gas producers in the 25<sup>th</sup> Judicial District Court for the Parish of Plaquemines, State of Louisiana (captioned *Parish of Plaquemines v. Rozel Operating Company et al.*, Docket No. 60-996; *Parish of Plaquemines v. Apache Oil Corporation et al.*, Docket No. 61-000; and *Parish of Plaquemines v. HHE Energy Company et al.*, Docket No. 60-983). In Cameron Parish in the Parish's 3<sup>rd</sup> Judicial District Court, (captioned *Parish of Cameron v. BEPCO, L.P., et al.*, Docket No. 10-19572; *Parish of Cameron v. BP America Production Company et al.*, Docket No. 10-19576; *Parish of Cameron v. Apache Corporation (of Delaware) et al.*, Docket No. 10-19579; *Parish of Cameron v. Atlantic Richfield Company et al.*, Docket No. 10-19577; *Parish of Cameron v. Alpine Exploration Companies, Inc., et al.*, Docket No. 10-19580; and *Parish of Cameron v. Auster Oil and Gas, Inc., et al*, Docket No. 10-19582) and in Vermillion Parish (captioned *Keith Stutes, District Attorney for the 15th Judicial District of the State of Louisiana v. Gulfport Energy Corporation et al.*, Docket No. 102156, in the 15<sup>th</sup> Judicial District Court, Parish of Vermillion, State of Louisiana). The cases in Vermillion Parish and in Cameron Parish have all been removed to the United States District Court for the Western District of Louisiana, subject to any effort by the plaintiffs to remand the proceedings to state court. The Louisiana Attorney general and Louisiana Department of Natural Resources have intervened in the coastal zone cases.

No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### Apollo Exploration Lawsuit

In a fourth amended petition filed on March 21, 2016, in a case captioned *Apollo Exploration, LLC, Cogent Exploration, Ltd. Co. & SellmoCo, LLC v. Apache Corporation*, Cause No. CV50538 in the 385<sup>th</sup> Judicial District Court, Midland County, Texas, plaintiffs have reduced their alleged damages to approximately \$500 million (having previously claimed in excess of \$1.1 billion) relating to certain purchase and sale agreements, mineral leases, and areas of mutual interest agreements concerning properties located in Hartley, Moore, Potter, and Oldham Counties, Texas. Apache believes that plaintiffs' claims lack merit, and further that plaintiffs' alleged damages, even as amended, are grossly inflated. Apache will vigorously oppose the claims. No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### Escheat Audits

There has been no material change with respect to the review of the books and records of the Company and its subsidiaries and related entities by the State of Delaware, Department of Finance (Unclaimed Property), to determine compliance with the Delaware Escheat Laws, since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### Burrup-Related Gas Supply Lawsuits

In the cases captioned *Radhika Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al.*, No. SCI 2011 4653 and *Pankaj Oswal v. Australia and New Zealand Banking Group Limited (ANZ) et al.*, No. SCI 2012 01995, in the Supreme Court of Victoria, trial commenced on May 30, 2016. Apache Corporation, Apache Energy Limited (now known as Quadrant Energy Australia Limited), and Apache Northwest Pty Ltd (now known as Quadrant Northwest Pty Ltd) reached a settlement on confidential terms with each of the plaintiffs and related entities. All other remaining defendants then reached a settlement on confidential terms with each of the plaintiffs and related entities.

#### Environmental Matters

As of September 30, 2016, the Company had an undiscounted reserve for environmental remediation of approximately \$55 million. The Company is not aware of any environmental claims existing as of September 30, 2016, that have not been provided for or would otherwise have a material impact on its financial position, results of operations, or liquidity. There can be no assurance, however, that current regulatory requirements will not change or past non-compliance with environmental laws will not be discovered on the Company's properties.

Apache Canada Ltd. (ACL) reported a produced water release from a water injection pipeline in a remote area of the Belloy Field that occurred on or about May 4, 2016 and a hydrogen sulfide and oil emulsion leak in the Zama area on or about September 17, 2016. The causes of these incidents remain under investigation. With respect to previous releases of produced water that occurred in the Zama area between October 3 and October 25, 2013 and in the Belloy Field on or about January 20, 2014, the Company has resolved all of the charges associated with these releases with the Crown and paid a fine of \$350,000. The Company does not expect the economic impact of any of these incidents to have a material effect on the Company's financial position, results of operations, or liquidity. No other material change in the status of these matters has occurred since the filing of Apache's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### Australian Operations Divestiture Dispute

By a Sale and Purchase Agreement dated April 9, 2015 ("SPA"), the Company and its subsidiaries divested their remaining Australian operations to Viraciti Energy Pty Ltd, which has since been renamed Quadrant Energy Pty Ltd ("Quadrant"). Closing occurred on June 5, 2015. By letter dated June 6, 2016, Quadrant provided the Company with a one-year placeholder notice of claim under the SPA concerning tax and other issues totaling approximately \$200 million in the aggregate. The Company is in the process of reviewing the issues raised by Quadrant and believes at this time that these matters will not have a material adverse effect on the Company's financial position, results of operation, or liquidity.

#### LNG Divestiture Dispute

A number of disputes had arisen between the Company and Woodside Energy Ltd. (and all relevant Australian and Canadian subsidiaries) arising from Woodside's purchase of the Wheatstone and Kitimat LNG projects and accompanying upstream oil and gas reserves from the Company and its subsidiaries. These disputes resulted in various lawsuits being filed in both the Supreme Court of Western Australia (Case Nos. 2315 of 2015, 2798 of 2015, 1504 of 2016, 1520 of 2016, and 1521 of 2016) and the Court of Queen's Bench of Alberta, Calgary (Case No. 1601-12909) concerning or arising out of certain provisions of the Wheatstone and Kitimat sale and purchase agreements. In addition, certain other disputes under the parties' sale and purchase agreements had been referred to the ICC International Centre for ADR for a third party expert determination. With respect to each of the matters pending in Western Australia, Alberta, and before the ICC, the Company and Woodside have reached a settlement on confidential terms such that the matters will be discontinued and/or dismissed and mutual releases have been provided by the Company and Woodside related to the foregoing matters in dispute. The amount of the settlement has been included in the Company's accrued liabilities for legal contingencies as of September 30, 2016.

## 10. CAPITAL STOCK

## Net Loss per Common Share

A reconciliation of the components of basic and diluted net loss per common share for the quarters and nine months ended September 30, 2016 and 2015 is presented in the table below.

|                                   | For the Quarter Ended September 30,     |        |            |           |        |            |
|-----------------------------------|---|--------|------------|-----------|--------|------------|
|                                   | 2016                                    |        | 2015       |           |        |            |
|                                   | Loss                                    | Shares | Per Share  | Loss      | Shares | Per Share  |
|                                   | (In millions, except per share amounts) |        |            |           |        |            |
| Basic:                            |   |        |            |           |        |            |
| Loss from continuing operations   | \$(574)                                 | 380    | \$ (1.51 ) | \$(4,126) | 378    | \$(10.91 ) |
| Loss from discontinued operations | (33 )                                   | 380    | (0.09 )    | (17 )     | 378    | (0.04 )    |
| Loss attributable to common stock | \$(607)                                 | 380    | \$ (1.60 ) | \$(4,143) | 378    | \$(10.95 ) |
| Effect of Dilutive Securities:    |   |        |            |           |        |            |
| Stock options and other           | \$—                                     | —      | \$—        | \$—       | —      | \$—        |
| Diluted:                          |   |        |            |           |        |            |
| Loss from continuing operations   | \$(574)                                 | 380    | \$ (1.51 ) | \$(4,126) | 378    | \$(10.91 ) |
| Loss from discontinued operations | (33 )                                   | 380    | (0.09 )    | (17 )     | 378    | (0.04 )    |
| Loss attributable to common stock | \$(607)                                 | 380    | \$ (1.60 ) | \$(4,143) | 378    | \$(10.95 ) |
|                                   | For the Nine Months Ended September 30, |        |            |           |        |            |
|                                   | 2016                                    |        | 2015       |           |        |            |
|                                   | Loss                                    | Shares | Per Share  | Loss      | Shares | Per Share  |
|                                   | (In millions, except per share amounts) |        |            |           |        |            |
| Basic:                            |   |        |            |           |        |            |
| Loss from continuing operations   | \$(1,190)                               | 379    | \$ (3.14 ) | \$(6,202) | 378    | \$(16.42 ) |
| Loss from discontinued operations | (33 )                                   | 379    | (0.08 )    | (135 )    | 378    | (0.36 )    |
| Loss attributable to common stock | \$(1,223)                               | 379    | \$ (3.22 ) | \$(6,337) | 378    | \$(16.78 ) |
| Effect of Dilutive Securities:    |   |        |            |           |        |            |
| Stock options and other           | —                                       | —      | —          | —         | —      | —          |
| Diluted:                          |   |        |            |           |        |            |
| Loss from continuing operations   | \$(1,190)                               | 379    | \$ (3.14 ) | \$(6,202) | 378    | \$(16.42 ) |
| Loss from discontinued operations | (33 )                                   | 379    | (0.08 )    | (135 )    | 378    | (0.36 )    |
| Loss attributable to common stock | \$(1,223)                               | 379    | \$ (3.22 ) | \$(6,337) | 378    | \$(16.78 ) |

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 4.7 million and 10.4 million for the quarters ended September 30, 2016 and 2015, respectively, and 6.5 million and 8.9 million for the nine months ended September 30, 2016 and 2015, respectively.

## Common Stock Dividends

For each of the quarters ended September 30, 2016, and 2015, Apache paid \$95 million in dividends on its common stock. For the nine months ended September 30, 2016 and 2015, the Company paid \$284 million and \$283 million, respectively.

## Stock Repurchase Program

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through December 31, 2015, had repurchased a total of 32.2 million shares at an average price of \$88.96 per share. The Company is not obligated to acquire any specific number of shares and has not purchased any shares during 2016.



## 11. BUSINESS SEGMENT INFORMATION

Apache is engaged in a single line of business. Both domestically and internationally, the Company explores for, develops, and produces natural gas, crude oil, and natural gas liquids. At September 30, 2016, the Company had production in four reporting segments: the United States, Canada, Egypt, and offshore the United Kingdom in the North Sea (North Sea). Apache also pursues exploration interests in other areas that may, over time, result in reportable discoveries and development opportunities. Financial information for each country is presented below:

|   | United<br>States | Canada  | Egypt <sup>(1)</sup> | North Sea | Other<br>International | Total <sup>(4)</sup> |
|---|------------------|---------|----------------------|-----------|------------------------|----------------------|
|   | (In millions)    |         |                      |           |                        |                      |
| For the Quarter Ended September 30, 2016            |                  |         |                      |           |                        |                      |
| Oil and Gas Production Revenues                     | \$524            | \$87    | \$581                | \$247     | \$—                    | \$1,439              |
| Operating Income (Loss) <sup>(2)</sup>              | \$(17)           | \$(466) | \$263                | \$(455)   | \$(13)                 | \$(688)              |
| Other Income (Expense):                             |                  |         |                      |           |                        |                      |
| Gain on divestitures, net                           |                  |         |                      |           |                        | 5                    |
| Other   |                  |         |                      |           |                        | (6)                  |
| General and administrative                          |                  |         |                      |           |                        | (102)                |
| Transaction, reorganization, and separation         |                  |         |                      |           |                        | (12)                 |
| Financing costs, net                                |                  |         |                      |           |                        | (102)                |
| Loss From Continuing Operations Before Income Taxes |                  |         |                      |           |                        | \$(905)              |
| For the Nine Months Ended September 30, 2016        |                  |         |                      |           |                        |                      |
| Oil and Gas Production Revenues                     | \$1,453          | \$243   | \$1,515              | \$701     | \$—                    | \$3,912              |
| Operating Income (Loss) <sup>(2)</sup>              | \$(283)          | \$(586) | \$525                | \$(557)   | \$(13)                 | \$(914)              |
| Other Income (Expense):                             |                  |         |                      |           |                        |                      |
| Gain on divestitures, net                           |                  |         |                      |           |                        | 21                   |
| Other   |                  |         |                      |           |                        | (30)                 |
| General and administrative                          |                  |         |                      |           |                        | (298)                |
| Transaction, reorganization, and separation         |                  |         |                      |           |                        | (36)                 |
| Financing costs, net                                |                  |         |                      |           |                        | (311)                |
| Loss From Continuing Operations Before Income Taxes |                  |         |                      |           |                        | \$(1,568)            |
| Total Assets  | \$12,299         | \$1,630 | \$5,320              | \$3,851   | \$49                   | \$23,149             |

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|   | United States | Canada  | Egypt <sup>(1)</sup> | North Sea | Other International | Total <sup>(4)</sup> |
|---|---------------|---------|----------------------|-----------|---------------------|----------------------|
| (In millions)                                       |               |         |                      |           |                     |                      |
| For the Quarter Ended September 30, 2015            |               |         |                      |           |                     |                      |
| Oil and Gas Production Revenues                     | \$639         | \$116   | \$534                | \$317     | \$—                 | \$1,606              |
| Operating Income (Loss) <sup>(3)</sup>              | \$(3,582)     | \$(292) | \$67                 | \$(86)    | \$(148)             | \$(4,041)            |
| Other Income (Expense):                             |               |         |                      |           |                     |                      |
| Loss on divestitures, net                           |               |         |                      |           |                     | (5)                  |
| Other   |               |         |                      |           |                     | (75)                 |
| General and administrative                          |               |         |                      |           |                     | (89)                 |
| Transaction, reorganization, and separation         |               |         |                      |           |                     | —                    |
| Financing costs, net                                |               |         |                      |           |                     | (160)                |
| Loss From Continuing Operations Before Income Taxes |               |         |                      |           |                     | \$(4,370)            |
| For the Nine Months Ended September 30, 2015        |               |         |                      |           |                     |                      |
| Oil and Gas Production Revenues                     | \$2,066       | \$387   | \$1,790              | \$1,013   | \$—                 | \$5,256              |
| Operating Income (Loss) <sup>(3)</sup>              | \$(5,967)     | \$(464) | \$569                | \$(160)   | \$(149)             | \$(6,171)            |
| Other Income (Expense):                             |               |         |                      |           |                     |                      |
| Gain on divestitures, net                           |               |         |                      |           |                     | 204                  |
| Other   |               |         |                      |           |                     | (53)                 |
| General and administrative                          |               |         |                      |           |                     | (284)                |
| Transaction, reorganization, and separation         |               |         |                      |           |                     | (120)                |
| Financing costs, net                                |               |         |                      |           |                     | (401)                |
| Loss From Continuing Operations Before Income Taxes |               |         |                      |           |                     | \$(6,825)            |
| Total Assets  | \$15,278      | \$3,627 | \$7,535              | \$4,359   | \$440               | \$31,239             |

(1) Includes a noncontrolling interest in Egypt.

Operating Income (Loss) consists of oil and gas production revenues less lease operating expenses, gathering and transportation costs, taxes other than income, exploration costs, depreciation, depletion, and amortization, asset retirement obligation accretion, and impairments. The operating income (loss) of U.S., Canada, and North Sea includes asset impairments totaling \$47 million, \$423 million, and \$481 million, respectively, for the third quarter of 2016. The operating income (loss) of U.S., Canada, and North Sea includes asset impairments totaling \$212 million, \$433 million, and \$586 million, respectively, for the first nine months of 2016.

The operating income (loss) of U.S., Canada, Egypt, North Sea, and Other International includes asset impairments totaling \$3.5 billion, \$237 million, \$78 million, \$105 million, and \$148 million, respectively, for the third quarter of 2015. The operating income (loss) of U.S., Canada, Egypt, North Sea, and Other International include asset impairments totaling \$5.9 billion, \$291 million, \$91 million, \$372 million, and \$148 million, respectively, for the first nine months of 2015.

(4) Amounts for 2015 have been restated to exclude Australia discontinued operations.

12. SUPPLEMENTAL GUARANTOR INFORMATION

In December 1999, Apache Finance Canada issued approximately \$300 million of publicly-traded notes due in 2029. The notes are fully and unconditionally guaranteed by Apache. The following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Apache Finance Canada is 100 percent owned by Apache Corporation. As such, these condensed consolidating financial statements should be read in conjunction with Apache's consolidated financial statements and the notes thereto, of which this note is an integral part.



APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 For the Quarter Ended September 30, 2016

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>  |                       |                             |   |  |              |
| Oil and gas production revenues   | \$274                 | \$—                         | \$ 1,165  | \$ —                                   | \$ 1,439     |
| Equity in net income (loss) of affiliates   | (493 )                | (205 )                      | —   | 698                                    | —            |
| Other   | 5                     | 7                           | (18 )   | —                                      | (6 )         |
| Gain (loss) on divestiture  | 3                     | —                           | 2   | —                                      | 5            |
|   | (211 )                | (198 )                      | 1,149   | 698                                    | 1,438        |
| <b>OPERATING EXPENSES:</b>  |                       |                             |   |  |              |
| Lease operating expenses  | 74                    | —                           | 308   | —                                      | 382          |
| Gathering and transportation  | 6                     | —                           | 45  | —                                      | 51           |
| Taxes other than income   | 23                    | —                           | (14 )   | —                                      | 9            |
| Exploration   | 58                    | —                           | 103   | —                                      | 161          |
| General and administrative  | 87                    | —                           | 15  | —                                      | 102          |
| Depreciation, depletion, and amortization   | 154                   | —                           | 494   | —                                      | 648          |
| Asset retirement obligation accretion   | 5                     | —                           | 35  | —                                      | 40           |
| Impairments   | —                     | —                           | 836   | —                                      | 836          |
| Transaction, reorganization, and separation   | 12                    | —                           | —   | —                                      | 12           |
| Financing costs, net  | 63                    | 6                           | 33  | —                                      | 102          |
|   | 482                   | 6                           | 1,855   | —                                      | 2,343        |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS BEFORE INCOME TAXES</b>                   | (693 )                | (204 )                      | (706 )  | 698                                    | (905 )       |
| Provision (benefit) for income taxes  | (119 )                | 1                           | (261 )  | —                                      | (379 )       |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS INCLUDING NONCONTROLLING<br/>INTEREST</b> | (574 )                | (205 )                      | (445 )  | 698                                    | (526 )       |
| Net loss from discontinued operations, net of tax   | (33 )                 | —                           | —   | —                                      | (33 )        |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING<br/>INTEREST</b>                                | (607 )                | (205 )                      | (445 )  | 698                                    | (559 )       |
| Net income attributable to noncontrolling interest  | —                     | —                           | 48  | —                                      | 48           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON<br/>STOCK</b>                                     | \$(607)               | \$(205)                     | \$(493)   | \$ 698                                 | \$(607)      |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the Quarter Ended September 30, 2015

|   | Apache<br>Corporation | Apache<br>Finance<br>&<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|----------------------------------|---|--|--------------|
|   | (In millions)         |                                  |   |  |              |
| <b>REVENUES AND OTHER:</b>  |                       |                                  |   |  |              |
| Oil and gas production revenues   | \$ 344                | \$ —                             | \$ 1,262  | \$ —                                   | \$ 1,606     |
| Equity in net income (loss) of affiliates   | (2,247 )              | (92 )                            | —   | 2,339                                  | —            |
| Other   | (62 )                 | 14                               | (27 )   | —                                      | (75 )        |
| Gain (loss) on divestiture  | (7 )                  | —                                | 2   | —                                      | (5 )         |
|   | (1,972 )              | (78 )                            | 1,237   | 2,339                                  | 1,526        |
| <b>OPERATING EXPENSES:</b>  |                       |                                  |   |  |              |
| Lease operating expenses  | 97                    | —                                | 353   | —                                      | 450          |
| Gathering and transportation  | 9                     | —                                | 49  | —                                      | 58           |
| Taxes other than income   | 30                    | —                                | 74  | —                                      | 104          |
| Exploration   | 139                   | —                                | 84  | —                                      | 223          |
| General and administrative  | 76                    | —                                | 13  | —                                      | 89           |
| Depreciation, depletion, and amortization   | 257                   | —                                | 615   | —                                      | 872          |
| Asset retirement obligation accretion   | 4                     | —                                | 33  | —                                      | 37           |
| Impairments   | 2,177                 | —                                | 1,726   | —                                      | 3,903        |
| Financing costs, net  | 160                   | 10                               | (10 )   | —                                      | 160          |
|   | 2,949                 | 10                               | 2,937   | —                                      | 5,896        |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS BEFORE INCOME TAXES</b>                   | (4,921 )              | (88 )                            | (1,700 )  | 2,339                                  | (4,370 )     |
| Provision (benefit) for income taxes  | (785 )                | 4                                | 530   | —                                      | (251 )       |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS INCLUDING NONCONTROLLING<br/>INTEREST</b> | (4,136 )              | (92 )                            | (2,230 )  | 2,339                                  | (4,119 )     |
| Net income (loss) from discontinued operations, net of tax                                    | (7 )                  | —                                | (10 )   | —                                      | (17 )        |
| <b>NET INCOME (LOSS) INCLUDING<br/>NONCONTROLLING INTEREST</b>                                | (4,143 )              | (92 )                            | (2,240 )  | 2,339                                  | (4,136 )     |
| Net income attributable to noncontrolling interest  | —                     | —                                | 7   | —                                      | 7            |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON<br/>STOCK</b>                                     | \$ (4,143 )           | \$ (92 )                         | \$ (2,247 )   | \$ 2,339                               | \$ (4,143 )  |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the Nine Months Ended September 30, 2016

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>  |                       |                             |   |  |              |
| Oil and gas production revenues   | \$761                 | \$—                         | \$ 3,151  | \$ —                                   | \$ 3,912     |
| Equity in net income (loss) of affiliates   | (677 )                | (225 )                      | —   | 902                                    | —            |
| Other   | 11                    | 28                          | (69 )   | —                                      | (30 )        |
| Gain (loss) on divestiture  | 1                     | —                           | 20  | —                                      | 21           |
|   | 96                    | (197 )                      | 3,102   | 902                                    | 3,903        |
| <b>OPERATING EXPENSES:</b>  |                       |                             |   |  |              |
| Lease operating expenses  | 218                   | —                           | 901   | —                                      | 1,119        |
| Gathering and transportation  | 25                    | —                           | 130   | —                                      | 155          |
| Taxes other than income   | 66                    | —                           | 19  | —                                      | 85           |
| Exploration   | 184                   | —                           | 163   | —                                      | 347          |
| General and administrative  | 250                   | —                           | 48  | —                                      | 298          |
| Depreciation, depletion, and amortization   | 469                   | —                           | 1,526   | —                                      | 1,995        |
| Asset retirement obligation accretion   | 14                    | —                           | 102   | —                                      | 116          |
| Impairments   | 61                    | —                           | 948   | —                                      | 1,009        |
| Transaction, reorganization, and separation   | 36                    | —                           | —   | —                                      | 36           |
| Financing costs, net  | 188                   | 23                          | 100   | —                                      | 311          |
|   | 1,511                 | 23                          | 3,937   | —                                      | 5,471        |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS BEFORE INCOME TAXES</b>                   | (1,415 )              | (220 )                      | (835 )  | 902                                    | (1,568 )     |
| Provision (benefit) for income taxes  | (225 )                | 5                           | (251 )  | —                                      | (471 )       |
| <b>NET INCOME (LOSS) FROM CONTINUING<br/>OPERATIONS INCLUDING NONCONTROLLING<br/>INTEREST</b> | (1,190 )              | (225 )                      | (584 )  | 902                                    | (1,097 )     |
| Net loss from discontinued operations, net of tax   | (33 )                 | —                           | —   | —                                      | (33 )        |
| <b>NET INCOME (LOSS) INCLUDING<br/>NONCONTROLLING INTEREST</b>                                | (1,223 )              | (225 )                      | (584 )  | 902                                    | (1,130 )     |
| Net income attributable to noncontrolling interest  | —                     | —                           | 93  | —                                      | 93           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON<br/>STOCK</b>                                     | \$(1,223)             | \$(225)                     | \$(677)   | \$ 902                                 | \$(1,223)    |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the Nine Months Ended September 30, 2015

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| <b>REVENUES AND OTHER:</b>  |                       |                             |   |  |              |
| Oil and gas production revenues   | \$1,143               | \$—                         | \$4,113   | \$—                                    | \$5,256      |
| Equity in net income (loss) of affiliates   | (3,664 )              | (154 )                      | —   | 3,818                                  | —            |
| Other   | (107 )                | 40                          | (5 )  | 19                                     | (53 )        |
| Gain (loss) on divestiture  | (36 )                 | —                           | 240   | —                                      | 204          |
|   | (2,664 )              | (114 )                      | 4,348   | 3,837                                  | 5,407        |
| <b>OPERATING EXPENSES:</b>  |                       |                             |   |  |              |
| Lease operating expenses  | 329                   | —                           | 1,069   | —                                      | 1,398        |
| Gathering and transportation  | 25                    | —                           | 138   | —                                      | 163          |
| Taxes other than income   | 97                    | —                           | 135   | —                                      | 232          |
| Exploration   | 399                   | —                           | 307   | —                                      | 706          |
| General and administrative  | 214                   | —                           | 51  | 19                                     | 284          |
| Depreciation, depletion, and amortization   | 751                   | —                           | 1,741   | —                                      | 2,492        |
| Asset retirement obligation accretion   | 11                    | —                           | 98  | —                                      | 109          |
| Impairments   | 3,543                 | —                           | 2,784   | —                                      | 6,327        |
| Transaction, reorganization, and separation   | 120                   | —                           | —   | —                                      | 120          |
| Financing costs, net  | 375                   | 31                          | (5 )  | —                                      | 401          |
|   | 5,864                 | 31                          | 6,318   | 19                                     | 12,232       |
| <b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>               | (8,528 )              | (145 )                      | (1,970 )  | 3,818                                  | (6,825 )     |
| Provision (benefit) for income taxes  | (2,370 )              | 9                           | 1,640   | —                                      | (721 )       |
| <b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS INCLUDING NONCONTROLLING INTEREST</b> | (6,158 )              | (154 )                      | (3,610 )  | 3,818                                  | (6,104 )     |
| Net income (loss) from discontinued operations, net of tax                            | (179 )                | —                           | 44  | —                                      | (135 )       |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b>                            | (6,337 )              | (154 )                      | (3,566 )  | 3,818                                  | (6,239 )     |
| Net income attributable to noncontrolling interest                                    | —                     | —                           | 98  | —                                      | 98           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>                                 | \$(6,337)             | \$(154)                     | \$(3,664)   | \$3,818                                | \$(6,337)    |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
For the Nine Months Ended September 30, 2016

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                     | \$269                 | \$ (1 )                     | \$ 1,366  | \$ —                                   | \$ 1,634     |
| CASH FLOWS FROM INVESTING ACTIVITIES:                               |                       |                             |   |  |              |
| Additions to oil and gas property                                   | (929 )                | —                           | (352 )  | —                                      | (1,281 )     |
| Leasehold and property acquisitions                                 | (98 )                 | —                           | (71 )   | —                                      | (169 )       |
| Additions to gas gathering, transmission, and processing facilities | (32 )                 | —                           | (1 )  | —                                      | (33 )        |
| Proceeds from sale of other oil and gas properties                  | 54                    | —                           | 20  | —                                      | 74           |
| Investment in subsidiaries, net                                     | 824                   | —                           | —   | (824 )                                 | —            |
| Other   | (7 )                  | —                           | 54  | —                                      | 47           |
| NET CASH USED IN INVESTING ACTIVITIES                               | (188 )                | —                           | (350 )  | (824 )                                 | (1,362 )     |
| CASH FLOWS FROM FINANCING ACTIVITIES:                               |                       |                             |   |  |              |
| Intercompany borrowings   | —                     | (23 )                       | (801 )  | 824                                    | —            |
| Payment of fixed-rate debt  | —                     | —                           | (1 )  | —                                      | (1 )         |
| Distributions to noncontrolling interest                            | —                     | —                           | (215 )  | —                                      | (215 )       |
| Common stock activity, net  | —                     | 24                          | (24 )   | —                                      | —            |
| Dividends paid  | (284 )                | —                           | —   | —                                      | (284 )       |
| Other   | 2                     | —                           | (11 )   | —                                      | (9 )         |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES                 | (282 )                | 1                           | (1,052 )  | 824                                    | (509 )       |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                           | (201 )                | —                           | (36 )   | —                                      | (237 )       |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                      | 378                   | —                           | 1,089   | —                                      | 1,467        |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                          | \$177                 | \$ —                        | \$ 1,053  | \$ —                                   | \$ 1,230     |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
For the Nine Months Ended September 30, 2015

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>&<br>Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|--|--------------|
|   | (In millions)         |                             |   |  |              |
| CASH PROVIDED BY (USED IN) CONTINUING OPERATING ACTIVITIES          | \$ (135)              | \$ (25 )                    | \$ 2,540  | \$ —                                   | \$ 2,380     |
| CASH PROVIDED BY DISCONTINUED OPERATIONS                            | —                     | —                           | 113   | —                                      | 113          |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                     | (135 )                | (25 )                       | 2,653   | —                                      | 2,493        |
| CASH FLOWS FROM INVESTING ACTIVITIES:                               |                       |                             |   |  |              |
| Additions to oil and gas property                                   | (1,320)               | —                           | (2,242 )  | —                                      | (3,562 )     |
| Leasehold and property acquisitions                                 | (243 )                | —                           | (11 )   | —                                      | (254 )       |
| Additions to gas gathering, transmission, and processing facilities | (25 )                 | —                           | (88 )   | —                                      | (113 )       |
| Proceeds from sale Kitimat LNG                                      | —                     | —                           | 854   | —                                      | 854          |
| Proceeds from sale of other oil and gas properties                  | 8                     | —                           | 140   | —                                      | 148          |
| Investment in subsidiaries, net                                     | 274                   | —                           | —   | (274 )                                 | —            |
| Other   | (16 )                 | —                           | (83 )   | —                                      | (99 )        |
| NET CASH USED IN CONTINUING INVESTING ACTIVITIES                    | (1,322)               | —                           | (1,430 )  | (274 )                                 | (3,026 )     |
| NET CASH PROVIDED BY DISCONTINUED OPERATIONS                        | —                     | —                           | 4,372   | —                                      | 4,372        |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES                 | (1,322)               | —                           | 2,942   | (274 )                                 | 1,346        |
| CASH FLOWS FROM FINANCING ACTIVITIES:                               |                       |                             |   |  |              |
| Commercial paper and bank credit facilities, net                    | (1,570)               | —                           | —   | —                                      | (1,570 )     |
| Payment of fixed-rate debt  | (939 )                | —                           | —   | —                                      | (939 )       |
| Intercompany borrowings   | 4,431                 | (10 )                       | (4,695 )  | 274                                    | —            |
| Distributions to noncontrolling interest                            | —                     | —                           | (97 )   | —                                      | (97 )        |
| Dividends paid  | (283 )                | —                           | —   | —                                      | (283 )       |
| Other   | 2                     | 35                          | (11 )   | —                                      | 26           |
| NET CASH PROVIDED BY (USED IN) CONTINUING FINANCING ACTIVITIES      | 1,641                 | 25                          | (4,803 )  | 274                                    | (2,863 )     |
| NET CASH USED IN DISCONTINUED OPERATIONS                            | —                     | —                           | —   | —                                      | —            |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES                 | 1,641                 | 25                          | (4,803 )  | 274                                    | (2,863 )     |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                           | 184                   | —                           | 792   | —                                      | 976          |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                      | 267                   | —                           | 412   | —                                      | 679          |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                          | \$ 451                | \$ —                        | \$ 1,204  | \$ —                                   | \$ 1,655     |

APACHE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING BALANCE SHEET  
 September 30, 2016

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>& Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|-------------------------------------|--------------|
|   | (In millions)         |                             |   |                                     |              |
| <b>ASSETS</b>   |                       |                             |   |                                     |              |
| <b>CURRENT ASSETS:</b>                                    |                       |                             |   |                                     |              |
| Cash and cash equivalents                                 | \$ 177                | \$ —                        | \$ 1,053  | \$ —                                | \$ 1,230     |
| Receivables, net of allowance                             | 311                   | —                           | 753   | —                                   | 1,064        |
| Inventories   | 32                    | —                           | 481   | —                                   | 513          |
| Drilling advances   | 5                     | —                           | 204   | —                                   | 209          |
| Deferred tax asset  | (28 )                 | —                           | 28  | —                                   | —            |
| Prepaid assets and other                                  | 191                   | —                           | 65  | —                                   | 256          |
| Intercompany receivable                                   | 5,418                 | —                           | —   | (5,418 )                            | —            |
|   | 6,106                 | —                           | 2,584   | (5,418 )                            | 3,272        |
| <b>PROPERTY AND EQUIPMENT, NET</b>                        | 7,069                 | —                           | 12,393  | —                                   | 19,462       |
| <b>OTHER ASSETS:</b>                                      |                       |                             |   |                                     |              |
| Intercompany receivable                                   | —                     | —                           | 12,034  | (12,034 )                           | —            |
| Equity in affiliates                                      | 15,415                | (1,289 )                    | 703   | (14,829 )                           | —            |
| Deferred charges and other                                | 95                    | 1,000                       | 320   | (1,000 )                            | 415          |
|   | \$ 28,685             | \$ (289 )                   | \$ 28,034   | \$ (33,281 )                        | \$ 23,149    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                       |                             |   |                                     |              |
| <b>CURRENT LIABILITIES:</b>                               |                       |                             |   |                                     |              |
| Accounts payable  | \$ 338                | \$ (13 )                    | \$ 232  | \$ —                                | \$ 557       |
| Other current liabilities                                 | 468                   | 8                           | 595   | —                                   | 1,071        |
| Intercompany payable                                      | —                     | —                           | 5,418   | (5,418 )                            | —            |
|   | 806                   | (5 )                        | 6,245   | (5,418 )                            | 1,628        |
| <b>LONG-TERM DEBT</b>                                     | 8,424                 | 297                         | —   | —                                   | 8,721        |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b> |                       |                             |   |                                     |              |
| Intercompany payable                                      | 12,034                | —                           | —   | (12,034 )                           | —            |
| Income taxes  | (230 )                | 5                           | 2,008   | —                                   | 1,783        |
| Asset retirement obligation                               | 280                   | —                           | 2,462   | —                                   | 2,742        |
| Other   | 902                   | —                           | 424   | (1,000 )                            | 326          |
|   | 12,986                | 5                           | 4,894   | (13,034 )                           | 4,851        |
| <b>COMMITMENTS AND CONTINGENCIES</b>                      |                       |                             |   |                                     |              |
| <b>APACHE SHAREHOLDERS' EQUITY</b>                        |                       |                             |   |                                     |              |
| Noncontrolling interest                                   | —                     | —                           | 1,480   | —                                   | 1,480        |
| <b>TOTAL EQUITY</b>                                       | 6,469                 | (586 )                      | 16,895  | (14,829 )                           | 7,949        |
|   | \$ 28,685             | \$ (289 )                   | \$ 28,034   | \$ (33,281 )                        | \$ 23,149    |

APACHE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEET  
December 31, 2015

|   | Apache<br>Corporation | Apache<br>Finance<br>Canada | All Other<br>Subsidiaries<br>of Apache<br>Corporation | Reclassifications<br>& Eliminations | Consolidated |
|---|-----------------------|-----------------------------|---|-------------------------------------|--------------|
|   | (In millions)         |                             |   |                                     |              |
| <b>ASSETS</b>   |                       |                             |   |                                     |              |
| <b>CURRENT ASSETS:</b>                                    |                       |                             |   |                                     |              |
| Cash and cash equivalents                                 | \$378                 | \$ —                        | \$ 1,089  | \$ —                                | \$ 1,467     |
| Receivables, net of allowance                             | 314                   | —                           | 939   | —                                   | 1,253        |
| Inventories   | 34                    | —                           | 536   | —                                   | 570          |
| Drilling advances   | 16                    | —                           | 156   | —                                   | 172          |
| Prepaid assets and other                                  | 102                   | —                           | 188   | —                                   | 290          |
| Intercompany receivable                                   | 5,212                 | —                           | —   | (5,212)                             | —            |
|   | 6,056                 | —                           | 2,908   | (5,212)                             | 3,752        |
| <b>PROPERTY AND EQUIPMENT, NET</b>                        | 6,546                 | —                           | 14,292  | —                                   | 20,838       |
| <b>OTHER ASSETS:</b>                                      |                       |                             |   |                                     |              |
| Intercompany receivable                                   | —                     | —                           | 10,744  | (10,744)                            | —            |
| Equity in affiliates                                      | 16,092                | (807)                       | 446   | (15,731)                            | —            |
| Deferred charges and other                                | 96                    | 1,001                       | 813   | (1,000)                             | 910          |
|   | \$28,790              | \$ 194                      | \$ 29,203   | \$ (32,687)                         | \$ 25,500    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                       |                             |   |                                     |              |
| <b>CURRENT LIABILITIES:</b>                               |                       |                             |   |                                     |              |
| Accounts payable  | \$409                 | \$ —                        | \$ 209  | \$ —                                | \$ 618       |
| Other current liabilities                                 | 539                   | 3                           | 681   | —                                   | 1,223        |
| Intercompany payable                                      | —                     | —                           | 5,212   | (5,212)                             | —            |
|   | 948                   | 3                           | 6,102   | (5,212)                             | 1,841        |
| <b>LONG-TERM DEBT</b>                                     | 8,418                 | 298                         | —   | —                                   | 8,716        |
| <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b> |                       |                             |   |                                     |              |
| Intercompany payable                                      | 10,744                | —                           | —   | (10,744)                            | —            |
| Income taxes  | (412)                 | 4                           | 2,937   | —                                   | 2,529        |
| Asset retirement obligation                               | 271                   | —                           | 2,291   | —                                   | 2,562        |
| Other   | 933                   | 250                         | 179   | (1,000)                             | 362          |
|   | 11,536                | 254                         | 5,407   | (11,744)                            | 5,453        |
| <b>COMMITMENTS AND CONTINGENCIES</b>                      |                       |                             |   |                                     |              |
| <b>APACHE SHAREHOLDERS' EQUITY</b>                        | 7,888                 | (361)                       | 16,092  | (15,731)                            | 7,888        |
| Noncontrolling interest                                   | —                     | —                           | 1,602   | —                                   | 1,602        |
| <b>TOTAL EQUITY</b>                                       | 7,888                 | (361)                       | 17,694  | (15,731)                            | 9,490        |
|   | \$28,790              | \$ 194                      | \$ 29,203   | \$ (32,687)                         | \$ 25,500    |



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q, as well as our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Current Report on Form 8-K dated August 4, 2016, for the fiscal year ended December 31, 2015. Financial information for prior periods has been recast to reflect the retrospective application of the successful efforts method of accounting, as discussed under Note 1 in Part I, Item 1, of this Quarterly Report on Form 10-Q. Results of operations and consolidated cash flows for the divested Australia assets are reflected as discontinued operations in all periods presented in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.

### Overview

Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. The Company has exploration and production operations in four geographic areas: the United States (U.S.), Canada, Egypt, and offshore the United Kingdom (U.K.) in the North Sea (North Sea). Apache also pursues exploration interests in other areas that may over time result in reportable discoveries and development opportunities.

Apache reported a third quarter loss of \$607 million, or \$1.60 per common share, compared to a loss of \$4.1 billion, or \$10.95 per common share, in the third quarter 2015. Apache's net loss per common share for both periods was directly impacted by asset impairments resulting from the significant drop in crude oil prices beginning in late 2014. In the third quarter, Apache generated \$651 million in cash from operating activities, a decrease of eight percent from the third quarter of last year, despite lower commodity prices, as we realize the benefits of action taken to reduce overhead service costs in both operating and capital areas. We operated near cash flow neutrality after paying dividends and after increasing capital expenditures. As a result, we ended the quarter with \$1.2 billion of cash, basically unchanged from last quarter.

At the start of the downturn in late 2014, we established the following guiding principles, which have served us well:

- Establish a strong financial position and protect it by living within cash flow;
- Dramatically reduce development spending until price and cost come into better equilibrium; and
- Prepare the portfolio for long-term returns, growth, and shareholder value.

We ended the quarter with \$237 million less cash than year-end 2015 but \$460 million more than year-end 2014. In addition to cash on hand, Apache has \$3.5 billion in available committed borrowing capacity. Long-term debt has remained essentially flat since year-end 2015 and is down 22 percent from year-end 2014.

Lease operating expenses for the third quarter were 15 percent lower than the third quarter of 2015 and 20 percent lower on a year-to-date basis. In addition, our year-to-date production decreased only 5 percent from the first nine months of 2015, despite significant reductions in capital spending in the last two years. Our ability to maintain production at these levels despite such a large drop in capital reinvestments has been positively impacted by several efforts undertaken by Apache during the downturn: reduction of our cost structure; implementation of a more rigorous and integrated capital allocation and planning process; upgrades to, and expansion of, our drilling inventory; and improvements of our capital efficiency, including reduction in service costs.

During this time, Apache also remained focused on its mission to grow the company for the long-term benefit of its shareholders, by investing a percentage of its reduced 2016 capital spending program in strategic testing and acreage acquisitions as opposed to focusing only on more near-term production growth. As a result, Apache recently announced it discovered a significant new resource play, the "Alpine High." This significant new discovery is a reflection of the company's strategic focus on organic growth and its internal technical abilities.

Apache allocated additional capital to accelerate development of its Alpine High play and increased planned capital spending for the year to \$2 billion in order to bring production on-line in the second half of 2017. We remain committed to achieving "cash flow neutrality" in 2016, and we believe we remain on track to exit the year with no significant change in net debt (debt less cash and cash equivalents) relative to year-end 2015. A combination of asset disposal proceeds and a significant U.S. tax refund, both anticipated in the fourth quarter, should enable us to achieve

our targeted cash balance of \$1.5 billion at year-end 2016.

## Operating Highlights

Significant operating activities for the quarter include the following:

### Overall

Equivalent production decline from third quarter 2015 levels was 6 percent as a result of significant reduction in capital investments in 2015 and the first nine months of 2016 when compared to prior-year levels.

Liquids production for the third quarter 2016 averaged 336 thousand barrels of oil equivalent per day (Mboe/d), with crude oil representing 81 percent of total liquids production. Liquids production decreased 5 percent from the third quarter of 2015.

### North America

During the third quarter, Apache announced the discovery of a new resource play, the “Alpine High.” The Alpine High acreage lies in the southern portion of the Delaware Basin, primarily in Reeves County, Texas. The Company has estimated significant hydrocarbons in place on its acreage position of approximately 320,000 contiguous net acres (at an average cost of approximately \$1,300 per acre). Apache has already identified numerous drilling locations in the Barnett and Woodford formations, which are expected to deliver a combination of liquids rich gas and oil. The Company has 10 wells in the play currently producing in limited quantities because of infrastructure constraints. The Company is also exploring additional formations in this stacked play; including the oil-prone Bone Springs and Wolfcamp formations.

Onshore equivalent production was down 12 percent for the quarter relative to the 2015 period. The decrease in production is driven by a significant reduction in North American onshore exploration and development capital spending during 2015 and the first nine months of 2016.

- Third quarter equivalent production from the Permian Basin region, which accounts for more than half of our total onshore North American production, decreased 6 percent from the third quarter of 2015 as a result of significantly fewer wells placed on production during 2016.

### International and Offshore

In Egypt, we averaged 5 rigs and placed 9 wells on production during the quarter. Gross equivalent production declined 3 percent compared with the third quarter of 2015, driven by well depletion and overall reduction in activity. On a net basis, equivalent production increased 9 percent from the third quarter of 2015 primarily as a result of tax barrel impacts as a function of our production sharing contracts.

North Sea average daily production decreased 15 percent for the third quarter of 2016 from the third quarter of last year primarily as a result of planned downtime and natural well decline in the Forties and Bacchus fields.

Results of Operations  
Oil and Gas Revenues

The table below presents revenues by geographic region and each region's percent contribution to revenues for 2016 and 2015.

|  | For the Quarter Ended September 30, |              |       |              |       |              | For the Nine Months Ended September 30, |              |       |              |       |              |
|--|-------------------------------------|--------------|-------|--------------|-------|--------------|---|--------------|-------|--------------|-------|--------------|
|  | 2016                                |              | 2015  |              | 2016  |              | 2015                                    |              | 2016  |              | 2015  |              |
|  | \$                                  | %            | \$    | %            | \$    | %            | \$                                      | %            | \$    | %            | \$    | %            |
|  | Value                               | Contribution | Value | Contribution | Value | Contribution | Value                                   | Contribution | Value | Contribution | Value | Contribution |
|  | (\$ in millions)                    |              |       |              |       |              |   |              |       |              |       |              |
| <b>Total Oil Revenues:</b>                       |                                     |              |       |              |       |              |   |              |       |              |       |              |
| United States                                    | \$377                               | 34           | %     | \$492        | 40    | %            | \$1,099                                 | 36           | %     | \$1,629      | 39    | %            |
| Canada   | 47                                  | 4            | %     | 55           | 4     | %            | 132                                     | 4            | %     | 190          | 5     | %            |
| North America                                    | 424                                 | 38           | %     | 547          | 44    | %            | 1,231                                   | 40           | %     | 1,819        | 44    | %            |
| Egypt <sup>(1)</sup>                             | 476                                 | 43           | %     | 426          | 35    | %            | 1,209                                   | 40           | %     | 1,444        | 35    | %            |
| North Sea  | 217                                 | 19           | %     | 265          | 21    | %            | 617                                     | 20           | %     | 886          | 21    | %            |
| International <sup>(1)</sup>                     | 693                                 | 62           | %     | 691          | 56    | %            | 1,826                                   | 60           | %     | 2,330        | 56    | %            |
| Total <sup>(1)</sup>                             | \$1,117                             | 100          | %     | \$1,238      | 100   | %            | \$3,057                                 | 100          | %     | \$4,149      | 100   | %            |
| <b>Total Natural Gas Revenues:</b>               |                                     |              |       |              |       |              |   |              |       |              |       |              |
| United States                                    | \$98                                | 37           | %     | \$105        | 33    | %            | \$222                                   | 32           | %     | \$298        | 32    | %            |
| Canada   | 36                                  | 14           | %     | 59           | 19    | %            | 100                                     | 14           | %     | 187          | 20    | %            |
| North America                                    | 134                                 | 51           | %     | 164          | 52    | %            | 322                                     | 46           | %     | 485          | 52    | %            |
| Egypt <sup>(1)</sup>                             | 103                                 | 39           | %     | 106          | 33    | %            | 298                                     | 43           | %     | 337          | 36    | %            |
| North Sea  | 26                                  | 10           | %     | 48           | 15    | %            | 75                                      | 11           | %     | 119          | 12    | %            |
| International <sup>(1)</sup>                     | 129                                 | 49           | %     | 154          | 48    | %            | 373                                     | 54           | %     | 456          | 48    | %            |
| Total <sup>(1)</sup>                             | \$263                               | 100          | %     | \$318        | 100   | %            | \$695                                   | 100          | %     | \$941        | 100   | %            |
| <b>Total Natural Gas Liquids (NGL) Revenues:</b> |                                     |              |       |              |       |              |   |              |       |              |       |              |
| United States                                    | \$49                                | 83           | %     | \$42         | 84    | %            | \$132                                   | 82           | %     | \$139        | 84    | %            |
| Canada   | 4                                   | 7            | %     | 2            | 4     | %            | 11                                      | 7            | %     | 10           | 6     | %            |
| North America                                    | 53                                  | 90           | %     | 44           | 88    | %            | 143                                     | 89           | %     | 149          | 90    | %            |
| Egypt <sup>(1)</sup>                             | 2                                   | 3            | %     | 2            | 4     | %            | 8                                       | 5            | %     | 9            | 5     | %            |
| North Sea  | 4                                   | 7            | %     | 4            | 8     | %            | 9                                       | 6            | %     | 8            | 5     | %            |
| International <sup>(1)</sup>                     | 6                                   | 10           | %     | 6            | 12    | %            | 17                                      | 11           | %     | 17           | 10    | %            |
| Total <sup>(1)</sup>                             | \$59                                | 100          | %     | \$50         | 100   | %            | \$160                                   | 100          | %     | \$166        | 100   | %            |
| <b>Total Oil and Gas Revenues:</b>               |                                     |              |       |              |       |              |   |              |       |              |       |              |
| United States                                    | \$524                               | 36           | %     | \$639        | 40    | %            | \$1,453                                 | 37           | %     | \$2,066      | 39    | %            |
| Canada   | 87                                  | 6            | %     | 116          | 7     | %            | 243                                     | 6            | %     | 387          | 8     | %            |
| North America                                    | 611                                 | 42           | %     | 755          | 47    | %            | 1,696                                   | 43           | %     | 2,453        | 47    | %            |
| Egypt <sup>(1)</sup>                             | 581                                 | 41           | %     | 534          | 33    | %            | 1,515                                   | 39           | %     | 1,790        | 34    | %            |
| North Sea  | 247                                 | 17           | %     | 317          | 20    | %            | 701                                     | 18           | %     | 1,013        | 19    | %            |
| International <sup>(1)</sup>                     | 828                                 | 58           | %     | 851          | 53    | %            | 2,216                                   | 57           | %     | 2,803        | 53    | %            |
| Total <sup>(1)</sup>                             | \$1,439                             | 100          | %     | \$1,606      | 100   | %            | \$3,912                                 | 100          | %     | \$5,256      | 100   | %            |
| <b>Discontinued Operations:</b>                  |                                     |              |       |              |       |              |   |              |       |              |       |              |
| Oil Revenues                                     | \$—                                 |              |       | \$—          |       |              | \$—                                     |              |       | \$138        |       |              |
| Natural Gas Revenues                             | —                                   |              |       | —            |       |              | —                                       |              |       | 140          |       |              |
| NGL Revenues                                     | —                                   |              |       | —            |       |              | —                                       |              |       | —            |       |              |
| Total  | \$—                                 |              |       | \$—          |       |              | \$—                                     |              |       | \$278        |       |              |

(1) Includes revenues attributable to a noncontrolling interest in Egypt.

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Production

The table below presents the third-quarter and year-to-date 2016 and 2015 production and the relative increase or decrease from the prior period.

|                            | For the Quarter Ended<br>September 30, |                        |           | For the Nine Months Ended<br>September 30, |                        |           |
|----------------------------|--|------------------------|-----------|--|------------------------|-----------|
|                            | 2016                                   | Increase<br>(Decrease) | 2015      | 2016                                       | Increase<br>(Decrease) | 2015      |
| Oil Volume – b/d           |  |                        |           |  |                        |           |
| United States              | 98,269                                 | (18 )%                 | 120,412   | 106,924                                    | (14 )%                 | 124,894   |
| Canada                     | 12,619                                 | (15 )%                 | 14,795    | 13,331                                     | (16 )%                 | 15,812    |
| North America              | 110,888                                | (18 )%                 | 135,207   | 120,255                                    | (15 )%                 | 140,706   |
| Egypt <sup>(1)(2)</sup>    | 110,809                                | 14 %                   | 97,173    | 105,118                                    | 6 %                    | 98,712    |
| North Sea                  | 49,192                                 | (16 )%                 | 58,330    | 55,071                                     | (8 )%                  | 59,622    |
| International              | 160,001                                | 3 %                    | 155,503   | 160,189                                    | 1 %                    | 158,334   |
| Total                      | 270,889                                | (7 )%                  | 290,710   | 280,444                                    | (6 )%                  | 299,040   |
| Natural Gas Volume – Mcf/d |  |                        |           |  |                        |           |
| United States              | 395,062                                | (11 )%                 | 445,239   | 404,282                                    | (9 )%                  | 442,650   |
| Canada                     | 233,635                                | (13 )%                 | 270,027   | 248,912                                    | (11 )%                 | 280,120   |
| North America              | 628,697                                | (12 )%                 | 715,266   | 653,194                                    | (10 )%                 | 722,770   |
| Egypt <sup>(1)(2)</sup>    | 405,863                                | 2 %                    | 399,434   | 403,832                                    | (5 )%                  | 424,746   |
| North Sea                  | 69,509                                 | (15 )%                 | 81,392    | 66,884                                     | 6 %                    | 62,848    |
| International              | 475,372                                | (1 )%                  | 480,826   | 470,716                                    | (3 )%                  | 487,594   |
| Total                      | 1,104,069                              | (8 )%                  | 1,196,092 | 1,123,910                                  | (7 )%                  | 1,210,364 |
| NGL Volume – b/d           |  |                        |           |  |                        |           |
| United States              | 56,355                                 | 3 %                    | 54,951    | 55,897                                     | 7 %                    | 52,401    |
| Canada                     | 6,039                                  | (6 )%                  | 6,440     | 5,879                                      | (3 )%                  | 6,041     |
| North America              | 62,394                                 | 2 %                    | 61,391    | 61,776                                     | 6 %                    | 58,442    |
| Egypt <sup>(1)(2)</sup>    | 1,124                                  | 2 %                    | 1,099     | 1,120                                      | (4 )%                  | 1,169     |
| North Sea                  | 1,697                                  | 18 %                   | 1,440     | 1,557                                      | 48 %                   | 1,053     |
| International              | 2,821                                  | 11 %                   | 2,539     | 2,677                                      | 20 %                   | 2,222     |
| Total                      | 65,215                                 | 2 %                    | 63,930    | 64,453                                     | 6 %                    | 60,664    |
| BOE per day <sup>(3)</sup> |  |                        |           |  |                        |           |
| United States              | 220,468                                | (12 )%                 | 249,569   | 230,202                                    | (8 )%                  | 251,069   |
| Canada                     | 57,597                                 | (13 )%                 | 66,239    | 60,695                                     | (11 )%                 | 68,541    |
| North America              | 278,065                                | (12 )%                 | 315,808   | 290,897                                    | (9 )%                  | 319,610   |
| Egypt <sup>(2)</sup>       | 179,575                                | 9 %                    | 164,845   | 173,544                                    | 2 %                    | 170,672   |
| North Sea <sup>(4)</sup>   | 62,475                                 | (15 )%                 | 73,335    | 67,775                                     | (5 )%                  | 71,149    |
| International              | 242,050                                | 2 %                    | 238,180   | 241,319                                    | —                      | 241,821   |
| Total                      | 520,115                                | (6 )%                  | 553,988   | 532,216                                    | (5 )%                  | 561,431   |
| Discontinued Operations:   |  |                        |           |  |                        |           |
| Oil (b/d)                  | —                                      |                        | —         | —  |                        | 10,175    |
| Natural Gas (Mcf/d)        | —                                      |                        | —         | —  |                        | 125,831   |
| NGL (b/d)                  | —                                      |                        | —         | —  |                        | —         |
| BOE/d                      | —                                      |                        | —         | —  |                        | 31,146    |

(1) Gross oil, natural gas, and NGL production in Egypt for the third quarter and nine-month period of 2016 and 2015 were as follows:

|  | For the Quarter<br>Ended | For the Nine<br>Months Ended |
|--|--------------------------|------------------------------|
|--|--------------------------|------------------------------|

|                     | September 30, |         | September 30, |         |
|---------------------|---------------|---------|---------------|---------|
|                     | 2016          | 2015    | 2016          | 2015    |
| Oil (b/d)           | 210,755       | 214,097 | 210,939       | 205,127 |
| Natural Gas (Mcf/d) | 826,548       | 873,418 | 828,950       | 865,553 |
| NGL (b/d)           | 1,853         | 2,406   | 1,918         | 2,426   |

(2) Includes production volumes per day attributable to a noncontrolling interest in Egypt for the third quarter and nine-months period of 2016 and 2015 of:

|                     | For the Quarter |         | For the Nine  |         |
|---------------------|-----------------|---------|---------------|---------|
|                     | Ended           |         | Months Ended  |         |
|                     | September 30,   |         | September 30, |         |
|                     | 2016            | 2015    | 2016          | 2015    |
| Oil (b/d)           | 36,839          | 30,671  | 34,964        | 31,530  |
| Natural Gas (Mcf/d) | 135,233         | 125,657 | 134,591       | 127,186 |
| NGL (b/d)           | 374             | 334     | 373           | 360     |

The table shows production on a barrel of oil equivalent basis (boe) in which natural gas is converted to an (3)equivalent barrel of oil based on a 6:1 energy equivalent ratio. This ratio is not reflective of the price ratio between the two products.

Average sales volumes from the North Sea for the third quarter and nine-month period of 2016 were 65,171 boe/d (4)and 67,222 boe/d, respectively. Sales volumes may vary from production volumes as a result of the timing of liftings in the Beryl field.

## Pricing

The table below presents third-quarter and year-to-date 2016 and 2015 pricing and the relative increase or decrease from the prior periods.

|  | For the Quarter Ended<br>September 30, |                        |         | For the Nine Months<br>Ended September 30, |                        |         |
|--|--|------------------------|---------|--|------------------------|---------|
|  | 2016                                   | Increase<br>(Decrease) | 2015    | 2016                                       | Increase<br>(Decrease) | 2015    |
| <b>Average Oil Price - Per barrel</b>      |  |                        |         |  |                        |         |
| United States                              | \$41.83                                | (6 )%                  | \$44.47 | \$37.53                                    | (21 )%                 | \$47.78 |
| Canada                                     | 40.17                                  | —                      | 40.07   | 36.04                                      | (18 )%                 | 44.00   |
| North America                              | 41.65                                  | (5 )%                  | 43.99   | 37.36                                      | (21 )%                 | 47.36   |
| Egypt                                      | 46.54                                  | (2 )%                  | 47.63   | 41.97                                      | (22 )%                 | 53.59   |
| North Sea                                  | 45.47                                  | (8 )%                  | 49.46   | 41.28                                      | (24 )%                 | 54.42   |
| International                              | 46.20                                  | (4 )%                  | 48.31   | 41.74                                      | (23 )%                 | 53.90   |
| Total                                      | 44.35                                  | (4 )%                  | 46.30   | 39.86                                      | (22 )%                 | 50.82   |
| <b>Average Natural Gas Price - Per Mcf</b> |  |                        |         |  |                        |         |
| United States                              | \$2.66                                 | 4 %                    | \$2.57  | \$2.00                                     | (19 )%                 | \$2.47  |
| Canada                                     | 1.71                                   | (28 )%                 | 2.39    | 1.47                                       | (40 )%                 | 2.44    |
| North America                              | 2.31                                   | (8 )%                  | 2.50    | 1.80                                       | (27 )%                 | 2.46    |
| Egypt                                      | 2.75                                   | (4 )%                  | 2.86    | 2.69                                       | (7 )%                  | 2.90    |
| North Sea                                  | 4.14                                   | (35 )%                 | 6.41    | 4.12                                       | (41 )%                 | 6.95    |
| International                              | 2.96                                   | (14 )%                 | 3.46    | 2.89                                       | (15 )%                 | 3.42    |
| Total                                      | 2.59                                   | (10 )%                 | 2.89    | 2.26                                       | (21 )%                 | 2.85    |
| <b>Average NGL Price - Per barrel</b>      |  |                        |         |  |                        |         |
| United States                              | \$9.59                                 | 17 %                   | \$8.20  | \$8.65                                     | (11 )%                 | \$9.70  |
| Canada                                     | 6.10                                   | 89 %                   | 3.23    | 6.61                                       | 8 %                    | 6.12    |
| North America                              | 9.25                                   | 20 %                   | 7.68    | 8.46                                       | (9 )%                  | 9.33    |
| Egypt                                      | 28.12                                  | 4 %                    | 26.94   | 27.54                                      | (10 )%                 | 30.49   |
| North Sea                                  | 24.45                                  | (5 )%                  | 25.61   | 21.82                                      | (18 )%                 | 26.76   |
| International                              | 25.91                                  | (1 )%                  | 26.18   | 24.21                                      | (16 )%                 | 28.72   |
| Total                                      | 9.97                                   | 19 %                   | 8.41    | 9.11                                       | (9 )%                  | 10.04   |
| <b>Discontinued Operations:</b>            |  |                        |         |  |                        |         |
| Oil price (\$/Bbl)                         | \$—                                    |                        | \$—     | \$—  |                        | \$49.76 |
| Natural Gas price (\$/Mcf)                 | —                                      |                        | —       | —  |                        | 4.07    |
| NGL price (\$/Bbl)                         | —                                      |                        | —       | —  |                        | —       |

## Third-Quarter 2016 compared to Third-Quarter 2015

**Crude Oil Revenues** Crude oil revenues for the third quarter of 2016 totaled \$1.1 billion, a \$121 million decrease from the comparative 2015 quarter. A 7 percent decrease in average daily production reduced third-quarter 2016 revenues by \$69 million compared to the prior-year quarter, while 4 percent lower average realized prices decreased revenues by \$52 million. Crude oil accounted for 78 percent of oil and gas production revenues and 52 percent of worldwide production in the third quarter of 2016. Crude oil prices realized in the third quarter of 2016 averaged \$44.35 per barrel, compared with \$46.30 per barrel in the comparative prior-year quarter.

Worldwide oil production decreased 19.8 Mb/d to 270.9 Mb/d, primarily a result of reduced drilling activity in response to lower commodity prices. Decreases from natural decline were partially offset by higher net production in Egypt as a function of our production sharing contracts.





**Natural Gas Revenues** Gas revenues for the third quarter of 2016 totaled \$263 million, a \$55 million decrease from the comparative 2015 quarter. An 8 percent decrease in average daily production reduced third-quarter revenues by \$22 million compared to the prior-year quarter, while 10 percent lower average realized prices decreased revenues by \$33 million. Natural gas accounted for 18 percent of our oil and gas production revenues and 35 percent of our equivalent production during the third quarter of 2016.

Our worldwide natural gas production decreased 92.0 MMcf/d to 1,104 MMcf/d in the third quarter of 2016 from the comparative prior-year period, primarily the result of reduced drilling activity in response to lower commodity prices.

**NGL Revenues** NGL revenues for the third quarter of 2016 totaled \$59 million, a \$9 million increase from the comparative 2015 quarter. A 2 percent increase in average daily production increased third-quarter 2016 revenues by approximately \$1 million, while 19 percent higher average realized prices increased revenues by \$8 million. NGLs accounted for 4 percent of our oil and gas production revenues and 13 percent of our equivalent production during the third quarter of 2016.

Worldwide production of NGLs increased 1.3 Mb/d to 65.2 Mb/d in the third quarter of 2016, primarily the result of new production from completion activity in our North American onshore areas, gas processing plant downtime in the prior year period, and changes to existing gas processing arrangements.

**Year-to-Date 2016 compared to Year-to-Date 2015**

**Crude Oil Revenues** Crude oil revenues for the first nine months of 2016 totaled \$3.1 billion, a \$1.1 billion decrease from the comparative 2015 period. A 6 percent decrease in average daily production reduced 2016 oil revenues by \$197 million compared to the prior-year period, while 22 percent lower average realized prices decreased revenues by \$895 million. Crude oil accounted for 78 percent of oil and gas production revenues and 53 percent of worldwide production for the first nine months of 2016, compared to 79 percent and 53 percent, respectively, for the 2015 period. Crude oil prices realized in the first nine months of 2016 averaged \$39.86 per barrel, compared with \$50.82 per barrel in the comparative prior-year period.

Worldwide production decreased 18.6 Mb/d to 280.4 Mb/d in the first nine months of 2016 from the comparative prior-year period, primarily a result of reduced drilling activity in response to lower commodity prices.

**Natural Gas Revenues** Gas revenues for the first nine months of 2016 totaled \$695 million, a \$246 million decrease from the comparative 2015 period. A 7 percent decrease in average daily production reduced 2016 natural gas revenues by \$51 million compared to the prior-year period, while 21 percent lower average realized prices decreased revenues by \$195 million. Natural gas accounted for 18 percent of our oil and gas production revenues and 35 percent of our equivalent production for the first nine months of 2016, compared to 18 percent and 36 percent, respectively, for the 2015 period.

Our worldwide natural gas production decreased 86.5 MMcf/d to 1,124 MMcf/d in the first nine months of 2016 from the comparative prior-year period, primarily the result of reduced drilling activity in response to lower commodity prices.

**NGL Revenues** NGL revenues for the first nine months of 2016 totaled \$160 million, a \$6 million decrease from the comparative 2015 period. A 6 percent increase in average production increased 2016 NGL revenues by \$9 million compared to the prior-year period, while 9 percent lower average realized prices decreased revenues by \$15 million. NGLs accounted for nearly 4 percent of oil and gas production revenues and 12 percent of our equivalent production for the first nine months of 2016, compared to 3 percent and 11 percent, respectively, for the 2015 period.

Worldwide production of NGLs increased 3.8 Mb/d to 64.5 Mb/d in the first nine months of 2016 from the comparative prior-year period, primarily as a result of North American onshore production growth from drilling and recompletion activity and also new production in North Sea's Beryl field.

## Operating Expenses

The table below presents a comparison of our expenses on an absolute dollar basis and a boe basis. Our discussion may reference expenses on a boe basis, on an absolute dollar basis or both, depending on their relevance. Operating expenses include costs attributable to a noncontrolling interest in Egypt but, for the quarter and nine months ended September 30, 2015, exclude discontinued operations in Australia.

|   | For the Quarter Ended |       |               |        | For the Nine Months Ended |         |               |        |
|---|-----------------------|-------|---------------|--------|---------------------------|---------|---------------|--------|
|   | September 30,         |       | September 30, |        | September 30,             |         | September 30, |        |
|   | 2016                  | 2015  | 2016          | 2015   | 2016                      | 2015    | 2016          | 2015   |
|   | (In millions)         |       | (Per boe)     |        | (In millions)             |         | (Per boe)     |        |
| Lease operating expenses <sup>(1)</sup>           | \$382                 | \$450 | \$7.94        | \$8.84 | \$1,119                   | \$1,398 | \$7.68        | \$9.12 |
| Gathering and transportation <sup>(1)</sup>       | 51                    | 58    | 1.09          | 1.12   | 155                       | 163     | 1.07          | 1.06   |
| Taxes other than income                           | 9                     | 104   | 0.19          | 2.04   | 85                        | 232     | 0.58          | 1.52   |
| Exploration                                       | 161                   | 223   | 3.36          | 4.37   | 347                       | 706     | 2.38          | 4.60   |
| General and administrative                        | 102                   | 89    | 2.13          | 1.75   | 298                       | 284     | 2.04          | 1.85   |
| Depreciation, depletion, and amortization:        |                       |       |               |        |                           |         |               |        |
| Oil and gas property and equipment <sup>(1)</sup> | 610                   | 793   | 12.67         | 15.57  | 1,875                     | 2,247   | 12.87         | 14.67  |
| Other assets                                      | 38                    | 79    | 0.79          | 1.54   | 120                       | 245     | 0.82          | 1.60   |
| Asset retirement obligation accretion             | 40                    | 37    | 0.83          | 0.71   | 116                       | 109     | 0.79          | 0.71   |
| Impairments                                       | 836                   | 3,903 | 17.47         | 76.58  | 1,009                     | 6,327   | 6.92          | 41.28  |
| Transaction, reorganization, and separation       | 12                    | —     | 0.25          | 0.02   | 36                        | 120     | 0.24          | 0.79   |
| Financing costs, net                              | 102                   | 160   | 2.13          | 3.13   | 311                       | 401     | 2.13          | 2.61   |

(1) For expenses impacted by the timing of 2016 liftings in the North Sea, per-boe calculations are based on sales volumes rather than production volumes.

**Lease Operating Expenses (LOE)** LOE decreased \$68 million, or 15 percent, for the third quarter of 2016, and \$279 million, or 20 percent, for the first nine-months of 2016, on an absolute dollar basis relative to the comparable periods of 2015. On a per-unit basis, LOE decreased 10 percent to \$7.94 per boe for the third quarter of 2016, and 16 percent to \$7.68 per boe for the first nine months of 2016, as compared to the prior-year periods. These reductions reflect the impact of our continued focus on cost reductions consistent with the current price environment.

**Gathering and Transportation** Gathering and transportation costs totaled \$51 million and \$155 million, respectively, in the third quarter and first nine months of 2016, a decrease of \$7 million and \$8 million from the third quarter and first nine months of 2015, respectively. The decrease was driven primarily by a decrease in volumes and rate changes in Canada and Egypt, partially offset by rate changes in the Permian Basin.

**Taxes other than Income** Taxes other than income totaled \$9 million and \$85 million for the third quarter and first nine months of 2016, respectively, a decrease of \$95 million and \$147 million from the third quarter and first nine months of 2015, respectively.

In the third quarter of this year, the rate of the U.K. Petroleum Revenue Tax (PRT), historically assessed on qualifying fields in the U.K. North Sea, was reduced to zero percent effective January 1, 2016. As a result, PRT tax expense decreased \$83 million and \$91 million for the third quarter and first nine months of 2016, respectively, from the comparative prior-year periods.

Severance tax expense and ad valorem tax expense decreased \$4 million and \$4 million, respectively, on lower oil production and commodity prices during the third quarter compared to the prior year quarter. For the first nine months of 2016, severance tax expense and ad valorem tax expense decreased \$25 million and \$16 million, respectively, compared to the first nine months of 2015.

Exploration Expense Exploration expense includes unproved leasehold impairments, exploration dry hole expense, geological and geophysical expenses, and the costs of maintaining and retaining unproved leasehold properties. Exploration expenses in the third quarter and first nine months of 2016 decreased \$62 million and \$359 million, respectively, from the comparative prior-year periods.

The following table presents a summary of exploration expense:

|                                    | For the<br>Quarter<br>Ended<br>September<br>30,<br>2016 |       | For the<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |       |
|------------------------------------|---|-------|--|-------|
|                                    | 2016  | 2015  | 2016   | 2015  |
|                                    | (In millions)   |       |  |       |
| Unproved leasehold impairments     | \$114   | \$199 | \$222  | \$515 |
| Dry hole expense                   | 7   | —     | 38   | 69    |
| Geological and geophysical expense | 21  | 8     | 30   | 55    |
| Exploration overhead and other     | 19  | 16    | 57   | 67    |
|                                    | \$161   | \$223 | \$347  | \$706 |

General and Administrative (G&A) Expenses G&A expenses for the third quarter and first nine months of 2016 were \$13 million and \$14 million higher, respectively, than the comparative 2015 periods. For the first nine months of 2016, the increase in G&A expense was primarily related to stock based compensation expense.

Depreciation, Depletion, and Amortization (DD&A) Oil and gas property DD&A expense of \$610 million in the third quarter of 2016 decreased \$183 million compared to the third quarter of 2015. For the first nine months of 2016, oil and gas property DD&A expense decreased \$372 million compared to prior-year period. The Company's oil and gas property DD&A rate decreased \$2.90 per boe and \$1.80 per boe in the third quarter and first nine months of 2016, respectively, compared to the comparable prior-year periods. The primary factor driving both lower absolute dollar expense and lower DD&A per boe rates was the reduction in the Company's oil and gas properties as a result of impairments to proved properties in 2015.

Impairments During the third quarter of 2016, the Company recorded asset impairments totaling \$836 million, comprising \$355 million for proved oil and gas properties in Canada and \$481 million for PRT benefits that are no longer expected to be realizable from future abandonment activities in the North Sea. Additionally, during the second quarter of 2016, the Company recorded \$68 million for impairments of proved oil and gas properties in the U.S. and Canada and \$105 million for certain GTP assets. The Company recorded \$3.9 billion and \$6.3 billion of impairments in the third quarter and first nine months of 2015, respectively. For more information regarding asset impairments, please refer to "Fair Value Measurements" within Note 1—Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Transaction, Reorganization, and Separation The Company incurred \$12 million and \$36 million for the third quarter and first nine months of 2016, respectively, related to reorganization costs. The costs incurred for the year include approximately \$29 million for employee separation and \$7 million for consolidation of office space and other reorganization efforts.

Financing Costs, Net Financing costs incurred during the period comprised the following:

|  | For the<br>Quarter<br>Ended<br>September<br>30,<br>2016 |      | For the Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |      |
|--|---|------|---|------|
|  | 2016  | 2015 | 2016  | 2015 |

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|                                     | (In millions) |       |       |       |
|-------------------------------------|---------------|-------|-------|-------|
| Interest expense                    | \$116         | \$120 | \$348 | \$371 |
| Amortization of deferred loan costs | 2             | 6     | 5     | 10    |
| Capitalized interest                | (13 )         | (3 )  | (36 ) | (12 ) |
| Loss on extinguishment of debt      | —             | 39    | —     | 39    |
| Interest income                     | (3 )          | (2 )  | (6 )  | (7 )  |
| Financing costs, net                | \$102         | \$160 | \$311 | \$401 |

Net financing costs decreased \$58 million and \$90 million in the third quarter and first nine months of 2016, respectively, compared to the same prior-year period on higher capitalized interest, lower interest expense, and a \$39 million loss on extinguishment of debt incurred in the third quarter of 2015.

**Provision for Income Taxes** The Company estimates its annual effective income tax rate for continuing operations in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates.

Non-cash impairments of the carrying value of the Company's oil and gas properties, statutory tax rate changes, and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

During the third quarter of 2016, Apache's effective tax rate was impacted primarily by non-cash impairments of the carrying value of the Company's oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, the impact of the change in U.K. statutory income tax rate, and an increase in the amount of valuation allowances on U.S. and Canadian deferred tax assets.

On September 15, 2016, U.K. Finance Act 2016 received Royal Assent. Under the enacted legislation, the corporate income tax rate on North Sea oil and gas profits was reduced from 50 percent to 40 percent effective January 1, 2016. As a result of the enacted legislation in the third quarter of 2016, the Company recorded a deferred tax benefit of \$235 million related to the remeasurement of the Company's December 31, 2015 U.K. deferred income tax liability.

During the third quarter of 2015, Apache's effective tax rate was impacted primarily by non-cash impairments of the carrying value of the Company's oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets, U.S. foreign tax credits and U.S. net operating loss carryforwards.

Apache's 2016 year-to-date effective tax rate was impacted primarily by non-cash impairments of the carrying value of the Company's oil and gas properties, non-cash impairments of the Company's PRT decommissioning asset, the impact of the change in U.K. statutory income tax rate, and an increase in the amount of valuation allowances on U.S. and Canadian deferred tax assets. Apache's 2015 year-to-date effective tax rate was impacted primarily by non-cash impairments of the carrying value of the Company's oil and gas properties and an increase in the amount of valuation allowances on Canadian deferred tax assets, U.S. foreign tax credits, and U.S. net operating loss carryforwards, offset by a \$414 million deferred tax benefit associated with a reduction in the U.K. statutory income tax rate from 62 percent to 50 percent.

### Capital Resources and Liquidity

Operating cash flows are the Company's primary source of liquidity. We may also elect to use available committed borrowing capacity, access to both debt and equity capital markets, or proceeds from the sale of nonstrategic assets for all other liquidity and capital resource needs.

Apache's operating cash flows, both in the short term and the long term, are impacted by highly volatile oil and natural gas prices, as well as costs and sales volumes. Significant changes in commodity prices impact our revenues, earnings, and cash flows. These changes potentially impact our liquidity if costs do not trend with changes in commodity prices. Historically, costs have trended with commodity prices, albeit with a lag. Sales volumes also impact cash flows; however, they have a less volatile impact in the short term.

Apache's long-term operating cash flows are dependent on reserve replacement and the level of costs required for ongoing operations. Cash investments are required to fund activity necessary to offset the inherent declines in production and proved crude oil and natural gas reserves. Future success in maintaining and growing reserves and production is highly dependent on the success of our drilling program and our ability to add reserves economically. Deterioration in commodity prices also impacts estimated quantities of proved reserves. In the first nine months of 2016, we recognized negative reserve revisions of approximately 12 percent of our year-end 2015 estimated proved reserves as a result of lower prices. If realized prices for the remainder of 2016 approximate commodity future prices as of September 30, 2016, the Company does not expect additional negative revisions for the remainder of the year. We believe the liquidity and capital resource alternatives available to Apache, combined with proactive measures to adjust our capital budget to reflect lower commodity prices and anticipated operating cash flows, will be adequate to fund short-term and long-term operations, including our capital spending program, repayment of debt maturities, payment of dividends, and any amount that may ultimately be paid in connection with commitments and contingencies.

For additional information, please see Part I, Items 1 and 2, "Business and Properties," and Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Sources and Uses of Cash

The following table presents the sources and uses of our cash and cash equivalents for the periods presented.

|  | For the Nine<br>Months Ended<br>September 30,<br>2016 2015<br>(In millions) |          |
|--|---|----------|
| Sources of Cash and Cash Equivalents:                |   |          |
| Net cash provided by continuing operating activities | \$ 1,634  | \$ 2,380 |
| Proceeds from asset divestitures                     | 74  | 5,695    |
| Other  | 38  | —        |
|  | 1,746   | 8,075    |
| Uses of Cash and Cash Equivalents:                   |   |          |
| Capital expenditures <sup>(1)</sup>                  | \$ 1,314  | \$ 3,675 |
| Leasehold and property acquisitions                  | 169   | 254      |
| Net cash used by Australia discontinued operations   | —   | 208      |
| Net commercial paper and bank loan repayments        | —   | 1,570    |
| Payment of fixed-rate debt                           | 1   | 939      |
| Dividends paid                                       | 284   | 283      |
| Distributions to noncontrolling interest             | 215   | 97       |
| Other  | —   | 73       |
|  | 1,983   | 7,099    |
| Increase (decrease) in cash and cash equivalents     | \$(237 )  | \$ 976   |

(1) The table presents capital expenditures on a cash basis; therefore, the amounts may differ from those discussed elsewhere in this document, which include accruals.

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**Net Cash Provided by Continuing Operating Activities** Operating cash flows are our primary source of capital and liquidity and are impacted, both in the short term and the long term, by volatile oil and natural gas prices. The factors that determine operating cash flow are largely the same as those that affect net earnings, with the exception of non-cash expenses such as DD&A, exploratory dry hole expense, asset impairments, asset retirement obligation (ARO) accretion, and deferred income tax expense, which affect earnings but do not affect cash flows.

Net cash provided by continuing operating activities for the first nine months of 2016 totaled \$1.6 billion, a decrease of \$746 million from the first nine months of 2015. The decrease primarily reflects lower commodity prices.

For a detailed discussion of commodity prices, production, and expenses, refer to the “Results of Operations” of this Item 2. For additional detail on the changes in operating assets and liabilities and the non-cash expenses that do not impact net cash provided by operating activities, please see the statement of consolidated cash flows in Part I, Item 1, Financial Statements of this Quarterly Report on Form 10-Q.

**Asset Divestitures** The Company had proceeds from asset divestitures totaling \$74 million and \$5.7 billion in the first nine months of 2016 and 2015, respectively. For information regarding our acquisitions and divestitures, please see Note 3—Acquisitions and Divestitures.

**Capital Expenditures** Worldwide exploration and development (E&D) expenditures for the first nine months of 2016 totaled \$1.3 billion, compared to \$3.6 billion for the first nine months of 2015. This reduction is a direct result of our proactive measures to adjust our capital budget to reflect lower commodity prices and operating cash flows. Apache operated an average of 14 drilling rigs during the third quarter of 2016.

Apache also completed leasehold and property acquisitions totaling \$169 million and \$254 million during the first nine months of 2016 and 2015, respectively. Our 2016 acquisition investments continue to focus on adding new leasehold positions to our North American onshore portfolio.

Apache’s investment in gas gathering, transmission, and processing facilities totaled \$33 million and \$113 million in the first nine months of 2016 and 2015, respectively. Expenditures in 2016 primarily comprise investments in infrastructure for the Alpine High play.

**Dividends** For the nine-month periods ended September 30, 2016 and 2015, the Company paid \$284 million and \$283 million, respectively, in dividends on its common stock.

## Liquidity

The following table presents a summary of our key financial indicators at the dates presented:

|  | September<br>30,<br>2016 | December<br>31, 2015 |
|--|--------------------------|----------------------|
|  | (In millions)            |                      |
| Cash and cash equivalents              | \$ 1,230                 | \$ 1,467             |
| Total debt                             | 8,722                    | 8,717                |
| Equity                                 | 7,949                    | 9,490                |
| Available committed borrowing capacity | 3,500                    | 3,500                |

Cash and cash equivalents The Company had \$1.2 billion in cash and cash equivalents as of September 30, 2016, compared to \$1.5 billion at December 31, 2015. At September 30, 2016, approximately \$1.0 billion of the cash was held by foreign subsidiaries. The cash held by foreign subsidiaries should not be subject to additional U.S. income taxes if repatriated. The majority of the cash is invested in highly liquid, investment grade securities with maturities of three months or less at the time of purchase.

Debt As of September 30, 2016, outstanding debt, which consisted of notes and debentures, totaled \$8.7 billion. As of September 30, 2016, Apache had \$483,000 of notes due March 2017 classified as short-term debt on the consolidated balance sheet.

Available committed borrowing capacity In June 2015, the Company entered into a five-year revolving credit facility with \$3.5 billion in commitments and rights to increase commitments to \$4.5 billion. Proceeds from borrowings may be used for general corporate purposes. Apache's available borrowing capacity under this facility supports its commercial paper program, currently \$3.5 billion. The commercial paper program, which is subject to market availability, facilitates Apache borrowing funds for up to 270 days at competitive interest rates. As of September 30, 2016, the Company had no debt outstanding under commercial paper, committed bank facilities, and uncommitted bank lines.

In February 2016, the Company entered into a three-year letter of credit facility providing £900 million in commitments, with options to increase commitments to £1.075 billion and extend the term by one year. The facility is available for letters of credit and loans to cash collateralize letter of credit obligations to the extent letters of credit are unavailable under the facility. The facility's representations and warranties, covenants, and events of default are substantially similar to those in the Company's \$3.5 billion revolving credit facility. Commissions are payable on outstanding letters of credit and borrowings bear interest (at a base rate or LIBOR), plus a margin. Letter of credit commissions, the interest margin, and the facility fee vary depending on the Company's senior unsecured long-term debt rating. This facility is available for the Company's letter of credit needs, particularly those which may arise in respect of abandonment obligations assumed in various North Sea acquisitions. As of September 30, 2016, a letter of credit for approximately £96 million was outstanding under this facility.

The Company was in compliance with the terms of all credit facilities as of September 30, 2016.

### ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Commodity Risk

The Company's revenues, earnings, cash flow, capital investments and, ultimately, future rate of growth are highly dependent on the prices we receive for our crude oil, natural gas, and NGLs, which have historically been very volatile because of unpredictable events such as economic growth or retraction, weather, political climate, and global supply and demand. Our average crude oil realizations have decreased 4 percent to \$44.35 per barrel in the third quarter of 2016 from \$46.30 per barrel in the comparable period of 2015. Our average natural gas price realizations have decreased 10 percent to \$2.59 per Mcf in the third quarter of 2016 from \$2.89 per Mcf in the comparable period of 2015.

We periodically enter into derivative positions on a portion of our projected oil and natural gas production through a variety of financial and physical arrangements intended to manage fluctuations in cash flows resulting from changes in commodity prices. Apache periodically uses futures contracts, swaps, and options to mitigate commodity price risk. Apache does not hold or issue derivative instruments for trading purposes. As of September 30, 2016, Apache had no open commodity derivative positions.

#### Foreign Currency Risk

The Company's cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Canada, oil and gas prices and costs, such as equipment rentals and services, are generally denominated in Canadian dollars but heavily influenced by U.S. markets. Our North Sea production is sold under U.S. dollar contracts, and the majority of costs incurred are paid in British pounds. In Egypt, all oil and gas production is sold under U.S. dollar contracts, and the majority of the costs incurred are denominated in U.S. dollars. Revenue and disbursement transactions denominated in Canadian dollars and British pounds are converted to U.S. dollar equivalents based on average exchange rates during the period.

Foreign currency gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated at the end of each month. Currency gains and losses are included as either a component of "Other" under "Revenues and Other" or, as is the case when we re-measure our foreign tax liabilities, as a component of the Company's provision for income tax expense on the statement of consolidated operations. A foreign currency net gain or loss of \$118 million would result from a 10 percent weakening or strengthening, respectively, in the Canadian dollar and British pound as of September 30, 2016.

### ITEM 4 – CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

John J. Christmann IV, the Company's Chief Executive Officer and President, in his capacity as principal executive officer, and Stephen J. Riney, the Company's Executive Vice President and Chief Financial Officer, in his capacity as principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company's disclosure controls and procedures were effective, providing effective means to ensure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

#### Changes in Internal Control over Financial Reporting

In the quarter ended June 30, 2016, Apache modified certain policies, procedures, and related internal controls that were impacted by the change in accounting principle from the full cost method to the successful efforts method of accounting. There was no other change in our internal controls over financial reporting during the period covered by this Quarterly Report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Please refer to both Part I, Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (filed with the SEC on February 26, 2016) and Note 9—Commitments and Contingencies in the notes to the consolidated financial statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a description of material legal proceedings.

### ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A—Risk Factors of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and Part I, Item 3—Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Apache's Board of Directors has authorized the purchase of up to 40 million shares of the Company's common stock. Shares may be purchased either in the open market or through privately negotiated transactions. The Company initiated the buyback program on June 10, 2013, and through December 31, 2015, had repurchased a total of 32.2 million shares at an average price of \$88.96 per share. The Company is not obligated to acquire any specific number of shares and has not purchased any additional shares during 2016.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

None

### ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 3.1 Restated Certificate of Incorporation of Registrant, dated September 19, 2013, as filed with the Secretary of State of Delaware on September 19, 2013 (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed September 20, 2013, SEC File No. 001-4300).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation of Registrant, dated May 14, 2015, as filed with the Secretary of State of Delaware on May 14, 2015 (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed May 20, 2015, SEC File No. 001-4300).
- 3.3 Bylaws of Registrant, as amended February 3, 2016 (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed February 9, 2016, SEC File No. 001-4300).
- \*10.1 Form of Restricted Stock Unit Award Agreement dated September 14, 2016.
- \*31.1 Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Executive Officer.
- \*31.2 Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Financial Officer.
- \*32.1 Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Principal Executive Officer and Principal Financial Officer.
- \*101.INS XBRL Instance Document.
- \*101.SCH XBRL Taxonomy Schema Document.
- \*101.CAL XBRL Calculation Linkbase Document.
- \*101.DEF XBRL Definition Linkbase Document.
- \*101.LAB XBRL Label Linkbase Document.
- \*101.PRE XBRL Presentation Linkbase Document.
- \* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

APACHE CORPORATION

Dated: November 3, 2016 /s/ STEPHEN J. RINEY  
Stephen J. Riney  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Dated: November 3, 2016 /s/ REBECCA A. HOYT  
Rebecca A. Hoyt  
Senior Vice President, Chief Accounting Officer, and Controller  
(Principal Accounting Officer)