

CANADIAN NATURAL RESOURCES LTD
Form F-10
July 20, 2017

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As filed with the Securities and Exchange Commission on July 20, 2017

Registration No. 333-

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM F-10
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

CANADIAN NATURAL RESOURCES LIMITED

(Exact name of Registrant as specified in its charter)

Alberta
(Province or other
jurisdiction of
incorporation or
organization)

1311
(Primary Standard
Industrial
Classification Code
Number
(if applicable))

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

**Suite 2100, 855-2nd Street, S.W., Calgary, Alberta, Canada, T2P 4J8
(403) 517-6700**

(Address and telephone number of Registrant's principal executive offices)

**CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011
(212) 894-8800**

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies to:

**Brent W. Kraus
Bennett Jones LLP
4500 Bankers Hall East
855 2nd Street, S.W.
(403) 298-3100**

**Andrew J. Foley
Paul, Weiss, Rifkind, Wharton &
Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
(212) 373-3000**

Approximate date of commencement of proposed sale of the securities to the public:

From time to time after the effective date of this Registration Statement.

Province of Alberta, Canada

(Principal jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box below):

- A. upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).
- B. at some future date (check appropriate box below)
1. pursuant to Rule 467(b) on (*date*) at (*time*) (designate a time not sooner than 7 calendar days after filing).
 2. pursuant to Rule 467(b) on (*date*) at (*time*) (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on (*date*).
 3. pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
 4. after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction's shelf prospectus offering procedures, check the following box.

CALCULATION OF REGISTRATION FEE CHART

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit(1)	Proposed maximum aggregate offering price	Amount of registration fee
Debt securities	US\$3,000,000,000	100%	US\$3,000,000,000	US\$347,700.00

(1) Estimated solely for the purpose of calculating the registration fee.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registration statement shall become effective as provided in Rule 467 under the Securities Act of 1933, as amended, or on such date as the Commission, acting pursuant to Section 8(a) of the Act, may determine.

PART I

**INFORMATION REQUIRED TO BE
DELIVERED TO OFFEREEES OR PURCHASERS**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Subject to Completion Dated July 20, 2017
PRELIMINARY SHORT FORM BASE SHELF PROSPECTUS**

New Issue

July 20, 2017

CANADIAN NATURAL RESOURCES LIMITED

US\$3,000,000,000

Debt Securities

Canadian Natural Resources Limited may offer for sale from time to time debt securities in the aggregate principal amount of up to US\$3,000,000,000 (or the equivalent thereof in other currencies or currency units based on the applicable exchange rate at the time of the distribution) during the 25 month period that this prospectus (including any amendments hereto) remains valid. The debt securities may be offered separately or together, in one or more series, in amounts, at prices and on other terms to be determined based on market conditions at the time of issuance and set forth in an accompanying prospectus supplement.

We will provide the specific terms of the debt securities and all information omitted from this prospectus in supplements to this prospectus. You should read this prospectus and any applicable prospectus supplements carefully before you invest.

We are permitted, under the multijurisdictional disclosure system adopted by the United States and the provinces of Canada, to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and they are subject to Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (U.S.). As a result, the financial statements included or incorporated by reference in this prospectus and any applicable prospectus supplement may not be comparable to financial statements of United States companies.

Certain data on oil and gas reserves included or incorporated by reference in this prospectus and any applicable prospectus supplement has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards. See "Note Regarding Reserves Disclosure".

Owning the debt securities may subject you to tax consequences both in the United States and Canada. This prospectus or any applicable prospectus supplement may not describe these tax consequences fully. You should read the tax discussion in any applicable prospectus supplement and consult with your tax adviser. See "Certain Income Tax Considerations".

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because we are incorporated in Alberta, some of our officers and directors and some of the experts named in this prospectus are Canadian residents, and most of our assets and all or most of the assets of our officers and directors and the experts are located outside the United States. See "Enforceability of Civil Liabilities".

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Neither the United States Securities and Exchange Commission (the "SEC") nor any state or provincial securities commission or similar authority has approved or disapproved of the debt securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The debt securities have not been qualified for sale under the securities laws of any province or territory of Canada and are not being and may not be offered or sold, directly or indirectly, in Canada or to any resident of Canada in contravention of the securities laws of any province or territory of Canada.

All shelf information permitted under applicable law to be omitted from this prospectus will be contained in one or more prospectus supplements that will be delivered to purchasers together with this prospectus. Each prospectus supplement will be incorporated by reference into this prospectus for the purposes of securities legislation as of the date of the prospectus supplement and only for the purposes of the distribution of the debt securities to which the prospectus supplement pertains.

Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities or stock exchange. There is no market through which the debt securities may be sold and purchasers may not be able to resell the debt securities purchased under any prospectus supplement. This may affect the pricing of the debt securities in the secondary market, the transparency and availability of trading prices, the liquidity of the debt securities and the extent of issuer regulation. See "Risk Factors".

Certain of the earnings coverage ratios provided in this prospectus are less than one-to-one. See "Pro Forma Earnings Coverage".

Our head, principal and registered office is located at 2100, 855 2nd Street S.W., Calgary, Alberta, Canada T2P 4J8.

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ABOUT THIS PROSPECTUS

In this prospectus and any applicable prospectus supplement, all capitalized terms and acronyms used and not otherwise defined have the meanings provided in the prospectus and any applicable prospectus supplement. Unless otherwise specified or the context otherwise requires, all references in this prospectus to "Canadian Natural", the "Company", "we", "us", and "our" mean Canadian Natural Resources Limited and its subsidiaries, partnerships and, where applicable, interests in other entities. In the section entitled "Description of Debt Securities" in this prospectus, "Canadian Natural", "we", "us" and "our" refers only to Canadian Natural Resources Limited, without its subsidiaries or interests in partnerships and other entities.

Unless otherwise specified or the context otherwise requires, in this prospectus, in any applicable prospectus supplement and in documents incorporated by reference in this prospectus and any applicable prospectus supplement, all dollar amounts are expressed in Canadian dollars, and references to "dollars", "Cdn\$" or "\$" are to Canadian dollars and all references to "US\$" are to United States dollars.

Our financial statements incorporated by reference in this prospectus and any applicable prospectus supplement are prepared in accordance with IFRS, as issued by the IASB, and they are subject to Canadian generally accepted accounting standards and the standards of the Public Company Accounting Oversight Board (U.S.).

This prospectus replaces our base shelf prospectus for debt securities dated October 30, 2015.

Canadian Natural has filed with the SEC under the United States *Securities Act of 1933*, as amended (the "**1933 Act**") a registration statement on Form F-10 relating to the offering of the debt securities, of which this prospectus forms part. This prospectus does not contain all of the information set forth in such registration statement, certain items of which are contained in the exhibits to the

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registration statement as permitted or required by the rules and regulations of the SEC. Items of information omitted from this prospectus but contained in the registration statement will be available on the SEC's website at www.sec.gov. You may refer to the registration statement and the exhibits to the registration statement for further information with respect to us and the debt securities.

Information on or connected to our website, even if referred to in a document incorporated by reference herein, does not constitute part of this prospectus.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a corporation incorporated under and governed by the *Business Corporations Act* (Alberta). Some of our officers and directors and some of the experts named in this prospectus are Canadian residents, and most of our assets and all or most of the assets of our officers and directors and the experts are located outside the United States. We have appointed an agent for service of process in the United States, but it may be difficult for holders of debt securities who reside in the United States to effect service within the United States upon those directors, officers and experts who are not residents of the United States. It may also be difficult for holders of debt securities who reside in the United States to realize in the United States upon judgments of courts of the United States predicated upon our civil liability and the civil liability of our directors and officers and experts under the United States federal securities laws. We have been advised by our Canadian counsel, Bennett Jones LLP, that a judgment of a United States court predicated solely upon civil liability under U.S. federal securities laws would probably be enforceable in Canada if the United States court in which the judgment was obtained has a basis for jurisdiction in the matter that would be recognized by a Canadian court for the same purposes. We have also been advised by Bennett Jones LLP, however, that there is a substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon U.S. federal securities laws.

We filed with the SEC, concurrently with our registration statement on Form F-10 of which this prospectus forms a part, an appointment of agent for service of process and undertaking on Form F-X. Under the Form F-X, we appointed CT Corporation System as our agent for service of process in the United States in connection with any investigation or administrative proceeding conducted by the SEC and any civil suit or action brought against or involving us in a United States court arising out of or related to or concerning the offering of debt securities under this prospectus.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus and any applicable prospectus supplement, and in the documents incorporated by reference herein and therein, may contain or incorporate by reference "forward-looking information" and "forward-looking statements" (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable securities legislation, including the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule", "proposed" or expressions of a similar nature, suggesting future outcome or statements regarding an outlook. Disclosure related to expected future commodity pricing; forecast or anticipated production volumes; royalties; operating costs; capital expenditures; income tax expenses and other guidance provided throughout this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein or therein constitute forward-looking statements. Disclosure of plans relating to and expected results of existing and future developments, including but not limited to the Horizon Oil Sands operations and future expansions, the Athabasca Oil Sands Project and the pro forma financial, operating and reserves information relating thereto, Primrose thermal projects, Pelican Lake water and polymer flood project, the Kirby Thermal Oil Sands Project, the construction and future operations of the North West

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Redwater bitumen upgrader and refinery, and construction by third parties of new or expansion of existing pipeline capacity or other means of transportation of bitumen, crude oil, natural gas or synthetic crude oil upon which we may be reliant to transport our products to market also constitute forward-looking statements. This forward-looking information is based on annual budgets and multi-year forecasts, and is reviewed and revised throughout the year as necessary in the context of targeted financial ratios, project returns, product pricing expectations and balance in project risk and time horizons. These statements are not guarantees of future performance and are subject to certain risks. The reader should not place undue reliance on these forward-looking statements as there can be no assurances that the plans, initiatives or expectations upon which they are based will occur.

In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment based on certain estimates and assumptions that the reserves described can be profitably produced in the future. There are numerous uncertainties inherent in estimating quantities of proved and proved plus probable crude oil, natural gas and NGLs reserves and in projecting future rates of production and the timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserve and production estimates.

The forward-looking statements are based on current expectations, estimates and projections about us and the industry in which we operate, which speak only as of the date such statements were made or as of the date of the report or document in which they are contained, and are subject to known and unknown risks and uncertainties that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others: the ability to successfully integrate the assets acquired pursuant to the Acquisitions (as defined herein) and the employees associated with such assets; future use and development of technology; the ability to implement new technology necessary to efficiently and effectively operate the assets acquired pursuant to the Acquisitions; the ability to achieve the expected environmental impacts from the assets acquired pursuant to the Acquisitions; general economic and business conditions which will, among other things, impact demand for and market prices of our products; volatility of and assumptions regarding crude oil and natural gas prices; fluctuations in currency and interest rates; assumptions on which our current guidance is based; economic conditions in the countries and regions in which we conduct business; political uncertainty, including actions of or against terrorists, insurgent groups or other conflict including conflict between states; industry capacity; our ability to implement our business strategy, including exploration and development activities; impact of competition; our defense of lawsuits; availability and cost of seismic, drilling and other equipment; our ability to complete capital programs; our ability to secure adequate transportation for our products; unexpected disruptions or delays in the resumption of the mining, extracting or upgrading of our bitumen products; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; our ability to attract the necessary labor required to build our thermal and oil sands mining projects; operating hazards and other difficulties inherent in the exploration for and production and sale of crude oil and natural gas and in mining, extracting or upgrading bitumen products; availability and cost of financing; our success of exploration and development activities and ability to replace and expand crude oil and natural gas reserves; timing and success of integrating the business and operations of acquired companies and assets, including those acquired pursuant to the Acquisitions; production levels; imprecision of reserve estimates and estimates of recoverable quantities of crude oil, natural gas and NGLs not currently classified as proved; actions by governmental authorities; government regulations and the expenditures required to comply with them (especially safety and environmental laws and regulations and the impact of climate change initiatives on capital and operating costs); asset retirement obligations; the adequacy of our provision for taxes; and other circumstances affecting revenues and expenses.

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Our operations have been, and in the future may be, affected by political developments and by federal, provincial and local laws and regulations such as restrictions on production, changes in taxes, royalties and other amounts payable to governments or governmental agencies, price or gathering rate controls and environmental protection regulations. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are dependent upon other factors, and our course of action would depend upon our assessment of the future considering all information then available.

We caution that the foregoing list of important factors is not exhaustive. Unpredictable or unknown factors not discussed in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein or therein, could also have material adverse effects on forward-looking statements. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements are made, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking statements, whether written or oral, attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

Additional factors are described in our AIF (as defined herein) dated March 23, 2017 which is filed with the securities commissions or similar authorities in Canada and incorporated by reference in this prospectus and any applicable prospectus supplement. You should also carefully consider the matters discussed under "Risk Factors" in this prospectus and any applicable prospectus supplement.

Except as required under applicable securities laws, we assume no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise, or the foregoing factors affecting this information, should circumstances or management estimates or opinions change.

NOTE REGARDING RESERVES DISCLOSURE

The securities regulatory authorities in Canada have adopted National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"), which imposes oil and gas disclosure standards for Canadian public issuers engaged in oil and gas activities. NI 51-101 permits oil and gas issuers, in their filings with Canadian securities regulatory authorities, to disclose proved and proved plus probable reserves, to disclose resources, and to disclose reserves and production before deducting royalties. Probable reserves are of a higher uncertainty and are less likely to be accurately estimated or recovered than proved reserves.

We are required to disclose reserves in accordance with Canadian securities law requirements and the disclosure of proved and probable reserves in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein and therein is in accordance with NI 51-101. The SEC definitions of proved and probable reserves are different from the definitions contained in NI 51-101; therefore, proved and probable reserves disclosed in this prospectus, any applicable prospectus supplement and the documents incorporated by reference herein and therein in compliance with NI 51-101 may not be comparable to United States standards. The SEC requires United States oil and gas reporting companies, in their filings with the SEC, to disclose only proved reserves after the deduction of royalties and production due to others but permits the optional disclosure of probable and possible reserves.

In addition, as permitted by NI 51-101, we have determined and disclosed the net present value of future net revenue from our reserves in our NI 51-101 compliant reserves disclosure using forecast prices and costs. The SEC requires that reserves and related future net revenue be estimated based on

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historical 12-month average prices and current costs, but permits the optional disclosure of revenue estimates based on different price and cost criteria.

This prospectus, any applicable prospectus supplement and the documents incorporated by reference herein and therein contain disclosure respecting oil and gas production expressed as "cubic feet of natural gas equivalent" and "barrels of oil equivalent" or "BOE". All equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In comparing the value ratio using current crude oil prices relative to natural gas prices, the six thousand cubic feet of natural gas to one barrel of oil conversion ratio may be misleading as an indication of value.

For additional information regarding the presentation of our reserves and other oil and gas information, see the section entitled "Form 51-101F1 Statement of Reserves Data and Other Information" in our AIF, which is incorporated by reference in this prospectus.

WHERE YOU CAN FIND MORE INFORMATION

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Canadian Natural Resources Limited at 2100, 855 2nd Street S.W., Calgary, Alberta T2P 4J8, Telephone (403) 517-6700. These documents are also available through the internet via the System for Electronic Document Analysis and Retrieval, which can be accessed at www.sedar.com.

We file with the securities commission or similar authorities in each of the provinces of Canada, annual and quarterly reports, material change reports and other information. We are subject to the reporting requirements of the United States *Securities Exchange Act of 1934*, as amended (the "**Exchange Act**"), and, in accordance with the Exchange Act, we also file reports with and furnish other information to the SEC. Under the multijurisdictional disclosure system adopted by the United States and the provinces of Canada, these reports and other information (including financial information) may be prepared, in part, in accordance with the disclosure requirements of Canada, which differ from those in the United States. You may read any document we file with or furnish to the SEC at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of the same documents from the public reference room of the SEC at 100 F Street, N.E., Washington D.C. 20549 by paying a fee. Please call the SEC at 1-800-SEC-0330 or contact them at www.sec.gov for further information on the public reference rooms. Our filings are also electronically available from the SEC's Electronic Data Gathering, Analysis and Retrieval system (EDGAR), which can be accessed at www.sec.gov, as well as from commercial document retrieval services.

Under the multijurisdictional disclosure system adopted by the United States and the provinces of Canada, the Canadian securities commissions and the SEC allow us to "incorporate by reference" certain information we file with them, which means that we can disclose important information to you by referring you to those documents. Information that is incorporated by reference is an important part of this prospectus. We incorporate by reference the documents listed below, which were filed with certain Canadian securities commissions under Canadian securities legislation and filed with or furnished to the SEC under the Exchange Act:

our Annual Information Form ("**AIF**") dated March 23, 2017 for the year ended December 31, 2016;

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our audited annual comparative consolidated financial statements as at and for the years ended December 31, 2016 and 2015, together with the notes thereto and the independent auditor's report thereon;

our Management's Discussion and Analysis for the year ended December 31, 2016;

our unaudited interim comparative consolidated financial statements for the three months ended March 31, 2017, together with the notes thereto (the "**Interim Financial Statements**");

our Management's Discussion and Analysis for the three months ended March 31, 2017;

our Information Circular dated March 15, 2017 relating to the Annual General Meeting of our Shareholders held on May 4, 2017;

our Information Circular dated March 16, 2016 relating to the Annual and Special Meeting of our Shareholders held on May 5, 2016, excluding the disclosure under the heading "Information Regarding the Plan of Arrangement Information Regarding PrairieSky Documents Incorporated by Reference";

our Material Change Report dated March 20, 2017 relating to the acquisitions of a combined direct and indirect 70% working interest in the Athabasca Oil Sands Project (the "**Acquired AOSP Assets**"), together with working interests in other ancillary non-producing oil sands leases (collectively, the "**Acquisitions**");

our Business Acquisition Report dated July 13, 2017 relating to the Acquisitions (the "**Business Acquisition Report**");

the supplementary oil and gas information prepared in accordance with the United States Financial Accounting Standards Board ("**FASB**") Topic 932 "Extractive Activities Oil and Gas", which is contained in the section entitled "Supplementary Oil & Gas Information (Unaudited)" in our Annual Report filed on March 23, 2017; and

the pro forma supplementary oil and gas information giving effect to the Acquisitions prepared in accordance with FASB Topic 932 "Extractive Activities Oil and Gas", which was filed under the category "Other" on July 20, 2017.

Any documents of the type required by National Instrument 44-101 *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus including, without limitation, any material change reports (excluding confidential material change reports), comparative annual financial statements and the auditors' report thereon, comparative interim financial statements, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms, business acquisition reports and any press release containing financial information for periods more recent than the most recent annual or interim financial statements filed by us with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this prospectus and prior to 25 months from the date hereof are deemed to be incorporated by reference in this prospectus.

Any report that we file with or furnish to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act after the date of this prospectus shall be deemed to be incorporated by reference into this prospectus and the registration statement of which it forms a part, if and to the extent expressly provided for in such report. Our U.S. filings are electronically available from the SEC's Electronic Document Gathering and Retrieval System, which is commonly known by the acronym EDGAR and may be accessed at www.sec.gov.

To the extent that any document or information incorporated by reference into this prospectus is included in a report filed or furnished on Form 40-F, 20-F, 10-K, 10-Q, 8-K, 6-K or any respective successor form, such document or information shall also be deemed to be incorporated by reference as

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an exhibit to the registration statement relating to the debt securities of which this prospectus forms a part.

Upon a new annual information form and corresponding audited annual financial statements and management's discussion and analysis being filed with, and where required, accepted by, the applicable securities commission or similar authority in Canada during the currency of this prospectus, the previous annual information form, the previous audited annual financial statements and related management's discussion and analysis, all unaudited interim financial statements and related management's discussion and analysis and material change reports filed prior to the commencement of the current financial year in which the new annual information form and corresponding audited annual financial statements and management's discussion and analysis are filed, and business acquisition reports filed prior to the commencement of the fiscal year in respect of which the new annual information is filed, shall be deemed no longer to be incorporated into this prospectus for purposes of future distributions of debt securities under this prospectus. Upon new interim financial statements and related management's discussion and analysis being filed with the applicable securities commission or similar authority in Canada during the currency of this prospectus, all interim financial statements and related management's discussion and analysis filed prior to the new interim consolidated financial statements and related management's discussion and analysis shall be deemed no longer to be incorporated into this prospectus for purposes of future distributions of debt securities under this prospectus. Upon a new information circular relating to an annual general meeting of our shareholders being filed by us with the securities commission or similar authority in Canada during the currency of this prospectus, the information circular for the preceding annual general meeting of our shareholders shall be deemed no longer to be incorporated into this prospectus for purposes of future distributions of debt securities under this prospectus.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

In addition, certain marketing materials (as that term is defined in applicable securities legislation) may be used in connection with a distribution of debt securities under this prospectus and any applicable prospectus supplement(s). Any template version of marketing materials (as those terms are defined in applicable securities legislation) pertaining to a distribution of debt securities, and filed by us after the date of the applicable prospectus supplement and before termination of the distribution of such debt securities, will be deemed to be incorporated by reference in that prospectus supplement for the purposes of the distribution of debt securities to which the prospectus supplement pertains.

In addition, you may obtain a copy of the AIF and other information mentioned above by writing or calling us at the following address and telephone number:

Canadian Natural Resources Limited
2100, 855 2nd Street S.W.
Calgary, Alberta, Canada T2P 4J8
(403) 517-6700

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Attention: Corporate Secretary

You should rely only on the information contained in: (a) this prospectus and any applicable prospectus supplement; and (b) any documents incorporated by reference in this prospectus or in any applicable prospectus supplement. We have not authorized anyone to provide you with different or additional information. If anyone provides you with any different or inconsistent information, you should not rely on it. You should bear in mind that although the information contained in, or incorporated by reference in, this prospectus is intended to be accurate as of the date hereof or the date of such documents incorporated by reference, respectively, such information may also be amended, supplemented or updated, as may be required by applicable securities laws, by the subsequent filing of additional documents deemed by applicable securities laws to be, or otherwise incorporated by reference into this prospectus, any prospectus supplement and by any subsequently filed prospectus amendments, if any. This prospectus constitutes a public offering of debt securities only in those jurisdictions where they may be lawfully distributed and therein only by persons permitted to distribute such debt securities. We are not making any offer of debt securities in any jurisdiction where the offer is not permitted by law.

CANADIAN NATURAL RESOURCES LIMITED

We are a Canadian-based senior, independent energy company engaged in the acquisition, exploration, development, production, marketing and sale of crude oil, natural gas liquids, natural gas and bitumen. Our core regions of operations are in western Canada, the United Kingdom sector of the North Sea and Offshore Africa. Our head and principal office is located at 2100, 855 2nd Street S.W., Calgary, Alberta, Canada T2P 4J8.

Our common shares are listed for trading on the Toronto Stock Exchange and on the New York Stock Exchange under the trading symbol "CNQ".

CONSOLIDATED CAPITALIZATION

Except as described below, there have been no material changes in the consolidated share and loan capitalization of the Company since the date of the Interim Financial Statements.

In connection with the Acquisitions and as further described in the Business Acquisition Report, we issued: (i) on May 31, 2017, 97,560,975 common shares of the Company; (ii) on May 30, 2017, 2.95% notes due January 15, 2023 with an aggregate principal amount of US\$1 billion, 3.85% notes due June 1, 2027 with an aggregate principal amount of US\$1.25 billion and 4.95% notes due June 1, 2047 with an aggregate principal amount of US\$750 million; and (iii) on May 30, 2017, 2.05% medium term notes due June 1, 2020 with an aggregate principal amount of \$900 million, 3.42% medium term notes due December 1, 2026 with an aggregate principal amount of \$600 million and 4.85% medium term notes due May 30, 2047 with an aggregate principal amount of \$300 million.

For the purposes of financing a portion of the cash purchase price and expenses relating to the Acquisitions, on May 4, 2017, a syndicate of lenders committed to provide to the Company: (i) a senior unsecured 364-day term credit facility in an aggregate principal amount of up to \$6 billion on a fully underwritten basis (the "**Bridge Facility**"); and (ii) a senior unsecured three year term loan facility in an aggregate principal amount of up to \$3 billion (the "**Term Loan Facility**"). The Bridge Facility was cancelled on May 30, 2017 following the note issuances described above. The Term Loan Facility will mature on May 31, 2020 and is subject to annual amortization of 5% of the original balance. As at May 31, 2017, being the closing date of the Acquisitions, \$3 billion was drawn on the Term Loan Facility, including a US\$375 million letter of credit regarding a deferred payment due to Marathon Oil Dutch Holdings B.V. in the first quarter of 2018.

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On June 29, 2017, we entered into an amending agreement to our \$1,500 million non-revolving term credit facility maturing April 4, 2018 to extend the maturity date of the facility to October 15, 2019 and to increase the principal amount authorized under the facility to \$2,200 million. The additional \$700 million in principal under the facility was used to repay indebtedness outstanding under our existing revolving facilities and for general corporate purposes. Also on June 29, 2017, we entered into an amending agreement to our \$2,425 million revolving syndicated credit facility maturing June 30, 2019 to extend the maturity date of \$2,095 million of loan commitments under the facility to June 30, 2021, with the remaining \$330 million maturing June 30, 2019.

USE OF PROCEEDS

Unless otherwise indicated in an applicable prospectus supplement relating to a series of debt securities, we will use the net proceeds we receive from the sale of the debt securities for general corporate purposes relating to our core regions of operations in western Canada, the United Kingdom sector of the North Sea and Offshore Africa, which may include financing our capital expenditure program and working capital requirements in those regions. We may also use the net proceeds for the repayment of indebtedness. Pending such use of any proceeds, we may invest funds in short-term marketable securities. We may, from time to time, issue securities (including debt securities) other than pursuant to this prospectus.

PRO FORMA EARNINGS COVERAGE

The following pro forma earnings coverage ratios have been prepared in accordance with Canadian securities law requirements and are included in this prospectus in accordance with Canadian disclosure requirements.

The pro forma coverage ratios are calculated on a consolidated basis for the twelve month periods ended March 31, 2017 and December 31, 2016 and are based on information contained within our financial statements for the related periods which were prepared in accordance with IFRS. The impact of the Acquired AOSP Assets to our earnings on a consolidated basis cannot be reliably estimated from the operating statements included in the Business Acquisition Report, which is incorporated by reference herein, therefore no earnings attributable to the Acquired AOSP Assets are included in the pro forma coverage ratios.

The borrowing cost requirements used in calculating the pro forma coverage ratios have been adjusted to take into account the following: (i) on May 30, 2017, we issued 2.95% notes due January 15, 2023 with an aggregate principal amount of US\$1 billion, 3.85% notes due June 1, 2027 with an aggregate principal amount of US\$1.25 billion and 4.95% notes due June 1, 2047 with an aggregate principal amount of US\$750 million; (ii) on May 30, 2017, we issued 2.05% medium term notes due June 1, 2020 with an aggregate principal amount of \$900 million, 3.42% medium term notes due December 1, 2026 with an aggregate principal amount of \$600 million and 4.85% medium term notes due May 30, 2047 with an aggregate principal amount of \$300 million; and (iii) any other incremental borrowing required to complete the Acquisitions, including the Term Loan Facility. Any other adjustments for normal course issuances and repayments of financial obligations subsequent to December 31, 2016 would not materially affect the pro forma coverage ratios.

The pro forma coverage ratios do not give effect to any debt securities offered by this prospectus since the aggregate amount of debt securities that will be issued hereunder, if any, and terms of issue are not presently known. The pro forma coverage ratios set forth below do not purport to be indicative

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of the actual earnings coverage ratios that would have occurred if the foregoing events had actually occurred on the foregoing dates, nor to be indicative of coverage ratios for any future periods.

	March 31, 2017 (unaudited)	December 31, 2016 (unaudited)
Earnings coverage(1)(2)	0.3x	(0.4x)

Notes:

- (1) Earnings coverage is equal to Canadian Natural's net earnings (loss) plus income taxes and interest expense excluding current and deferred United Kingdom Petroleum Revenue Tax ("PRT") expense and other taxes; divided by the sum of interest expense and capitalized interest, estimated to give effect to the estimated interest expense associated with the notes issuances referred to above and the application of the estimated proceeds therefrom.
- (2) For purposes of calculating pro forma coverage ratios, we have made certain assumptions regarding the interest expense associated with funding the Acquisitions. We believe these assumptions to be reasonable, but we make no assurance that the actual interest expense will not be greater than the interest expense we have assumed. If the actual interest expense is greater than the expense we have assumed, the pro forma coverage ratios may decrease.

After adjusting for the issuance and sale of the notes on May 30, 2017 and additional borrowings, our borrowing cost requirements would have amounted to \$876 million for the twelve months ended December 31, 2016. Our loss before borrowing costs and income tax for the twelve months then ended was \$356 million, which is (0.4) times our borrowing cost requirements for this period. After adjusting for the issuance and sale of notes on May 30, 2017 and additional borrowings, our borrowing cost requirements, adjusted as discussed above, would have amounted to \$879 million for the twelve months ended March 31, 2017. Our earnings before borrowing costs and income tax, adjusted as discussed above, for the twelve months then ended was \$220 million which is 0.3 times our borrowing cost requirements for this period.

Our earnings coverage ratios for the twelve month periods ended December 31, 2016 and March 31, 2017 are less than one to one largely as a result of lower commodity prices. We would have required additional earnings (as defined in note (1) above) of approximately \$1.2 billion for the period ended December 31, 2016 and approximately \$660 million for the period ending March 31, 2017 to achieve coverage ratios of one to one.

DESCRIPTION OF DEBT SECURITIES

In this section, "we", "us", "our" or "Canadian Natural" refers only to Canadian Natural Resources Limited without its subsidiaries or interest in partnerships and other entities. The following describes certain general terms and provisions of the debt securities. The particular terms and provisions of the series of debt securities offered by any prospectus supplement, and the extent to which the general terms and provisions described below may apply to them, will be described in the applicable prospectus supplement. Accordingly, for a description of the terms of a particular series of debt securities, reference must be made to both the applicable prospectus supplement relating to them and the description of the debt securities set forth in this prospectus. You should rely on information in the applicable prospectus supplement if it is different from the description set forth in this prospectus.

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The debt securities will be issued under a trust indenture dated July 24, 2001 originally made between us and The Bank of Nova Scotia Trust Company of New York, as trustee (the "**Initial Trustee**"), as amended by a supplemental indenture dated October 28, 2011 (the "**First Supplemental Indenture**") entered into between us and the Initial Trustee and having effect only with respect to debt securities issued after the date of the First Supplemental Indenture, as amended by a second supplemental indenture (the "**Second Supplemental Indenture**") dated as of August 30, 2013 among us, the Initial Trustee and Wells Fargo Bank, National Association (the "**Trustee**"), as the successor trustee on the resignation of the Initial Trustee (the trust indenture dated July 24, 2001 as amended by the First Supplemental Indenture and the Second Supplemental Indenture referred to herein as the "**Indenture**"). Pursuant to the terms of the Second Supplemental Indenture, the Trustee has accepted its appointment as successor Trustee, Security Registrar and Paying Agent under the Indenture. The Indenture is subject to and governed by the United States *Trust Indenture Act of 1939*, as amended. A copy of the Indenture has been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part.

The following is, unless otherwise indicated, a summary of certain provisions of the Indenture and the debt securities issuable thereunder and is not meant to be complete and is subject to and qualified in its entirety by the detailed provisions of the Indenture. For more information, you should refer to the full text of the Indenture and the debt securities, including the definitions of certain terms not defined in this prospectus, and the applicable prospectus supplement. References in parentheses are to section numbers in the Indenture.

General

The Indenture does not limit the aggregate principal amount of debt securities (which may include debentures, notes and other unsecured evidences of indebtedness) that may be issued under the Indenture, and provides that debt securities may be issued from time to time in one or more series and may be denominated and payable in foreign currencies. The debt securities offered pursuant to this prospectus will be issued in an amount up to US\$3,000,000,000 (or the equivalent thereof in other currencies or currency units based on the applicable exchange rate at the time of the distribution). The Indenture also permits us to increase the principal amount of any series of debt securities previously issued and to issue that increased principal amount.

The applicable prospectus supplement will contain a description of the following terms relating to the debt securities being offered:

- (a) the title of the debt securities of such series;
- (b) any limit on the aggregate principal amount of the debt securities of such series;
- (c) the date or dates, if any, on which the principal (and premium, if any) of the debt securities of such series will mature and the portion (if less than all of the principal amount) of the debt securities of such series to be payable upon declaration of acceleration of maturity and/or the method by which such date or dates shall be determined;
- (d) the rate or rates (which may be fixed or variable) at which the debt securities of such series will bear interest, if any, the date or dates from which that interest will accrue and on which that interest will be payable and the Regular Record Dates for any interest payable on the debt securities of such series which are Registered Securities and/or the method by which such date or dates shall be determined;
- (e) if applicable, any mandatory or optional redemption or sinking fund provisions, including the period or periods within which, the price or prices at which and the terms and conditions upon which the debt securities of such series may be redeemed or purchased at the option of Canadian Natural or otherwise;

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- (f) if applicable, whether the debt securities of such series will be issuable in registered form or bearer form or both, and, if issuable in bearer form, the restrictions as to the offer, sale and delivery of the debt securities of such series in bearer form and as to exchanges between registered and bearer form;
- (g) whether the debt securities of such series will be issuable in the form of one or more Registered Global Securities and, if so, the identity of the Depository for those Registered Global Securities;
- (h) the denominations in which any of the debt securities of such series which are in registered form will be issuable, if other than denominations of US\$1,000 and any multiple thereof, and the denominations in which any of the debt securities of such series which are in bearer form will be issuable, if other than the denomination of US\$1,000;
- (i) each office or agency where the principal of and any premium and interest on the debt securities of such series will be payable, and each office or agency where the debt securities of such series may be presented for registration of transfer or exchange;
- (j) if other than United States dollars, the foreign currency or the units based on or relating to foreign currencies in which the debt securities of such series are denominated and/or in which the payment of the principal of and any premium and interest on the debt securities of such series will or may be payable;
- (k) any index pursuant to which the amount of payments of principal of and any premium and interest on the debt securities of such series will or may be determined;
- (l) any applicable Canadian and U.S. federal income tax consequences;
- (m) whether and under what circumstances we will pay Additional Amounts on the debt securities of such series in respect of certain taxes (and the terms of any such payment) and, if so, whether we will have the option to redeem the debt securities of such series rather than pay the Additional Amounts (and the terms of any such option);
- (n) any deletions from, modifications of or additions to the Events of Default or covenants of Canadian Natural with respect to such debt securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein; and
- (o) any other terms of the debt securities of such series.

Unless otherwise indicated in the applicable prospectus supplement, the Indenture does not afford the Holders the right to tender debt securities to us for repurchase, or provide for any increase in the rate or rates of interest per annum at which the debt securities will bear interest, in the event we become involved in a highly leveraged transaction or in the event that we undergo a change in control.

Debt securities may be issued under the Indenture bearing no interest or interest at a rate below the prevailing market rate at the time of issuance and may be offered and sold at a discount below their stated principal amount. The Canadian and U.S. federal income tax consequences and other special considerations applicable to those discounted debt securities or other debt securities offered and sold at par which are treated as having been issued at a discount for Canadian and/or U.S. federal income tax purposes will be described in the prospectus supplement relating to the debt securities.

Ranking and Other Indebtedness

The debt securities will be unsecured obligations of ours and, unless otherwise provided in the prospectus supplement relating to such debt securities, will rank *pari passu* with all our other unsecured and unsubordinated debt from time to time outstanding and *pari passu* with other debt securities issued under the Indenture. The debt securities will be structurally subordinated to all existing and future

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liabilities of any of our corporate or partnership subsidiaries, including trade payables and other indebtedness.

Registered Global Securities

Unless otherwise indicated in a prospectus supplement, a series of debt securities will be issued in the form of one or more Registered Global Securities which will be registered in the name of and be deposited with a Depository, or its nominee, each of which will be identified in the prospectus supplement relating to that series. Unless and until exchanged, in whole or in part, for debt securities in definitive registered form, a Registered Global Security may not be transferred except as a whole by the Depository for a Registered Global Security to a nominee of that Depository, by a nominee of that Depository to that Depository or another nominee of that Depository or by that Depository or any nominee of that Depository to a successor of that Depository or a nominee of a successor of that Depository.

The specific terms of the depository arrangement with respect to any portion of a particular series of debt securities to be represented by a Registered Global Security will be described in the prospectus supplement relating to that series. Canadian Natural anticipates that the following provisions will apply to all depository arrangements.

Upon the issuance of a Registered Global Security, the Depository or its nominee will credit, on its book entry and registration system, the respective principal amounts of the debt securities represented by that Registered Global Security to the accounts of those persons having accounts with that Depository or its nominee ("**participants**") as shall be designated by the underwriters, investment dealers or agents participating in the distribution of those debt securities or by us if those debt securities are offered and sold directly by us. Ownership of beneficial interests in a Registered Global Security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interests in a Registered Global Security will be shown on, and the transfer of the ownership of those beneficial interests will be effected only through, records maintained by the Depository therefor or its nominee (with respect to beneficial interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants).

The laws of some states in the United States require certain purchasers of securities to take physical delivery of the debt securities in definitive form. These depository arrangements and these laws may impair the ability to transfer beneficial interests in a Registered Global Security.

So long as the Depository for a Registered Global Security or its nominee is the registered owner of the debt securities, that Depository or its nominee, as the case may be, will be considered the sole owner or Holder of the debt securities represented by that Registered Global Security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Registered Global Security will not be entitled to have debt securities of the series represented by that Registered Global Security registered in their names, will not receive or be entitled to receive physical delivery of debt securities of that series in definitive form and will not be considered the owners or Holders of those debt securities under the Indenture.

Principal, premium, if any, and interest payments on a Registered Global Security registered in the name of a Depository or its nominee will be made to that Depository or nominee, as the case may be, as the registered owner of that Registered Global Security. Neither we, the Trustee nor any paying agent for debt securities of the series represented by that Registered Global Security will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in that Registered Global Security or for maintaining, supervising or reviewing any records relating to those beneficial interests.

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We expect that the Depository for a Registered Global Security or its nominee, upon receipt of any payment of principal, premium or interest, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Registered Global Security as shown on the records of that Depository or its nominee. We also expect that payments by participants to owners of beneficial interests in that Registered Global Security held through those participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in "street name", and will be the responsibility of those participants.

If the Depository for a Registered Global Security representing debt securities of a particular series is at any time unwilling or unable to continue as Depository, or if the Depository is no longer eligible to continue as Depository, and a successor Depository is not appointed by us within 90 days, or if an Event of Default described in clauses (a) or (b) of the first sentence under "Events of Default" below with respect to a particular series of debt securities has occurred and is continuing, we will issue Registered Securities of that series in definitive form in exchange for that Registered Global Security. In addition, we may at any time and in our sole discretion determine not to have the debt securities of a particular series represented by one or more Registered Global Securities and, in that event, will issue Registered Securities of that series in definitive form in exchange for all of the Registered Global Securities representing debt securities of that series.

Debt Securities in Definitive Form

If indicated in an applicable prospectus supplement, the debt securities may be issued in definitive form without coupons. Debt securities in definitive form may be presented for exchange and for registration of transfer in the manner, at the places and, subject to the restrictions set forth in the Indenture and in the applicable prospectus supplement, without service charge, but upon payment of any taxes or other governmental charges due in connection therewith. We have appointed the Trustee as Security Registrar. Debt securities in bearer form and the coupons appertaining thereto, if any, will be transferable by delivery.

Unless otherwise indicated in the applicable prospectus supplement, payment of the principal of and any premium and interest on debt securities in definitive form will be made at the office or agency of the Trustee except that, at our option, payment of any interest may be made (a) by check mailed to the address of the Person entitled thereto as that Person's address will appear in the Security Register or (b) by wire transfer to an account maintained by the Person entitled thereto as specified in the Security Register.

Negative Pledge

The Indenture includes our covenant that, so long as any of the debt securities remain outstanding, we will not, and will not permit any Subsidiary to, create, assume or otherwise have outstanding any Security Interest, except for Permitted Encumbrances, on or over its or their respective assets (present or future) securing any Indebtedness of any Person without also at the same time or prior to that time securing equally and ratably with other Indebtedness all of the debt securities then Outstanding under the Indenture.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definitions of all such terms.

The term "*Capital Lease Obligation*" means the obligation of a Person, as lessee, to pay rent or other amounts to the lessor under a lease of real or personal property which is required to be classified

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and accounted for as a capital lease on a consolidated balance sheet of such Person in accordance with GAAP.

The term "*Consolidated Net Tangible Assets*" means the total amount of assets of any Person on a consolidated basis (less applicable reserves and other properly deductible items) after deducting therefrom:

- (a) all current liabilities (excluding any indebtedness classified as a current liability and any current liabilities, in each case which are by their terms extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed);
- (b) all goodwill, trade names, trademarks, patents and other like intangibles; and
- (c) non-controlling interests in subsidiaries as defined under GAAP,

in each case, as shown on the most recent annual audited or quarterly unaudited consolidated balance sheet of such Person computed in accordance with GAAP.

The term "*Current Assets*" means current assets as determined in accordance with GAAP.

The term "*Financial Instrument Obligations*" means obligations arising under:

- (a) interest rate swap agreements, forward rate agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into by a Person of which the subject matter is interest rates or pursuant to which the price, value or amount payable thereunder is dependent or based upon interest rates in effect from time to time or fluctuations in interest rates occurring from time to time;
- (b) currency swap agreements, cross-currency agreements, forward agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into by a Person of which the subject matter is currency exchange rates or pursuant to which the price, value or amount payable thereunder is dependent or based upon currency exchange rates in effect from time to time or fluctuations in currency exchange rates occurring from time to time; and
- (c) commodity swap or hedging agreements, floor, cap or collar agreements, commodity futures or options or other similar agreements or arrangements, or any combination thereof, entered into by a Person of which the subject matter is one or more commodities or pursuant to which the price, value or amount payable thereunder is dependent or based upon the price of one or more commodities in effect from time to time or fluctuations in the price of one or more commodities occurring from time to time.

The term "*GAAP*" means generally accepted accounting principles which are in effect from time to time in Canada.

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The term "*Indebtedness*" means at any time, and whether or not contingent, all items of indebtedness in respect of any amounts borrowed which, in accordance with GAAP, would be recorded as indebtedness in the consolidated financial statements of Canadian Natural as at the date as of which Indebtedness is to be determined, and in any event including, without duplication (i) any obligation for borrowed money, (ii) any obligation evidenced by bonds, debentures, notes, guarantees or other similar instruments, including, without limitation, any such obligations incurred in connection with the acquisition of property, assets or businesses, (iii) any Purchase Money Obligation, (iv) any reimbursement obligation with respect to letters of credit, bankers' acceptances or similar facilities, (v) any obligation issued or assumed as the deferred purchase price of property or services, (vi) any Capital Lease Obligation, (vii) any obligation to pay rent or other payment amounts with respect to any Sale and Leaseback Transaction, (viii) any payment obligation under Financial Instrument Obligations at the time of determination, (ix) any indebtedness in respect of any amounts borrowed or any Purchase Money Obligation secured by any Security Interest existing on property owned subject to such Security Interest, whether or not the indebtedness or Purchase Money Obligation secured thereby shall have been assumed and (x) guarantees, indemnities, endorsements (other than endorsements for collection in the ordinary course of business) or other contingent liabilities in respect of obligations of another Person for indebtedness of that other Person in respect of any amounts borrowed by that other Person.

The term "*Permitted Encumbrances*" means any of the following:

- (a) any Security Interest existing as of the date of the first issuance by us of the debt securities issued pursuant to the Indenture;
- (b) any Security Interest on pipelines, pumping stations or other pipeline facilities, drilling equipment, production equipment and platforms; tank cars, tankers, barges, ships, trucks, automobiles, airplanes or other marine, automotive, aeronautical or other similar moveable facilities or equipment, computer systems and associated programs; office equipment; weather stations; townsites; housing facilities, recreation halls, stores and other related facilities; gasification or natural gas liquefying facilities and burning towers, flares or stacks; retail service stations, bulk plants, storage facilities, terminals or warehouses; or similar facilities and equipment of or associated with any of the foregoing; provided, in each case, that such Security Interest is incurred to finance the acquisition of such property or assets within 90 days after such acquisition and such Security Interest shall be limited to the specified property or assets being financed;
- (c) (i) any Security Interest on any specific properties or any interest therein, construction thereon or improvement thereto, and on any receivables, inventory, equipment, chattel paper, contract rights, intangibles and other assets, rights or collateral specifically connected with such properties, incurred (A) to secure all or any part of the financing for acquisition, surveying, exploration, drilling, extraction, development, operation, production, construction, alteration, repair or improvement of, in, under or on such properties and the plugging and abandonment of wells located thereon (it being understood that, in the case of oil and natural gas producing properties (including oil sands properties), or any interest therein, financing incurred for "development" shall include financing incurred for all facilities relating to such properties or to projects, ventures or other arrangements of which such properties form a part or which relate to such properties or interests), or (B) for acquiring ownership of any Person which owns any such property or interest therein, provided that such Security Interest is limited to such property or such interest therein owned by any such Person; and (ii) any Security Interest on an oil and/or natural gas producing property (including oil sands properties) to secure Indebtedness incurred in connection with or necessarily incidental to commitments for the purchase or sale of, or the transportation or distribution of, the products derived from such property;

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- (d) any Security Interest in favor of Canadian Natural or any of its wholly-owned Subsidiaries;
- (e) any Security Interest existing on the property of any Person at the time such Person becomes a Subsidiary, or arising thereafter pursuant to contractual commitments entered into prior to and not in contemplation of such Person becoming a Subsidiary;
- (f) any Security Interest on property of a Person which Security Interest exists at the time such Person is merged into, or amalgamated or consolidated with, Canadian Natural or a Subsidiary, or such property is otherwise acquired by Canadian Natural or a Subsidiary, provided such Security Interest does not extend to property owned by Canadian Natural or such Subsidiary immediately prior to such merger, amalgamation, consolidation or acquisition;
- (g) any Security Interest on Current Assets securing any Indebtedness to any bank or banks or other lending institution or institutions incurred in the ordinary course of business and for the purpose of carrying on the same, repayable on demand or maturing within 12 months of the date when such Indebtedness is incurred or the date of any renewal or extension thereof, provided that such security is given at the time that the Indebtedness is incurred;
- (h) any Security Interest in respect of (i) liens for taxes and assessments not at the time overdue or any liens securing workmen's compensation assessments, unemployment insurance or other social security obligations; provided, however, that if any such liens, duties or assessments are then overdue, Canadian Natural or the Subsidiary, as the case may be, shall be prosecuting an appeal or proceedings for review with respect to which it shall have secured a stay in the enforcement of any such obligations, (ii) any liens for specified taxes and assessments which are overdue but the validity of which is being contested at the time by Canadian Natural or the Subsidiary, as the case may be, in good faith, and with respect to which Canadian Natural or the Subsidiary shall have secured a stay of enforcement thereof, if applicable, (iii) any liens or rights of distress reserved in or exercisable under any lease for rent and for compliance with the terms of such lease, (iv) any obligations or duties, affecting the property of Canadian Natural or that of a Subsidiary to any municipality or governmental, statutory or public authority, with respect to any franchise, grant, license, lease or permit and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on lands held by Canadian Natural or the Subsidiary under government permits, licenses, leases or other grants, which obligations, duties and defects in the aggregate do not materially impair the use of such property, structures or facilities for the purpose for which they are held by Canadian Natural or the Subsidiary, (v) any deposits or liens in connection with contracts, bids, tenders or expropriation proceedings, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, liens or claims incidental to current construction, builders', mechanics', laborers', materialmen's, warehousemen's, carrier's and other similar liens, (vi) the right reserved to or vested in any municipality or governmental or other public authority by any statutory provision or by the terms of any lease, license, franchise, grant or permit, that affects any land, to terminate any such lease, license, franchise, grant or permit or to require annual or other periodic payments as a condition to the continuance thereof, (vii) any Security Interest the validity of which is being contested at the time by Canadian Natural or a Subsidiary in good faith or payment of which has been provided for by deposit with the Trustee of an amount in cash sufficient to pay the same in full, (viii) any easements, rights-of-way and servitudes (including, without in any way limiting the generality of the foregoing, easements, rights-of-way and servitudes for railways, sewers, dykes, drains, pipelines, natural gas and water mains or electric light and power or telephone conduits, poles, wires and cables) that, in the opinion of Canadian Natural, will not in the aggregate materially and adversely impair the use or value of the land concerned for the purpose for which it is held by Canadian Natural or the Subsidiary, as the case may be, (ix) any security to a public utility or any municipality or governmental or other

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public authority when required by such utility or other authority in connection with the operations of Canadian Natural or the Subsidiary, as the case may be, and (x) any liens and privileges arising out of judgments or awards with respect to which Canadian Natural or the Subsidiary shall be prosecuting an appeal or proceedings for review and with respect to which it shall have secured a stay of execution pending such appeal or proceedings for review;

- (i) any Security Interest arising under partnership agreements, oil and natural gas leases, overriding royalty agreements, net profits agreements, production payment agreements, royalty trust agreements, master limited partnership agreements, farm-out agreements, division orders, contracts for the sale, purchase, exchange, transportation, gathering or processing of oil, natural gas or other hydrocarbons or by-product thereof, unitizations and pooling designations, declarations, orders and agreements, development agreements, operating agreements, production sales contracts (including security in respect of take or pay or similar obligations thereunder), area of mutual interest agreements, natural gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements, which in each of the foregoing cases is customary in the oil and natural gas business, and other agreements which are customary in the oil and natural gas business, provided in all instances that such Security Interest is limited to the assets that are the subject of the relevant agreement;
- (j) any Security Interest on cash or marketable securities of Canadian Natural or any Subsidiary granted in the ordinary course of business in connection with Financial Instrument Obligations;
- (k) any Security Interest in respect of the sale (including any forward sale) or other transfer, in the ordinary course of business, of (i) oil, natural gas, other hydrocarbons or by-product thereof, or other minerals, whether in place or when produced, for a period of time until, or in an amount such that, the purchaser will realize therefrom a specified amount of money (however determined) or a specified amount of such minerals and (ii) any other interests in property of a character commonly referred to as a "production payment";
- (l) any extension, renewal, alteration or replacement (or successive extensions, renewals, alterations or replacements) in whole or in part, of any Security Interest referred to in the foregoing clauses (a) through (k) inclusive, provided the principal amount thereof is not increased and provided that such extension, renewal, alteration or replacement shall be limited to all or a part of the property or other assets which secured the Security Interest so extended, renewed, altered or replaced (plus improvements on such property or other assets); and
- (m) any Security Interests that would otherwise be prohibited (including any extensions, renewals, alterations or replacements thereof) provided that the aggregate Indebtedness outstanding and secured under this clause (m) does not (calculated at the time of the granting of the Security Interest) exceed an amount equal to 10 percent of Consolidated Net Tangible Assets.

The term "*Person*" means any individual, corporation, limited liability company, partnership, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

The term "*Purchase Money Obligation*" means any monetary obligation created or assumed as part of the purchase price of real or tangible personal property, whether or not secured, any extensions, renewals or refundings of any such obligation, provided that the principal amount of such obligation on the date of such extension, renewal or refunding is not increased and further provided that any security given in respect of such obligation shall not extend to any property other than the property acquired in

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connection with which such obligation was created or assumed and fixed improvements, if any, thereto or erected or constructed thereon.

The term "*Sale and Leaseback Transaction*" means any direct or indirect arrangement (excluding, however, any such arrangement between Canadian Natural and a Subsidiary or between one or more Subsidiaries) pursuant to which property is sold or transferred and is thereafter leased back from the purchaser or transferee thereof.

The term "*Security Interest*" means any security by way of an assignment, mortgage, charge, pledge, lien, encumbrance, title retention agreement or other security interest whatsoever, howsoever created or arising, whether absolute or contingent, fixed or floating, perfected or not; however, for purposes of the "Negative Pledge" covenant only, such term shall not include any encumbrance that may be deemed to arise solely as a result of entering into an agreement, not in violation of the terms of the Indenture, to sell or otherwise transfer assets or property.

The term "*Shareholders' Equity*" means the aggregate amount of shareholders' equity of a Person as shown on the most recent annual audited or unaudited interim consolidated balance sheet of such Person and computed in accordance with GAAP.

The term "*Significant Subsidiary*" means a Subsidiary that constitutes a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X of the Exchange Act.

The term "*Subsidiary*" means any corporation or other Person of which there are owned, directly or indirectly, by or for Canadian Natural or by or for any corporation or other Person in like relation to Canadian Natural, Voting Shares or other interests which, in the aggregate, entitle the holders thereof to cast more than 50 percent of the votes which may be cast by the holders of all outstanding Voting Shares of such first mentioned corporation or other Person for the election of its directors or, in the case of any Person which is not a corporation, Persons having similar powers or (if there are no such persons) entitle the holders thereof to more than 50 percent of the income or capital interests (however called) thereon and includes any corporation in like relation to a Subsidiary; provided, however, that such term will not include, for purposes of the "Negative Pledge" covenant only, any Subsidiary if the assets of the Subsidiary do not at the time exceed 2 percent of Consolidated Net Tangible Assets.

The term "*Voting Shares*" means shares of capital stock of any class of a corporation and other interests of any other Persons having under all circumstances the right to vote for the election of the directors of such corporation or in the case of any Person which is not a corporation, Persons having similar powers or (if there are no such Persons) income or capital interests (however called), provided that, for the purpose of this definition, shares or other interests which only carry the right to vote conditionally on the happening of an event shall not be considered Voting Shares whether or not such event shall have happened.

Events of Default

The occurrence of any of the following events with respect to the debt securities of any series will constitute an "Event of Default" with respect to the debt securities of that series:

- (a) default by Canadian Natural in payment of all or any part of the principal of any of the debt securities of that series when the same becomes due under any provision of the Indenture or of those debt securities;
- (b) default by Canadian Natural in payment of any interest due on any of the debt securities of that series, or Additional Amounts on any of the debt securities of that series when they become due and payable, and continuance of that default for a period of 30 days;

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- (c) default by Canadian Natural in observing or performing any of the covenants described below under "Consolidation, Merger, Amalgamation and Sale of Assets";
- (d) default by Canadian Natural in observing or performing any other of its covenants or conditions contained in the Indenture or in the debt securities of that series and continuance of that default for a period of 60 days after written notice as provided in the Indenture;
- (e) default by Canadian Natural or any Subsidiary in payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money having an outstanding principal amount in excess of the greater of \$75 million and 2 percent of the Shareholders' Equity of Canadian Natural in the aggregate at the time of default or default in the performance of any other covenant of Canadian Natural or any Subsidiary contained in any instrument under which that indebtedness is created or issued and the holders thereof, or a trustee, if any, for those holders, declare that indebtedness to be due and payable prior to the stated maturities of that indebtedness ("**accelerated indebtedness**"), and such acceleration shall not be rescinded or annulled, or such default under such instrument shall not be remedied or cured, whether by payment or otherwise, or waived by the holders of such indebtedness, provided that if such accelerated indebtedness is the result of an event of default which is not related to the failure to pay principal or interest on the terms, at the times and on the conditions set forth in such instrument, it will not be considered an Event of Default under this clause (e) until 15 days after such acceleration;
- (f) certain events of bankruptcy, insolvency, winding up, liquidation or dissolution relating to Canadian Natural or any Significant Subsidiary;
- (g) the taking or entry of certain judgments or decrees against Canadian Natural or any Subsidiary for the payment of money in excess of the greater of \$75 million and 2 percent of the Shareholders' Equity of Canadian Natural in the aggregate, if Canadian Natural or such Subsidiary, as the case may be, fails to file an appeal or, if Canadian Natural or such Subsidiary, as the case may be, does file an appeal, that judgment or decree is not and does not remain vacated, discharged or stayed as provided in the Indenture; or
- (h) any other Event of Default provided with respect to debt securities of that series.

If an Event of Default described in clause (a) or (b) above occurs and is continuing with respect to debt securities of any series, unless the principal of all of the debt securities of that series shall have already become due and payable, the Trustee may, in its discretion, and shall upon request in writing made by the Holders of not less than 25 percent in aggregate principal amount of the debt securities of that series then Outstanding, declare the principal of (and premium, if any, on) all the debt securities of that series then Outstanding and the interest accrued thereon and all other money, if any, owing under the provisions of the Indenture in respect of those debt securities to be due and payable immediately on demand. If an Event of Default described in clause (d) or (h) above occurs and is continuing with respect to the debt securities of one or more series, unless the principal of all of the debt securities of the affected series shall have already become due and payable, the Trustee may, in its discretion, and shall upon request in writing made by the Holders of not less than 25 percent in aggregate principal amount of the debt securities of all such affected series then Outstanding (voting as one class), declare the principal of (and premium, if any, on) all the debt securities of all the affected series then Outstanding and the interest accrued thereon and all other money, if any, owing under the provisions of the Indenture in respect of those debt securities to be due and payable immediately on demand. If an Event of Default described in clause (c), (e), (f) or (g) above occurs and is continuing, unless the principal of all debt securities then Outstanding shall have already become due and payable, the Trustee may, in its discretion, and shall upon request in writing made by the Holders of not less than 25 percent in aggregate principal amount of all the debt securities then Outstanding (voting as one class), declare the principal of (and premium, if any, on) all the debt securities then Outstanding

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and the interest accrued thereon and all other money, if any, owing under the provisions of the Indenture in respect of those debt securities to be due and payable immediately on demand.

Upon certain conditions, any declaration of this kind may be cancelled if all Events of Default with respect to the debt securities of all those affected series then Outstanding shall have been cured or waived as provided in the Indenture by the Holders of not less than a majority in aggregate principal amount of the debt securities of the affected series then Outstanding (voting as one class, except in the case of Events of Default described in clauses (a) and (b) of the first sentence of the preceding paragraph, as to which each series so affected will vote as a separate class). See "Modification and Waiver" below. Reference is made to the applicable prospectus supplement or supplements relating to any series of Original Issue Discount Securities for the particular provisions relating to the acceleration of a portion of the principal amount thereof upon the occurrence and continuance of an Event of Default with respect thereto.

The Indenture provides that the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of the Holders, unless those Holders shall have provided to the Trustee reasonable indemnity. Subject to those provisions for indemnity and certain other limitations contained in the Indenture, the Holders of a majority in aggregate principal amount of the debt securities of all affected series then Outstanding (voting as one class) will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the debt securities of those affected series.

The Indenture provides that no Holder of the debt securities of any series will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless (a) that Holder shall have previously given to the Trustee written notice of a continuing Event of Default with respect to the debt securities of that series, (b) the Holders of not less than 25 percent in aggregate principal amount of the debt securities of all affected series then Outstanding (voting as one class) shall have made written request, and provided reasonable indemnity, to the Trustee to institute that proceeding, (c) the Trustee shall have failed to institute that proceeding within 60 days after that notification, request and offer of indemnity and (d) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the debt securities of all affected series then Outstanding (voting as one class) a direction inconsistent with that request during such 60 day period. However, the Holder of any Security will have an absolute right to receive payment of the principal of and any premium and interest on that Security on or after the due dates expressed in that Security and to institute suit for the enforcement of any of these payments. The Indenture requires Canadian Natural to furnish to the Trustee annually an Officers' Certificate as to the compliance by Canadian Natural with certain covenants, conditions or other requirements contained in the Indenture and as to any non-compliance therewith.

The Indenture provides that the Trustee may withhold notice to the Holders of the debt securities of one or more series of any default affecting those series (except defaults as to payment of principal or interest) if it, in good faith, considers that withholding to be in the best interests of the Holders of the debt securities of those series.

Consolidation, Merger, Amalgamation and Sale of Assets

Canadian Natural shall not enter into any transaction (whether by way of reorganization, reconstruction, consolidation, amalgamation, merger, lease, transfer, sale or otherwise) whereby all or substantially all of its assets would become the property of any other Person (the "**Successor Corporation**") unless (a) the Successor Corporation shall, prior to or contemporaneously with the consummation of that transaction, execute those instruments, which may include a supplemental indenture, and do those things as shall be necessary or advisable to establish that upon the

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consummation of that transaction (i) the Successor Corporation will have assumed all of the covenants and obligations of Canadian Natural under the Indenture in respect of the debt securities of every series, and (ii) the debt securities of every series will be valid and binding obligations of the Successor Corporation entitling the Holders thereof, as against the Successor Corporation, to all the rights of Holders of debt securities under the Indenture; (b) the Successor Corporation is a corporation, partnership, or trust organized and validly existing under the laws of Canada or any province thereof or of the United States, any state thereof or the District of Columbia, (c) Canadian Natural has delivered to the Trustee, within 60 days thereof, an Officer's Certificate and an Opinion of Counsel each stating that such transaction and such supplemental indenture comply with this covenant and all conditions precedent to Section 7.1 relating to such transaction have been complied with, and (d) immediately before and after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing.

Additional Amounts

Unless otherwise specified in the applicable prospectus supplement, all payments made by Canadian Natural under or with respect to the debt securities will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) imposed or levied by or on behalf of the Government of Canada or of any province or territory thereof or by any authority or agency therein or thereof having power to tax (hereinafter "**Canadian Taxes**"), unless Canadian Natural is required to withhold or deduct Canadian Taxes by law or by the interpretation or administration thereof. If Canadian Natural is so required to withhold or deduct any amount for or on account of Canadian Taxes from any payment made under or with respect to the debt securities, Canadian Natural will pay to each Holder as additional interest such additional amounts ("**Additional Amounts**") as may be necessary so that the net amount received by each Holder after such withholding or deduction (and after deducting any Canadian Taxes on such Additional Amounts) will not be less than the amount the Holder would have received if such Canadian Taxes had not been withheld or deducted. However, no Additional Amounts will be payable with respect to a payment made to a Holder (such Holder, an "**Excluded Holder**") in respect of the beneficial owner thereof:

- (a) with which Canadian Natural does not deal at arm's length (within the meaning of the *Income Tax Act* (Canada)) at the time of making such payment;
- (b) which is subject to such Canadian Taxes by reason of the Holder being a resident, domicile or national of, or engaged in business or maintaining a permanent establishment or other physical presence in or otherwise having some connection with Canada or any province or territory thereof otherwise than by the mere holding of debt securities or the receipt of payments thereunder; or
- (c) which is subject to such Canadian Taxes by reason of the Holder's failure to comply with any certification, identification, information, documentation or other reporting requirements if compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or a reduction in the rate of deduction or withholding of, such Canadian Taxes.

Canadian Natural will also:

- (a) make such withholding or deduction; and
- (b) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

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Canadian Natural will furnish to the Holders of the debt securities, within 60 days after the date the payment of any Canadian Taxes is due pursuant to applicable law, certified copies of tax receipts or other documents evidencing such payment by Canadian Natural.

Canadian Natural will indemnify and hold harmless each Holder (other than an Excluded Holder) and upon written request reimburse each such Holder for the amount of:

- (a) any Canadian Taxes so levied or imposed and paid by such Holder as a result of payments made under or with respect to the debt securities;
- (b) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; and
- (c) any Canadian Taxes imposed with respect to any reimbursement under clause (a) or (b) above, but excluding any such Canadian Taxes on such Holder's net income.

Wherever in the Indenture there is mentioned, in any context, the payment of principal (and premium, if any), interest or any other amount payable under or with respect to a Security, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Tax Redemption

The debt securities will be subject to redemption in whole, but not in part, at the option of Canadian Natural, at any time, on not less than 30 nor more than 60 days prior written notice, at 100 percent of the principal amount, together with accrued interest thereon to the redemption date, in the event that we have become or would become obligated to pay, on the next date on which any amount would be payable with respect to the debt securities, any Additional Amounts as a result of an amendment to or change in the laws (including any regulations promulgated thereunder) of Canada (or any political subdivision or taxing authority thereof or therein), or any amendment to or change in any official position regarding the application or interpretation of such laws or regulations, which change is announced or becomes effective on or after the date of this prospectus.

Modification and Waiver

The Indenture permits Canadian Natural and the Trustee to enter into supplemental indentures without the consent of the Holders of the debt securities to, among other things: (a) secure the debt securities of one or more series, (b) evidence the assumption by the Successor Corporation of Canadian Natural's covenants and obligations under the Indenture and the debt securities then Outstanding, (c) add covenants or Events of Default for the benefit of the Holders of one or more series of the debt securities, (d) cure any ambiguity or correct or supplement any defective provision in the Indenture which correction will not be prejudicial to the interests of the Holders of the debt securities, (e) establish the form and terms of the debt securities of any series, (f) evidence the acceptance of appointment by a successor Trustee, (g) to comply with any requirements of the SEC in order to effect and maintain the qualification of the Indenture under the United States *Trust Indenture Act of 1939*, as amended, (h) to supplement any of the provisions of the Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of debt securities, provided, however, such action shall not adversely affect the interests of the Holders of any debt securities in any material respect, and (i) make any other modifications which will not be prejudicial to the interests of the Holders of the debt securities.

The Indenture also permits Canadian Natural and the Trustee, with the consent of the Holders of a majority in aggregate principal amount of the debt securities of each series then Outstanding and affected (voting as one class), to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the Holders of the debt

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securities of each such affected series; provided, however, that Canadian Natural and the Trustee may not, among other things, without the consent of the Holder of each Security then Outstanding and affected thereby: (a) change the Stated Maturity of the principal amount of, or any installment of the principal of or the interest on, that Security, (b) reduce the principal amount of or the rate of interest on or any premium payable upon the redemption of that Security, (c) reduce the amount of principal of an Original Issue Discount Security payable upon acceleration of the Maturity thereof, (d) change the place or currency of payment of the principal of or any premium or interest on that Security, (e) impair the right to institute suit for the enforcement of payment of this kind with respect to that Security on or after the Stated Maturity thereof, (f) reduce the percentage in principal amount of the Outstanding Securities of the affected series, the consent of whose Holders is required for modification or amendment of the Indenture, or for any waiver with respect to defaults, breaches, Events of Default or declarations of acceleration, (g) change the time at which any Security may or shall be redeemable or repayable, (h) change any obligation of Canadian Natural to pay additional amounts provided for pursuant to the Indenture, with certain exceptions, or (i) modify any provisions of the Indenture relating to modifying or amending the Indenture or the waiving of past defaults or covenants except as otherwise specified in the Indenture.

Prior to the acceleration of the Maturity of any debt securities, the Holders of a majority in aggregate principal amount of the debt securities of all series at the time Outstanding with respect to which a default or breach or an Event of Default shall have occurred and be continuing (voting as one class) may on behalf of the Holders of all such affected debt securities waive any past default or breach or Event of Default and its consequences, except a default in the payment of the principal of or premium or interest on any Security of any series or an Event of Default in respect of a covenant or provision of the Indenture or of any Security which cannot be modified or amended without the consent of the Holder of each Security affected.

Defeasance and Covenant Defeasance

Unless otherwise specified in the applicable prospectus supplement, the Indenture provides that, at the option of Canadian Natural, Canadian Natural will be discharged from any and all obligations with respect to the debt securities of any series (except for certain obligations to register the transfer or exchange of the debt securities of that series, to replace mutilated, destroyed, lost or stolen debt securities of that series, to maintain paying agencies, to compensate and indemnify the Trustee and to maintain the trust and payments under the trust described below and the defeasance provisions of the Indenture) (hereinafter called a "**defeasance**") upon the irrevocable deposit with the Trustee, in trust, of money, and/or Government Obligations which, through the payment of the principal thereof and the interest thereon in accordance with their terms, will provide money, in an amount sufficient, in the opinion of a nationally recognized firm of independent chartered accountants, to pay all the principal of and any premium and interest on the debt securities of that series on the Stated Maturity of those payments in accordance with the terms of the debt securities of that series. Such a defeasance may be effected only if, among other things, (i) Canadian Natural has delivered to the Trustee an Opinion of Counsel in the United States (who may be counsel for Canadian Natural) stating that Canadian Natural has received from, or there has been published by, the Internal Revenue Service a ruling, since the date of the Indenture, or there has been a change in the applicable laws or regulations, in either case to the effect that the Holders of the debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of that defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if that defeasance had not occurred, and (ii) Canadian Natural has delivered to the Trustee an Opinion of Counsel in Canada (who may be counsel for Canadian Natural) or a ruling from the Canada Revenue Agency to the effect that the Holders of the debt securities of that series will not recognize income, gain or loss for Canadian federal or provincial income or other Canadian tax purposes as a result of that defeasance and will be subject to Canadian federal or

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provincial income and other Canadian tax (including withholding tax) on the same amounts, in the same manner and at the same times as would have been the case if that defeasance had not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that Holders of the debt securities include holders who are not resident in Canada). In addition, Canadian Natural may also obtain a discharge of the Indenture with respect to the debt securities of all series issued under the Indenture by depositing with the Trustee, in trust, an amount of money and government securities as shall be sufficient to pay, at Stated Maturity or upon redemption, all of those debt securities, provided that those debt securities are by their terms to become due and payable within one year or are to be called for redemption within one year.

The Indenture also provides that Canadian Natural may omit to comply with the restrictive covenants described under the caption "Negative Pledge" and certain other covenants and no Event of Default shall arise with respect to the debt securities of that series by reason of this failure to comply (hereinafter called a "**covenant defeasance**"), upon the irrevocable deposit with the Trustee, in trust, of money and/or Government Obligations which, through the payment of the principal thereof and the interest thereon in accordance with their terms, will provide money, in an amount sufficient, in the opinion of a nationally recognized firm of independent chartered accountants, to pay all the principal of and any premium and interest on the debt securities of that series on the Stated Maturity of those payments in accordance with the terms of the debt securities of that series. Canadian Natural's other obligations with respect to the debt securities of that series would remain in full force and effect. A covenant defeasance may be effected only if, among other things, (i) Canadian Natural has delivered to the Trustee an Opinion of Counsel in the United States (who may be counsel for Canadian Natural) to the effect that the Holders of debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of the covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if that covenant defeasance had not occurred, and (ii) Canadian Natural has delivered to the Trustee an Opinion of Counsel in Canada (who may be counsel for Canadian Natural) or a ruling from the Canada Revenue Agency to the effect that the Holders of the debt securities of that series will not recognize income, gain or loss for Canadian federal or provincial income or other Canadian tax purposes as a result of that covenant defeasance and will be subject to Canadian federal or provincial income and other Canadian tax (including withholding tax) on the same amounts, in the same manner and at the same times as would have been the case if that covenant defeasance had not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that Holders of the debt securities include holders who are not resident in Canada).

In the event that Canadian Natural exercises its option to effect a covenant defeasance with respect to the debt securities of any series, the debt securities of that series are thereafter declared due and payable because of the occurrence of another Event of Default and the amount of money and securities on deposit with the Trustee would be sufficient, in the opinion of a nationally recognized firm of independent chartered accountants, to pay the amounts due on the debt securities of that series at their respective Stated Maturities, but may not be sufficient, in the opinion of a nationally recognized firm of independent chartered accountants, to pay the amounts due on the debt securities of that series at the time of the acceleration resulting from that Event of Default, then Canadian Natural would remain liable for this deficiency.

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Provision of Financial Information

We will file with the Trustee, within 15 days after we file them with the SEC, copies of our annual report and other information (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that we may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the SEC, we will continue to provide the Trustee, and file with the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, the information, documents and reports which may be required pursuant to Section 13 of the Exchange Act, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations, which, regardless of applicable requirements shall, at a minimum, consist of such information required to be provided in quarterly and annual reports under the laws of Canada or any province thereof to security holders of a corporation with securities listed on the Toronto Stock Exchange, whether or not we have any of our securities listed on such exchange. Such information will be prepared in accordance with Canadian disclosure requirements and Canadian GAAP.

Resignation of Trustee

The Trustee may resign or be removed with respect to one or more series of debt securities and a successor Trustee may be appointed to act with respect to such series. In the event that two or more persons are acting as Trustee with respect to different series of debt securities, each such Trustee shall be a Trustee of a trust under the Indenture separate and apart from the trust administered by any other such Trustee, and any action described herein to be taken by the "Trustee" may then be taken by each such Trustee with respect to, and only with respect to, the one or more series of debt securities for which it is Trustee.

Payment and Paying Agents

Unless otherwise provided in the applicable prospectus supplement, principal, premium, if any, and interest, if any, on debt securities will be payable at an office or agency of the Trustee in New York, New York, except that at our option interest, if any, may be paid (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer to an account located in the United States maintained by the Person entitled thereto as specified in the Security Register. Unless otherwise provided in the applicable prospectus supplement, payment of any instalment of interest on debt securities will be made to the Person in whose name such debt security is registered at the close of business on the Regular Record Date for such interest.

Any Paying Agents outside the United States and any other Paying Agents in the United States initially designated by us for the debt securities will be named in the applicable prospectus supplement. We may at any time designate additional Paying Agents or rescind the designation of any Paying Agent or approve a change in the office through which any Paying Agent acts, except that we will be required to maintain a Paying Agent in each Place of Payment for such series.

Consent to Service and Jurisdiction

We have designated CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011 as our authorized agent for service of process in the United States in any action, suit or proceeding arising out of or relating to the Indenture or the debt securities. Any such action may be brought in any Federal court (or, if such court refuses to take jurisdiction, in any New York state court) located in the Borough of Manhattan in The City of New York (a "**New York Court**"), or brought

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under United States federal or state securities laws or brought by the Trustee, and Canadian Natural has irrevocably submitted to the jurisdiction of any such court.

Governing Law

The Indenture and the debt securities will be governed by and construed in accordance with the laws of the State of New York.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable prospectus supplement will describe the material Canadian federal income tax consequences to an investor who is a citizen or resident of the United States purchasing the debt securities, including whether payments of principal, premium, if any, and interest will be subject to Canadian non-resident withholding tax.

The applicable prospectus supplement will also describe certain United States federal income tax consequences of the purchase, ownership and disposition of the debt securities by an investor who is a United States person (as defined in the applicable prospectus supplement), including, to the extent applicable, certain relevant United States federal income tax rules pertaining to capital gains and ordinary income treatment, original issue discount, backup withholding and the foreign tax credit, and any consequences relating to debt securities payable in a currency other than U.S. dollars, issued at an original discount for United States federal income tax purposes or containing early redemption provisions or other special terms.

RISK FACTORS

In addition to the risk factors set forth below, various risk factors relating to the business and securities of Canadian Natural are described in our disclosure documents filed from time to time with the securities commissions and similar authorities in each of the provinces of Canada and with the SEC and are incorporated by reference in this prospectus, including in particular, our current AIF and Management's Discussion and Analysis. Such risk disclosure forms an integral part hereof.

The debt securities will be structurally subordinated to any indebtedness of our subsidiaries.

The majority of our assets are held in one or more corporate subsidiaries or partnerships. In the event of the liquidation of any corporate subsidiary, the assets of the subsidiary would be used first to repay the indebtedness of the subsidiary, including trade payables or obligations under any guarantees, prior to being used by us to pay our indebtedness, including any debt securities. Such indebtedness and any other future indebtedness of our subsidiaries would be structurally senior to the debt securities. The Indenture pursuant to which the debt securities will be issued does not limit our ability or the ability of our subsidiaries to incur additional unsecured indebtedness. See "Description of Debt Securities Ranking and Other Indebtedness".

Credit ratings may not reflect all risks of an investment in the debt securities and may change.

Credit ratings assigned to us and to our securities by independent credit rating companies may not reflect all risks associated with an investment in the debt securities. Any credit ratings applied to the debt securities are an independent assessment of our ability to pay our obligations. Consequently, real or anticipated changes in the credit ratings will generally affect the market value of the debt securities. The credit ratings, however, may not reflect the potential impact of risks related to structure, market or other factors discussed herein on the value of the debt securities. There is no assurance that any credit rating assigned to the debt securities will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency.

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Changes in interest rates may cause the market price or value of the debt securities to decline.

Prevailing interest rates will affect the market price or value of the debt securities. The market price or value of the debt securities may decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

There is an absence of a public market for the debt securities.

There is no public market for the debt securities and, unless otherwise specified in the applicable prospectus supplement, we do not intend to apply for listing of the debt securities on any securities exchanges. If the debt securities are traded after their initial issue, they may trade at a discount from their initial offering prices depending on prevailing interest rates, the market for similar securities and other factors, including general economic debt conditions and our financial condition. There can be no assurance as to the liquidity of the trading market for the debt securities or that a trading market for the debt securities will develop.

PLAN OF DISTRIBUTION

We may sell the debt securities to or through underwriters or dealers or to one or more other purchasers directly or through agents.

The applicable prospectus supplement will describe the terms of the offering, including the name or names of any underwriters or agents, the purchase price or prices of the debt securities to be offered, the proceeds to us from the sale of the debt securities to be offered, any initial public offering price, any underwriting discount or commission and any discounts, concessions or commissions allowed or reallocated or paid by any underwriter to other dealers. Any initial public offering price and any discounts, concessions or commissions allowed or reallocated or paid to dealers may be changed from time to time.

The debt securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to these prevailing market prices or at negotiated prices.

If indicated in the applicable prospectus supplement, we may authorize dealers or other persons acting as our agents to solicit offers by certain institutions to purchase the debt securities directly from us pursuant to contracts providing for payment and delivery on a future date. These contracts will be subject only to the conditions described in the applicable prospectus supplement or supplements, which will also describe the commission payable for solicitation of these contracts.

We may enter into agreements to indemnify underwriters, dealers and agents who participate in the distribution of the debt securities against certain liabilities, including liabilities under the 1933 Act, as amended, or to contribution with respect to payments which the underwriters, dealers or agents may be required to make in respect of these liabilities. The underwriters, dealers and agents with whom we enter into agreements may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

The debt securities will not be qualified for sale under the securities laws of any province or territory of Canada and may not be offered, sold or delivered, directly or indirectly, in Canada or to any resident of Canada in contravention of the securities laws of any province or territory of Canada. Each underwriter and each dealer participating in the distribution of debt securities will agree that it will not, directly or indirectly, offer, sell or deliver any such debt securities purchased by it in connection with that distribution in Canada or to any resident of Canada in contravention of the securities laws of any province or territory of Canada.

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Each series of the debt securities will be a new issue of securities with no established trading market. Unless otherwise specified in an applicable prospectus supplement relating to a series of debt securities, the debt securities will not be listed on any securities exchange or on any automated dealer quotation system. Some broker-dealers may make a market in the debt securities, but they will not be obligated to do so and may discontinue any market-making activities at any time without notice. We cannot assure you that there will be liquidity in the trading market for the debt securities of any series or that an active public market for the debt securities of any series will develop. If an active public trading market for the debt securities of any series does not develop, the market price and liquidity of the series of debt securities may be adversely affected.

APPOINTMENT OF AGENT FOR SERVICE OF PROCESS

Messrs. N. Murray Edwards, Timothy W. Faithfull and Gordon D. Giffin are directors of Canadian Natural who reside outside of Canada and each of these directors has appointed us as their agent for service of process in Canada at 2100, 855 2nd Street S.W., Calgary, Alberta T2P 4J8. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

EXPERTS

Unless otherwise specified in the applicable prospectus supplement, certain legal matters in connection with the offering will be passed upon for us by Bennett Jones LLP, Calgary, Alberta, concerning matters of Canadian law, and by Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, New York, concerning matters of U.S. law. Based on information provided to us, as of the date of this prospectus, the partners and associates of Bennett Jones LLP, as a group, beneficially own, directly or indirectly, less than 1% of any class of our outstanding securities.

Our consolidated balance sheets as at December 31, 2016 and 2015 and the related consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, incorporated by reference in this prospectus, have been so incorporated in reliance on the report dated March 15, 2017 of PricewaterhouseCoopers LLP, an independent registered public accounting firm. Such financial statements have been included herein in reliance upon the report of such firm, given upon their authority as experts in auditing and accounting. PricewaterhouseCoopers LLP has advised that it is independent with respect to Canadian Natural within the meaning of the Code of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta and the rules of the SEC and the Public Company Accounting Board (U.S.).

The audited operating statements for Shell Canada Limited's mining and in-situ oil sands properties acquired by Canadian Natural for the year ended December 31, 2016, incorporated by reference in this prospectus, have been audited by Ernst & Young LLP, independent auditors. Such financial statements have been incorporated by reference herein in reliance upon the report of such firm given upon their authority as experts in auditing and accounting. Ernst & Young LLP have advised that they are independent with respect to Shell Canada Limited within the meaning of the Code of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta and within the meaning of the 1933 Act and the applicable rules and regulations thereunder adopted by the SEC and the Public Company Accounting Oversight Board (U.S.).

The audited operating statements of Marathon Oil Canada Corporation for the year ended December 31, 2016, incorporated by reference in this prospectus, have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Such operating

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statements have been incorporated by reference in this prospectus in reliance upon the report of such firm given upon their authority as experts in auditing and accounting. PricewaterhouseCoopers LLP has advised that, as at the date of such report, it was independent with respect to Marathon Oil Canada Corporation within the meaning of the Code of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta and the rules of the SEC and the Public Company Accounting Oversight Board (U.S.).

Sproule Associates Limited, Sproule International Limited and GLJ Petroleum Consultants Ltd., independent qualified reserves evaluators, have evaluated our reserves in reports dated March 1, 2017 with an effective date of December 31, 2016 and a preparation date of February 6, 2017, as more particularly described in our AIF, incorporated by reference herein. GLJ Petroleum Consultants Ltd. has evaluated the reserves attributable to the Acquired AOSP Assets in a report with an effective date of December 31, 2016 and a preparation date of May 2, 2017. The statements as to our reserves, which are incorporated by reference in this prospectus, have been so incorporated by reference upon the authority, as experts, of Sproule Associates Limited, Sproule International Limited and GLJ Petroleum Consultants Ltd., to the extent described in the documents incorporated by reference herein.

Based on information provided by the relevant persons or companies, there are beneficial interests, direct or indirect, in less than one percent of our securities or property or securities or property of our associates or affiliates held by Sproule Associates Limited, Sproule International Limited or GLJ Petroleum Consultants Ltd. or by "designated professionals", being any partners, employees or consultants of such independent consultants who participated in and who were in a position to directly influence the preparation of the relevant report, or any such person who, at the time of the preparation of the report was in a position to directly influence the outcome of the preparation of the report.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the registration statement of which this prospectus is a part insofar as required by the SEC's Form F-10:

the documents listed in the third paragraph under "Where You Can Find More Information" in this prospectus;

the consent of our independent auditors, PricewaterhouseCoopers LLP;

the consent of the auditors of the operating statements of Marathon Oil Canada Corporation, PricewaterhouseCoopers LLP;

the consent of the auditors of the operating statements of Shell Canada Limited, Ernst & Young LLP;

the consent of our Canadian counsel, Bennett Jones LLP;

the consents of our independent qualified reserves evaluators, Sproule Associates Limited, Sproule International Limited and GLJ Petroleum Consultants Ltd.;

powers of attorney from directors and officers of Canadian Natural;

the Indenture relating to the debt securities;

the First Supplemental Indenture;

the Second Supplemental Indenture; and

the statement of eligibility of the Trustee on Form T-1.

PART II

**INFORMATION NOT REQUIRED TO BE DELIVERED
TO OFFEREES OR PURCHASERS**

Indemnification

Under the Business Corporations Act (Alberta) (the "ABCA"), the Registrant may indemnify a present or former director or officer or a person who acts or acted at the Registrant's request as a director or officer of a body corporate of which the Registrant is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Registrant or that body corporate, if the director or officer acted honestly and in good faith with a view to the best interests of the Registrant, and, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his conduct was lawful. Such indemnification may be in connection with a derivative action only with court approval. A director or officer is entitled to indemnification from the Registrant as a matter of right if he or she was substantially successful on the merits in his defence of the action or proceedings, fulfilled the conditions set forth above, and is fairly and reasonably entitled to indemnity.

The by-laws of the Registrant provide that, subject to the limitations contained in the ABCA, the Registrant shall indemnify a director or officer, a former director or officer, or a person who acts or acted at the Registrant's request as a director or officer of a body corporate of which the Registrant is or was a shareholder or creditor, and his heirs, executors, administrators and other legal representatives, to the fullest extent which may from time to time be permitted by the ABCA, from and against, (a) all costs, charges and expenses that he incurs in respect of any civil, criminal or administrative action or proceeding that is proposed or commenced against him by reason of being or having been a director or officer of the Registrant, and (b) all other costs, charges and expenses that he sustains or incurs in respect of the affairs of the Registrant, except in respect of an action by or on behalf of the Registrant, or such body corporate, to procure a judgment in its favor.

The by-laws of the Registrant provide that the Registrant may, subject to the limitations contained in the ABCA, purchase and maintain insurance for the benefit of any director or officer as such against any liability incurred by him in his capacity as a director or officer of the Registrant or as a director or officer of any body corporate where he acts or acted in that capacity at the Registrant's request. The Registrant has purchased third party director and officer liability insurance.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act") may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

EXHIBITS

Exhibit Number	Description
4.1	The Annual Information Form of the Registrant, dated March 23, 2017, for the fiscal year ended December 31, 2016 (incorporated by reference to the Registrant's Annual Report on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 23, 2017).
4.2	The Management Information Circular of the Registrant, issued in connection with the Annual General Meeting of Shareholders of the Registrant held on May 4, 2017 (incorporated by reference to Exhibit 99.1 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on March 27, 2017).
4.3	The Management Information Circular of the Registrant, issued in connection with the Annual and Special Meeting of Shareholders of the Registrant held on May 5, 2016, excluding the disclosure under the heading "Information Regarding the Plan of Arrangement Information Regarding PrairieSky Documents Incorporated by Reference" (incorporated by reference to Exhibit 99.1 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on March 24, 2016).
4.4	Management's Discussion and Analysis of the Registrant for the fiscal year ended December 31, 2016 (incorporated by reference to the Registrant's Annual Report on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 23, 2017).
4.5	The annual audited consolidated financial statements of the Registrant for the fiscal years ended December 31, 2016 and 2015, including the notes thereto and the auditor's report thereon (incorporated by reference to the Registrant's Annual Report on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 23, 2017).
4.6	The unaudited interim consolidated financial statements of the Registrant for the three months ended March 31, 2017, including the notes thereto (incorporated by reference to Exhibit 99.3 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on May 8, 2017).
4.7	Management's Discussion and Analysis of the Registrant for the three months ended March 31, 2017 (incorporated by reference to Exhibit 99.2 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on May 8, 2017).
4.8	Supplementary Oil & Gas Information (Unaudited) of the Registrant for the fiscal year ended December 31, 2016 (incorporated by reference to Exhibit 99.1 of the Registrant's Annual Report on Form 40-F for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 23, 2017).
4.9	Pro Forma Supplementary Oil & Gas Information (Unaudited) of the Registrant for the fiscal year ended December 31, 2016 (incorporated by reference to Exhibit 99.1 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on July 20, 2017).
4.10	Material Change Report of the Registrant dated March 20, 2017.
4.11	Business Acquisition Report of the Registrant dated July 13, 2017 (incorporated by reference to Exhibit 99.1 of the Registrant's Report on Form 6-K, as filed with the Securities and Exchange Commission on July 13, 2017).

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Exhibit Number	Description
5.1	Consent of PricewaterhouseCoopers LLP in respect of the Financial Statements of the Registrant for the fiscal year ended December 31, 2016.
5.2	Consent of PricewaterhouseCoopers LLP in respect of the Operating Statements for certain oil and gas properties owned by Marathon Oil Canada Corporation.
5.3	Consent of Ernst & Young LLP.
5.4*	Consent of Bennett Jones LLP.
5.5*	Consent of Sproule Associates Limited, Independent Petroleum Engineering Consultants.
5.6*	Consent of Sproule International Limited, Independent Petroleum Engineering Consultants.
5.7*	Consent of GLJ Petroleum Consultants Ltd., Independent Petroleum Engineering Consultants.
6.1	Power of Attorney (included on the signature page of this Registration Statement).
7.1	Indenture dated as of July 24, 2001, between the Registrant and The Bank of Nova Scotia Trust Company New York, as trustee (the "Prior Trustee") (incorporated by reference to the Registrant's Registration Statement on Form F-9 (File No. 333-98063), as filed with the Securities and Exchange Commission on August 12, 2002).
7.2	First Supplemental Indenture dated as of October 28, 2011, between the Registrant and the Prior Trustee (incorporated by reference to the Registrant's Registration Statement on Form F-9 (File No. 333-177401) , as filed with the Securities and Exchange Commission on October 19, 2011).
7.3	Second Supplemental Indenture dated as of August 30, 2013, among the Registrant, the Prior Trustee and Wells Fargo Bank, National Association, as trustee (the "Trustee") (incorporated by reference to the Registrant's Registration Statement on Form F-10 (File No. 333-191876), as filed with the Securities and Exchange Commission on October 24, 2013).
7.4	Statement of Eligibility of the Trustee of Form T-1.

*

TO BE FILED BY AMENDMENT

PART III

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Item 1. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to Form F-10 or to transactions in said securities.

Item 2. Consent to Service of Process

Concurrent with the filing of this Registration Statement, the Registrant has filed with the Commission a written irrevocable consent and power of attorney on Form F-X.

Any change to the name or address of the agent for service of process of the Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of the relevant registration statement.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Calgary, Province of Alberta, Canada, on July 20, 2017.

CANADIAN NATURAL RESOURCES LIMITED

By: /s/ STEVE W. LAUT

Name: Steve W. Laut
Title: *President*

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POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Steve W. Laut and Corey B. Bieber, and each of them, any of whom may act without the joinder of the other, the true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution and resubstitution, for and in the name, place and stead of the undersigned, in any and all capacities, to sign any and all amendments to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ STEVE W. LAUT</u> Steve W. Laut	President and Director (Principal Executive Officer)	July 20, 2017
<u>/s/ COREY B. BIEBER</u> Corey B. Bieber	Chief Financial Officer and Senior Vice-President, Finance (Principal Financial and Accounting Officer)	July 20, 2017
<u>/s/ N. MURRAY EDWARDS</u> N. Murray Edwards	Executive Chairman and Director	July 20, 2017
<u>/s/ CATHERINE M. BEST</u> Catherine M. Best	Director	July 20, 2017
<u>/s/ TIMOTHY W. FAITHFULL</u> Timothy W. Faithfull	Director	July 20, 2017
<u>/s/ GARY A. FILMON</u> Gary A. Filmon	Director	July 20, 2017
<u>/s/ CHRISTOPHER L. FONG</u> Christopher L. Fong	Director	July 20, 2017x;font-size:11pt;">Financial services

Insurance agency commissions received from third-party insurance companies
643

1,275

Other
13,793

26,802

Net revenue from financial services

14,436

28,077

Total Net revenue

\$

241,530

\$

487,933

(1) Other factory-built housing revenue from ancillary products and services including used homes, freight and other services.

Impacts on Consolidated Financial Statements. The impact to our consolidated financial statements as a result of ASC 606 implementation are as follows (in thousands):

September 29, 2018

Consolidated Balance Sheet	As Reported	Adjustments	Balance without ASC 606 Adoption
Accrued liabilities	\$ 130,083	\$ 2,007	\$ 132,090
Total current liabilities	196,728	2,007	198,735
Deferred income taxes	8,580	(549)	8,031
Retained earnings	246,723	(1,458)	245,265
Total stockholders' equity	494,748	(1,458)	493,290

Three Months Ended September 29, 2018

Consolidated Statement of Comprehensive Income	As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	\$ 241,530	\$ (9,160)	\$ 232,370
Cost of sales	192,114	(8,691)	183,423
Gross profit	49,416	(469)	48,947
Selling, general and administrative expenses	30,035	(136)	29,899
Income from operations	19,381	(333)	19,048
Income before income taxes	19,517	(333)	19,184
Income tax expense	(3,941)	76)	(3,865)
Net income	15,576	(257)	15,319

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Six Months Ended September 29,
2018

Consolidated Statement of Comprehensive Income	As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	\$487,933	\$ (22,829)	\$465,104
Cost of sales	387,041	(21,080)	365,961
Gross profit	100,892	(1,749)	99,143
Selling, general and administrative expenses	59,248	(444)	58,804
Income from operations	41,644	(1,305)	40,339
Income before income taxes	43,653	(1,305)	42,348
Income tax expense	(8,386)	301	(8,085)
Net income	35,267	(1,004)	34,263

3. Restricted Cash

Restricted cash consists of the following (in thousands):

	September 29, 2018	March 31, 2018
Cash related to CountryPlace customer payments to be remitted to third parties	\$ 11,838	\$ 9,180
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	979	1,311
Other restricted cash	1,390	2,001
	\$ 14,207	\$ 12,492

Corresponding amounts are recorded in accounts payable and accrued liabilities for customer payments, deposits and other restricted cash.

4. Investments

Investments consist of the following (in thousands):

	September 29, 2018	March 31, 2018
Available-for-sale debt securities	\$ 14,900	\$ 16,181
Marketable equity securities	12,409	10,405
Non-marketable equity investments	19,302	18,853
	\$ 46,611	\$ 45,439

The Company's investments in marketable equity securities consist of common stock holdings of industrial and other companies.

Non-marketable equity investments includes \$15.0 million as of September 29, 2018 and March 31, 2018, of contributions to equity-method investments in community-based initiatives that buy and sell our homes and provide home-only financing to residents of certain manufactured home communities. Other non-marketable investments include investments in other distribution operations.

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The following tables summarize the Company's available-for-sale debt securities, gross unrealized gains and losses and fair value, aggregated by investment category (in thousands):

September 29, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$300	\$ —	\$ (10)	\$290
Residential mortgage-backed securities	7,714	—	(207)	7,507
State and political subdivision debt securities	5,499	90	(108)	5,481
Corporate debt securities	1,646	1	(25)	1,622
	\$15,159	\$ 91	\$ (350)	\$14,900

March 31, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$300	\$ —	\$ (7)	\$293
Residential mortgage-backed securities	7,654	—	(155)	7,499
State and political subdivision debt securities	6,377	109	(149)	6,337
Corporate debt securities	2,081	1	(30)	2,052
	\$16,412	\$ 110	\$ (341)	\$16,181

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The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 29, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	\$290	\$ (10)	\$ —	\$ —	\$290	\$ (10)
Residential mortgage-backed securities	2,738	(51)	4,764	(156)	7,502	(207)
State and political subdivision debt securities	1,097	(18)	2,478	(90)	3,575	(108)
Corporate debt securities	515	(6)	855	(19)	1,370	(25)
	\$4,640	\$ (85)	\$ 8,097	\$ (265)	\$12,737	\$ (350)

	March 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	\$293	\$ (7)	\$ —	\$ —	\$293	\$ (7)
Residential mortgage-backed securities	3,185	(52)	3,909	(103)	7,094	(155)
State and political subdivision debt securities	2,224	(40)	2,180	(109)	4,404	(149)
Corporate debt securities	1,384	(12)	367	(18)	1,751	(30)
	\$7,086	\$ (111)	\$ 6,456	\$ (230)	\$13,542	\$ (341)

Based on the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any investments to be other-than-temporarily impaired at September 29, 2018.

The amortized cost and fair value of the Company's investments in debt securities, by contractual maturity, are shown in the table below (in thousands). Expected maturities differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 29, 2018	
	Amortized Cost	Fair Value
Due in less than one year	\$698	\$680
Due after one year through five years	3,557	3,465
Due after five years through ten years	375	361
Due after ten years	2,815	2,887
Mortgage-backed securities	7,714	7,507
	\$15,159	\$14,900

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We recognize investment gains and losses on debt securities when we sell or otherwise dispose of securities on a specific identification method. There were no gross gains or losses realized during the three and six months ended September 29, 2018. There were no gross gains or losses realized for the three months ended September 30, 2017. During the six months ended September 30, 2017, there were no gross gains realized and \$10,000 in gross losses realized.

Beginning in fiscal year 2019, we have recognized unrealized gains and losses on marketable equity securities from changes in market prices during the period as a component of earnings in the Consolidated Statements of Comprehensive Income. The net investment gains and losses for the three and six months ended September 29, 2018 and September 30, 2017 are as follows (in thousands):

	Three Months Ended September 29, 2018		Six Months Ended September 30, 2017		
Marketable equity securities:					
Net (losses) gains on securities held	\$(312)	\$ —	\$1,298	\$ —	
Net losses on securities sold	(13) —	(53) —	
Gross realized gains	—	570	—	735	
Gross realized losses	—	(51) —	(112)
Total net (loss) gain on marketable equity securities	\$(325)	\$ 519	\$1,245	\$ 623	

5. Inventories

Inventories consist of the following (in thousands):

	September 29, 2018	March 31, 2018
Raw materials	\$ 36,560	\$ 36,124
Work in process	14,143	13,670
Finished goods and other	60,799	59,358
	\$ 111,502	\$ 109,152

6. Consumer Loans Receivable

The following table summarizes consumer loans receivable (in thousands):

	September 29, 2018	March 31, 2018	
Loans held for investment (at Acquisition Date)	\$ 47,948	\$ 51,798	
Loans held for investment (originated after Acquisition Date)	23,469	21,183	
Loans held for sale	13,258	12,830	
Construction advances	11,001	11,088	
Consumer loans receivable	95,676	96,899	
Deferred financing fees and other, net	(1,917) (1,551)
Allowance for loan losses	(411) (397)
	\$ 93,348	\$ 94,951	

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The allowance for loan losses is developed at the loan level and allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the loan characteristics, and historical loss experience. The Company then makes a determination of the best estimate within the range of loan losses. The allowance for loan losses reflects the Company's judgment of the probable loss exposure on its loans held for investment portfolio.

As of the date of the Palm Harbor acquisition ("Acquisition Date"), the Company determined the excess of the loan pool's scheduled contractual principal and interest payments over all cash flows expected as an amount that includes interest that cannot be accreted into interest income (the non-accretable difference). The cash flow expected to be collected in excess of the carrying value of the acquired loans includes interest that is accreted into interest income over the remaining life of the loans (referred to as accretable yield). Interest income on consumer loans receivable is recognized as Net revenue.

	September 29, 2018	March 31, 2018
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	\$ 110,136	\$ 120,096
Purchase discount		
Accretable	(40,937)	(44,481)
Non-accretable	(21,138)	(23,711)
Less consumer loans receivable reclassified as other assets	(113)	(106)
Total acquired consumer loans receivable held for investment, net	\$ 47,948	\$ 51,798

Over the life of the acquired loans, the Company estimates cash flows expected to be collected to determine if an allowance for loan loss related to loans acquired subsequent to the Acquisition Date is required. The weighted averages of assumptions used in the calculation of expected cash flows to be collected were as follows:

	September 29, 2018		March 31, 2018	
Prepayment rate	16.2	%	16.0	%
Default rate	1.2	%	1.2	%

Assuming there was a 1% unfavorable variation from the expected level, for each key assumption, the expected cash flows for the life of the portfolio, as of September 29, 2018, would decrease by approximately \$1.1 million and \$3.2 million for the expected prepayment rate and expected default rate, respectively.

The changes in accretable yield on acquired consumer loans receivable held for investment were as follows (in thousands):

	Three Months Ended September 29, 2018		Six Months Ended September 29, 2018	
Balance at the beginning of the period	\$ 42,873	\$ 54,912	\$ 44,481	\$ 56,686
Accretion	(1,968)	(2,163)	(3,867)	(4,373)
Reclassifications from (to) non-accretable discount	32	(1,569)	323	(1,133)
Balance at the end of the period	\$ 40,937	\$ 51,180	\$ 40,937	\$ 51,180

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Consumer loans held for investment had the following characteristics:

	September 29, 2018		March 31, 2018	
Weighted average contractual interest rate	8.49	%	8.57	%
Weighted average effective interest rate	9.03	%	9.34	%
Weighted average months to maturity	167		168	

The following table disaggregates the Company's gross consumer loans receivable for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

Asset Class	September 29, 2018					
	Consumer Loans Held for Investment					
Credit Quality Indicator (FICO® score)	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Chattel loans						
0-619	\$427	\$263	\$317	\$—	\$—	\$1,007
620-719	9,202	6,584	10,228	—	—	26,014
720+	9,850	5,872	11,305	—	133	27,160
Other	48	—	479	—	—	527
Subtotal	19,527	12,719	22,329	—	133	54,708
Conforming mortgages						
0-619	—	—	154	26	—	180
620-719	—	—	2,244	6,291	8,527	17,062
720+	—	—	464	4,684	4,598	9,746
Other	—	—	116	—	—	116
Subtotal	—	—	2,978	11,001	13,125	27,104
Non-conforming mortgages						
0-619	80	356	1,020	—	—	1,456
620-719	1,050	4,111	2,981	—	—	8,142
720+	1,266	2,394	375	—	—	4,035
Other	—	—	221	—	—	221
Subtotal	2,396	6,861	4,597	—	—	13,854
Other loans	—	—	10	—	—	10
	\$21,923	\$19,580	\$29,914	\$11,001	\$13,258	\$95,676

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March 31, 2018						
Consumer Loans Held for Investment						
Asset Class	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	\$465	\$ 354	\$ 330	\$ —	\$ —	\$1,149
620-719	10,102	7,107	8,587	—	245	26,041
720+	10,594	6,410	11,285	—	155	28,444
Other	49	—	403	—	—	452
Subtotal	21,210	13,871	20,605	—	400	56,086
Conforming mortgages						
0-619	—	—	156	141	179	476
620-719	—	—	2,137	6,428	6,479	15,044
720+	—	—	199	4,519	5,663	10,381
Subtotal	—	—	2,608	11,088	12,430	26,126
Non-conforming mortgages						
0-619	82	405	1,047	—	—	1,534
620-719	1,120	4,378	3,093	—	—	8,591
720+	1,348	2,526	395	—	—	4,269
Other	—	—	282	—	—	282
Subtotal	2,550	7,309	4,817	—	—	14,676
Other loans	—	—	11	—	—	11
	\$23,760	\$ 21,180	\$ 28,041	\$ 11,088	\$ 12,830	\$96,899

Loan contracts secured by collateral that is geographically concentrated could experience higher rates of delinquencies, default and foreclosure losses than loan contracts secured by collateral that is more geographically dispersed. As of September 29, 2018, 44.7% of the outstanding principal balance of the consumer loans receivable portfolio is concentrated in Texas and 10.6% is concentrated in Florida. As of March 31, 2018, 44.2% of the outstanding principal balance of the consumer loans receivable portfolio was concentrated in Texas and 11.0% was concentrated in Florida. Other than Texas and Florida, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of September 29, 2018 or March 31, 2018.

Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the estimated fair value of the home, less the costs to sell. At repossession, the fair value of the collateral is computed based on the historical recovery rates of previously charged-off loans; the loan is charged off and the loss is recorded to allowance for loan losses. On a monthly basis, the fair value of the collateral is adjusted to the lower of the amount recorded at repossession or the estimated sales price less estimated costs to sell, based on current information. Repossessed homes totaled approximately \$1.9 million and \$1.5 million as of September 29, 2018 and March 31, 2018, respectively, and are included in Prepaid expenses and other current assets in the Consolidated Balance Sheet. Foreclosure or similar proceedings in progress totaled approximately \$1.4 million and \$1.1 million as of September 29, 2018 and March 31, 2018, respectively.

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7. Commercial Loans Receivable and Allowance for Loan Losses

The Company's commercial loans receivable balance consists of two classes: (i) direct financing arrangements for the home product needs of our independent retailers, communities and developers; and (ii) amounts loaned by the Company under participation financing programs.

Under the terms of the direct programs, the Company provides funds for independent retailers, communities and developers' financed home purchases. Notes are secured by the homes as collateral and, in some instances, other security depending on the circumstances. The other terms of direct arrangements vary depending on the needs of the borrower and the opportunity for the Company.

Under the terms of the participation programs, the Company provides loans to independent floor plan lenders, representing a significant portion of the funds that such financiers then lend to retailers to finance their inventory purchases. The participation commercial loan receivables are unsecured general obligations of the independent floor plan lenders.

Commercial loans receivable, net, consisted of the following by class of financing notes receivable (in thousands):

	September 29, March 31,	
	2018	2018
Direct loans receivable	\$ 33,606	\$ 16,368
Participation loans receivable	513	275
Allowance for loan losses	(135)	(42)
Deferred financing fees, net	(155)	—
	\$ 33,829	\$ 16,601

The commercial loans receivable balance had the following characteristics:

	September 29, March 31,			
	2018		2018	
Weighted average contractual interest rate	5.9	%	4.6	%
Weighted average months to maturity	5		6	

The Company evaluates the potential for loss from its participation loan programs based on each independent lender's overall financial stability, as well as historical experience, and has determined that an allowance for loan losses was not needed at September 29, 2018 or March 31, 2018.

With respect to direct programs with communities and developers, borrower activity is monitored on a regular basis and contractual arrangements are in place to provide adequate loss mitigation in the event of a default. For direct programs with independent retailers, the risk of loss is spread over numerous borrowers. Borrower activity is monitored in conjunction with third-party service providers, where applicable, to estimate the potential for loss on the related notes receivable, considering potential exposures, including repossession costs, remarketing expenses, impairment of value and the risk of collateral loss. The Company has historically been able to resell repossessed unused homes, thereby mitigating loss experience. If a default occurs and collateral is lost, the Company is exposed to loss of the full value of the home loan. If the Company determines that it is probable that a borrower will default, a specific reserve is determined and recorded within the estimated allowance for loan losses. The Company recorded an allowance for loan losses of \$135,000 and \$242,000 at September 29, 2018 and September 30, 2017, respectively.

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The following table represents changes in the estimated allowance for loan losses, including related additions and deductions to the allowance for loan losses applicable to the direct programs (in thousands):

	Three Months Ended		Six Months Ended	
	September 2018	September 30, 2017	September 2018	September 30, 2017
Balance at beginning of period	\$ 113	\$ 222	\$ 42	\$ 210
Provision for inventory finance credit losses	22	20	93	32
Loans charged off, net of recoveries	—	—	—	—
Balance at end of period	\$ 135	\$ 242	\$ 135	\$ 242

The following table disaggregates commercial loans receivable and the estimated allowance for loan losses for each class of financing receivable by evaluation methodology (in thousands):

	Direct Commercial Loans		Participation Commercial Loans	
	September 2018	March 31, 2018	September 2018	March 31, 2018
Inventory finance notes receivable:				
Collectively evaluated for impairment	\$ 13,415	\$ 4,193	\$ —	\$ —
Individually evaluated for impairment	20,191	12,175	513	275
	\$ 33,606	\$ 16,368	\$ 513	\$ 275
Allowance for loan losses:				
Collectively evaluated for impairment	\$(135)	\$(42)	\$ —	\$ —
Individually evaluated for impairment	—	—	—	—
	\$(135)	\$(42)	\$ —	\$ —

Loans are subject to regular review and are given management's attention whenever a problem situation appears to be developing. Loans with indicators of potential performance problems are placed on watch list status and are subject to additional monitoring and scrutiny. Nonperforming status includes loans accounted for on a non-accrual basis and accruing loans with principal payments past due 90 days or more. The Company's policy is to place loans on nonaccrual status when interest is past due and remains unpaid 90 days or more or when there is a clear indication that the borrower has the inability or unwillingness to meet payments as they become due. The Company will resume accrual of interest once these factors have been remedied. At September 29, 2018, there are no commercial loans that are 90 days or more past due that are still accruing interest. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At September 29, 2018, the Company was not aware of any potential problem loans that would have a material effect on the commercial loans receivable balance. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered.

The following table disaggregates the Company's inventory finance receivables by class and credit quality indicator (in thousands):

	Direct Commercial Loans		Participation Commercial Loans	
	September 2018	March 31, 2018	September 2018	March 31, 2018
Risk profile based on payment activity:				
Performing	\$ 33,606	\$ 16,368	\$ 513	\$ 275
Watch list	—	—	—	—
Nonperforming	—	—	—	—
	\$ 33,606	\$ 16,368	\$ 513	\$ 275

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The Company has concentrations of commercial loans receivable related to factory-built homes in excess of 10% located in the following states, measured as a percentage of commercial loans receivables principal balance outstanding:

	September 29, 2018		March 31, 2018	
California	22.1	%	14.4	%
Arizona	13.0	%	16.7	%
Texas	10.7	%	9.0	%
Oregon	10.0	%	14.7	%

The risks created by these concentrations have been considered in the determination of the adequacy of the allowance for loan losses. The Company did not have concentrations in excess of 10% of the principal balance of the commercial loans receivables in any other states as of September 29, 2018 or March 31, 2018.

As of September 29, 2018 and March 31, 2018, the Company had concentrations with one independent third-party that equaled 18.4% and 37.4% of the principal balance outstanding, respectively, all of which was secured.

8. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following (in thousands):

	September 29, 2018		March 31, 2018	
Property, plant and equipment, at cost:				
Land	\$ 24,131		\$ 24,001	
Buildings and improvements	41,058		39,613	
Machinery and equipment	25,713		24,154	
	90,902		87,768	
Accumulated depreciation	(25,794)	(24,413)
	\$ 65,108		\$ 63,355	

Depreciation expense was \$1.1 million and \$2.1 million for the three and six months ended September 29, 2018, respectively. Depreciation expense of \$884,000 and \$1.8 million was recognized during the three and six months ended September 30, 2017, respectively.

Included in the amounts above are certain assets under capital leases. See Note 9 for additional information.

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9. Capital Leases

On April 3, 2017, in connection with the purchase of Lexington Homes, the Company recorded capital leases on manufacturing facilities and land in Lexington, Mississippi. The following amounts were recorded for the leased assets as of September 29, 2018 and March 31, 2018 (in thousands):

	September 29, March 31,	
	2018	2018
Land	\$ 699	\$ 699
Buildings and improvements	1,050	1,050
	1,749	1,749
Accumulated amortization	(53)	(35)
Leased assets, net	\$ 1,696	\$ 1,714

Future minimum payments under the leases as of September 29, 2018 were as follows (in thousands):

FY 2019	\$68
FY 2020	766
FY 2021	73
FY 2022	73
FY 2023	73
Thereafter	195
Total remaining lease payments	1,248
Less: Amount representing interest	(134)
Present value of future minimum lease payments	\$1,114

10. Goodwill and Other Intangibles

Goodwill and other intangibles, net, consisted of the following (in thousands):

	September 29, 2018			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived:						
Goodwill	\$72,920	\$ —	\$72,920	\$72,920	\$ —	\$72,920
Trademarks and trade names	7,200	—	7,200	7,200	—	7,200
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	81,220	—	81,220	81,220	—	81,220
Finite lived:						
Customer relationships	7,100	(5,863)	1,237	7,100	(5,756)	1,344
Other	1,384	(985)	399	1,384	(928)	456
	\$89,704	\$ (6,848)	\$82,856	\$89,704	\$ (6,684)	\$83,020

Amortization expense recognized on intangible assets was \$80,000 and \$164,000 during the three and six months ended September 29, 2018, respectively. Amortization expense recognized on intangible assets was \$92,000 and \$184,000 during the three and six months ended September 30, 2017, respectively.

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11. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 29, March 31,	
	2018	2018
Salaries, wages and benefits	\$ 23,916	\$ 24,416
Customer deposits	22,277	21,294
Unearned insurance premiums	17,804	17,432
Estimated warranties	16,905	16,638
Accrued volume rebates	10,090	7,778
Insurance loss reserves	6,452	6,157
Company repurchase option on certain loans sold	5,749	5,637
Accrued insurance	5,204	5,320
Accrued taxes	2,629	1,986
Reserve for repurchase commitments	2,303	2,207
Capital lease obligation	1,114	1,155
Other	15,640	16,480
	\$ 130,083	\$ 126,500

12. Warranties

Activity in the liability for estimated warranties was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance at beginning of period	\$ 16,670	\$ 16,316	\$ 16,638	\$ 15,479
Purchase accounting additions	—	—	—	838
Charged to costs and expenses	6,713	7,399	12,942	12,622
Payments and deductions	(6,478)	(7,245)	(12,675)	(12,469)
Balance at end of period	\$ 16,905	\$ 16,470	\$ 16,905	\$ 16,470

13. Debt Obligations

Debt obligations primarily consist of amounts related to loans sold that did not qualify for loan sale accounting treatment. The following table summarizes debt obligations (in thousands):

	September 29, 2018	March 31, 2018
Acquired securitized financings (acquired as part of the Palm Harbor transaction)		
Securitized financing 2005-1	\$ 19,115	\$ 20,524
Securitized financing 2007-1	20,722	22,552
Other secured financings	4,825	4,966
Secured credit facilities	11,466	11,770
	\$ 56,128	\$ 59,812

Acquired securitized financings were recorded at fair value at the time of acquisition, which resulted in a discount, and subsequently are accounted for in a manner similar to ASC 310-30 to accrete the discount.

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The following table summarizes acquired securitized financings (in thousands):

	September 29, 2018	March 31, 2018
Securitized financings – contractual amount	\$ 41,671	\$ 46,591
Purchase discount		
Accretable	(1,834)	(3,515)
Non-accretable (1)	—	—
Total acquired securitized financings, net	\$ 39,837	\$ 43,076

(1) There is no non-accretable difference, as the contractual payments on acquired securitized financing are determined by the cash collections from the underlying loans.

Over the life of the loans, the Company continues to estimate cash flows expected to be paid on securitized financings. The Company evaluates at the balance sheet date whether the present value of its securitized financings, determined using the effective interest rate, has increased or decreased. The present value of any subsequent change in cash flows expected to be paid adjusts the amount of accretable yield recognized on a prospective basis over the securitized financing's remaining life.

The changes in accretable yield on securitized financings were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Balance at the beginning of the period	\$2,697	\$ 6,666	\$3,515	\$ 7,636
Accretion	(774)	(846)	(1,577)	(1,716)
Adjustment to cash flows	(89)	(111)	(104)	(211)
Balance at the end of the period	\$1,834	\$ 5,709	\$1,834	\$ 5,709

Prior to the Acquisition Date, CountryPlace completed its initial securitization (2005-1), which was structured as a securitized borrowing. At the balance sheet dates of September 29, 2018 and March 31, 2018, only Class A-4, originally totaling \$27.4 million with a coupon rate of 5.20%, remained outstanding, with a call date in January 2019. Additionally, CountryPlace completed its second securitized borrowing (2007-1), of which only Class A-4 originally totaling \$25.1 million with a coupon rate of 5.846% remained outstanding at September 29, 2018 and March 31, 2018, with a call date in July 2019. It is anticipated that the Company will purchase or refinance these outstanding facilities at or prior to their call dates.

CountryPlace's securitized debt is subject to provisions that require certain levels of overcollateralization. Overcollateralization is equal to CountryPlace's equity in the bonds. Failure to satisfy these provisions could cause cash, which would normally be distributed to CountryPlace, to be used for repayment of the principal of the related Class A bonds until the required overcollateralization level is reached. During periods when the overcollateralization is below the specified level, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee and surety, are applied to reduce the Class A debt until such time overcollateralization reaches the specified level. Therefore, failure to meet the overcollateralization requirement could adversely affect the timing of cash flows received by CountryPlace. However, principal payments of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of September 29, 2018, the 2005-1 and 2007-1 securitized portfolios were within the required overcollateralization level.

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The Company has entered into secured credit facilities with independent third party banks with draw periods from one to fifteen months and maturity dates of ten years after the expiration of the draw periods. The proceeds are used by the Company to originate and hold consumer home-only loans secured by manufactured homes, which are pledged as collateral to the facilities. Upon completion of the draw down period, the facilities are converted into an amortizing loan based on a 20 or 25 year amortization period with a balloon payment due upon maturity. The maximum advance for loans under this program is 80% of the outstanding collateral principal balance, with the Company providing the remaining funds. As of September 29, 2018, the outstanding balance of the converted loans was \$11.5 million at a weighted average interest rate of 4.9%, with \$5.0 million available to draw. Amounts drawn bear interest at 5.15%. Once converted, the initial annual interest rate of 5.15% will adjust every 5 years beginning in 2024 to Prime plus 0.40%. The per annum interest rate will never be less than 5.00% or greater than 6.00%.

14. Reinsurance

Standard Casualty is primarily a specialty writer of manufactured home physical damage insurance. Certain of Standard Casualty's premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide Standard Casualty with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. Standard Casualty remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Substantially all of Standard Casualty's assumed reinsurance is with one entity.

The effects of reinsurance on premiums written and earned are as follows (in thousands):

	Three Months Ended			
	September 29, 2018		September 30, 2017	
	Written	Earned	Written	Earned
Direct premiums	\$3,820	\$4,249	\$3,628	\$4,137
Assumed premiums—nonaffiliate	6,280	6,350	6,210	6,326
Ceded premiums—nonaffiliate	(3,135)	(3,135)	(4,309)	(4,309)
Net premiums	\$6,965	\$7,464	\$5,529	\$6,154
	Six Months Ended			
	September 29, 2018		September 30, 2017	
	Written	Earned	Written	Earned
Direct premiums	\$8,361	\$8,460	\$7,994	\$8,287
Assumed premiums—nonaffiliate	8,214	12,584	12,470	12,593
Ceded premiums—nonaffiliate	(5,982)	(5,982)	(7,257)	(7,257)
Net premiums	\$15,593	\$15,062	\$13,207	\$13,623

Typical insurance policies written or assumed by Standard Casualty have a maximum coverage of \$300,000 per claim, of which Standard Casualty cedes \$175,000 of the risk of loss per reinsurance. Therefore, Standard Casualty's risk of loss is limited to \$125,000 per claim on typical policies. After this limit, amounts are recoverable by Standard Casualty through reinsurance for catastrophic losses in excess of \$1.5 million per occurrence, up to a maximum of \$43.5 million in the aggregate.

Purchasing reinsurance contracts protects Standard Casualty from frequency and/or severity of losses incurred on insurance policies issued, such as in the case of a catastrophe that generates a large number of serious claims on multiple policies at the same time. Under these agreements, the Company is required to repurchase and reestablish its reinsurance contracts for the remainder of the year to the extent they are utilized.

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15. Income Taxes

The Company's deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes and differences in the acquired basis of certain assets, and its deferred tax liabilities primarily result from tax amortization of goodwill and other intangible assets.

The Company complies with the provisions of ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The amount of unrecognized tax benefits recorded by the Company and the impact on the effective tax rate if all unrecognized tax benefits were recognized would be insignificant. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. In August 2017, the Company received a notice of examination from the Internal Revenue Service (the "IRS") for the Company's federal income tax return for the fiscal year ended April 2, 2016. In July 2018, the Company received notice from the IRS that its examination was complete and resulted in no changes. In general, the Company is no longer subject to examination by the IRS for years before fiscal year 2015 or state and local income tax examinations by tax authorities for years before fiscal year 2013. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company's financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affect the Company and include, but are not limited to: (1) reducing the U.S. federal corporate tax rate, (2) allowing bonus depreciation for full expensing of qualified property, (3) eliminating the manufacturing deduction and (4) limiting the Company's ability to deduct certain executive compensation. The Tax Act reduces the federal corporate tax rate to 21% for our fiscal year ending March 30, 2019.

In addition, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") that allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company is currently analyzing the impact of the various provisions of the Tax Act. The ultimate impact may differ from the provisional amounts recorded. The Company expects to complete our analysis within the measurement period in accordance with SAB 118.

16. Commitments and Contingencies

Repurchase Contingencies. The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months, calculated from the date of sale to the retailer) and the risk of loss is further reduced by the resale value of the repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated \$71.4 million at September 29, 2018, without reduction for the resale value of the homes. The Company applies ASC 460, Guarantees ("ASC 460"), and ASC 450-20, Loss Contingencies ("ASC 450-20"), to account for its liability for repurchase commitments. Under the provisions of ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of ASC 450-20. The Company recorded an estimated liability of \$2.3 million and \$2.2 million at September 29, 2018 and March 31, 2018, respectively, related to the commitments pertaining to these agreements.

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Letters of Credit. To secure certain reinsurance contracts, Standard Casualty maintains an irrevocable letter of credit of \$11.0 million to provide assurance that Standard Casualty will fulfill its reinsurance obligations. This letter of credit is secured by certain of the Company's investments. There were no amounts outstanding at either September 29, 2018 or March 31, 2018.

Construction-Period Mortgages. CountryPlace funds construction-period mortgages through periodic advances during the period of home construction. At the time of initial funding, CountryPlace commits to fully fund the loan contract in accordance with a predetermined schedule. Subsequent advances are contingent upon the performance of contractual obligations by the seller of the home and the borrower. Cumulative advances on construction-period mortgages are carried in the Consolidated Balance Sheets at the amount advanced less a valuation allowance, and are included in consumer loans receivable. The total loan contract amount, less cumulative advances, represents an off-balance sheet contingent commitment of CountryPlace to fund future advances.

Loan contracts with off-balance sheet commitments are summarized below (in thousands):

	September 29, March 31, 2018 2018	
Construction loan contract amount	\$ 29,273	\$ 27,093
Cumulative advances	(11,001)	(11,088)
Remaining construction contingent commitment	\$ 18,272	\$ 16,005

Representations and Warranties of Mortgages Sold. CountryPlace sells loans to Government-Sponsored Enterprises ("GSEs") and whole-loan purchasers and finances certain loans with long-term credit facilities secured by the respective loans. In connection with these activities, CountryPlace provides to the GSEs, whole-loan purchasers and lenders, representations and warranties related to the loans sold or financed. These representations and warranties generally relate to the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the sale transactions, including compliance with underwriting standards or loan criteria established by the buyer, and CountryPlace's ability to deliver documentation in compliance with applicable laws. Generally, representations and warranties may be enforced at any time over the life of the loan. Upon a breach of a representation, CountryPlace may be required to repurchase the loan or to indemnify a party for incurred losses. Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase. CountryPlace manages the risk of repurchase through underwriting and quality assurance practices and by servicing the mortgage loans to investor standards. CountryPlace maintains a reserve for these contingent repurchase and indemnification obligations. This reserve of \$1.1 million as of September 29, 2018 and \$1.0 million as of March 31, 2018, included in accrued liabilities, reflects management's estimate of probable loss. CountryPlace considers a variety of assumptions, including borrower performance (both actual and estimated future defaults), historical repurchase demands and loan defect rates to estimate the liability for loan repurchases and indemnifications. During the six months ended September 29, 2018, no claim request resulted in execution of an indemnification agreement.

Interest Rate Lock Commitments. In originating loans for sale, CountryPlace issues interest rate lock commitments ("IRLCs") to prospective borrowers and third-party originators. These IRLCs represent an agreement to extend credit to a loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to loan closing or sale. These IRLCs bind CountryPlace to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As such, outstanding IRLCs are subject to interest rate risk and related loan sale price risk during the period from the date of the IRLC through the earlier of the loan sale date or IRLC expiration date. The loan commitments generally range between 30 and 270 days; however, borrowers are not obligated to close the related loans. As a result, CountryPlace is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs unless the commitment is successfully paired with another loan that may mitigate losses from fallout.

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As of September 29, 2018, CountryPlace had outstanding IRLCs with a notional amount of \$18.6 million and are recorded at fair value in accordance with ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of IRLCs are recorded in Prepaid expenses and other assets in the Consolidated Balance Sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of gain (loss) on mortgage loans held for sale. During the three and six months ended September 29, 2018, CountryPlace recognized losses of \$8,000 and gains of \$12,000 on outstanding IRLCs, respectively. During the three and six months ended September 30, 2017, CountryPlace recognized gains of \$10,000 and losses of \$15,000, respectively, on outstanding IRLCs.

Forward Sales Commitments. CountryPlace manages the risk profiles of a portion of its outstanding IRLCs and mortgage loans held for sale by entering into forward sales of mortgage-backed securities ("MBS") and whole loan sale commitments. As of September 29, 2018, CountryPlace had \$44.2 million in outstanding notional forward sales of MBSs and forward sales commitments. Commitments to forward sales of whole loans are typically in an amount proportionate with the amount of IRLCs expected to close in particular time frames, assuming no change in mortgage interest rates, for the respective loan products intended for whole loan sale.

The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded within Prepaid expenses and other current assets in the Consolidated Balance Sheets. During the three and six months ended September 29, 2018, CountryPlace recognized gains of \$237,000 and \$62,000, respectively, on forward sales and whole loan sale commitments. CountryPlace recognized losses of \$227,000 and \$72,000 on forward sales and whole loan sale commitments during the three and six months ended September 30, 2017, respectively.

Legal Matters. On August 20, 2018, the Company received a subpoena from the SEC's Division of Enforcement requesting certain documents relating to, among other items, trading in the stock of another public company. On October 1, 2018, the SEC sent a subpoena for documents and testimony to Joseph Stegmayer, the Company's former Chairman, President and Chief Executive Officer, regarding similar issues. At this time, the Company believes that Mr. Stegmayer traded in certain publicly traded stock in his personal accounts as well as in accounts held by the Company at a time when the Company had agreed to refrain from such trading. The Company has initiated an independent investigation and intends to cooperate fully with the SEC's investigation.

The Company is party to certain legal proceedings that arise in the ordinary course and are incidental to its business. Certain of the claims pending against the Company in these proceedings allege, among other things, breach of contract and warranty, product liability and personal injury. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, future events or circumstances currently unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on the Company's consolidated financial position, liquidity or results of operations in any future reporting periods.

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17. Stockholders' Equity

The following table represents changes in stockholders' equity for the six months ended September 29, 2018 (dollars in thousands):

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in	earnings	other	
			capital		comprehensive	
					income (loss)	
Balance, March 31, 2018	9,044,858	\$ 90	\$246,197	\$209,381	\$ 1,438	\$457,106
Net income	—	—	—	35,267	—	35,267
Cumulative effect of implementing ASU 2016-01, net	—	—	—	1,621	(1,621)	—
Cumulative effect of implementing ASC 606, net	—	—	—	454	—	454
Stock option exercises	52,501	1	(174)	—	—	(173)
Stock-based compensation	—	—	2,115	—	—	2,115
Other comprehensive income, net	—	—	—	—	(21)	(21)
Balance, September 29, 2018	9,097,359	\$ 91	\$248,138	\$246,723	\$ (204)	\$494,748

18. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. As of September 29, 2018, the plans, which are shareholder approved, permit the award of up to 1,650,000 shares of the Company's common stock, of which 314,330 shares were still available for grant. When options are exercised, new shares of the Company's common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company's common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock typically vest over a one to five year period as determined by the plan administrator (the Compensation Committee of the Board of Directors, which consists of independent directors). The stock incentive plans provide for accelerated vesting of stock options upon a change in control (as defined in the plans).

Stock-based compensation cost charged against income for the three and six months ended September 29, 2018 was \$1.5 million and \$2.1 million, respectively. The Company recorded stock-based compensation expense of \$1.0 million and \$1.5 million for the three and six months ended September 30, 2017, respectively.

As of September 29, 2018, total unrecognized compensation cost related to stock options was approximately \$4.5 million and the related weighted-average period over which the expense is expected to be recognized is approximately 3.62 years.

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The following table summarizes the option activity within the Company's stock-based compensation plans for the six months ended September 29, 2018:

	Number of Options
Outstanding at March 31, 2018	418,205
Granted	48,750
Exercised	(72,544)
Canceled or expired	—
Outstanding at September 29, 2018	394,411
Exercisable at September 29, 2018	189,563

19. Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed based on the combination of dilutive common share equivalents, comprised of shares issuable under the Company's stock-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money options to purchase shares, which is calculated based on the average share price for each period using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share (dollars in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	\$15,576	\$ 6,182	\$35,267	\$ 17,935
Weighted average shares outstanding:				
Basic	9,079,679	9,020,834	9,064,007	9,013,917
Common stock equivalents—treasury stock method	224,509	161,065	223,723	157,598
Diluted	9,304,188	9,181,899	9,287,730	9,171,515
Net income per share:				
Basic	\$1.72	\$ 0.69	\$3.89	\$ 1.99
Diluted	\$1.67	\$ 0.67	\$3.80	\$ 1.96

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three and six months ended September 29, 2018 were 3,751 and 6,682, respectively. There were 4,867 and 8,432 anti-dilutive common stock equivalents excluded for the three and six months ended September 30, 2017, respectively.

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20. Fair Value Measurements

The book value and estimated fair value of the Company's financial instruments are as follows (in thousands):

	September 29, 2018		March 31, 2018	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Available-for-sale debt securities (1)	\$14,900	\$14,900	\$16,181	\$16,181
Marketable equity securities (1)	12,409	12,409	10,405	10,405
Non-marketable equity investments (2)	19,302	19,302	18,853	18,853
Consumer loans receivable (3)	93,348	107,833	94,951	113,277
Interest rate lock commitment derivatives (4)	(1)	(1)	(12)	(12)
Forward loan sale commitment derivatives (4)	(88)	(88)	26	26
Commercial loans receivable (5)	33,829	31,047	16,601	16,972
Securitized financings and other (6)	(56,128)	(60,159)	(59,812)	(64,509)
Mortgage servicing rights (7)	1,519	1,519	1,410	1,410

(1) For Level 1 classified securities, the fair value is based on quoted market prices. The fair value of Level 2 securities is based on other inputs, as further described below.

(2) The fair value approximates book value based on the non-marketable nature of the investments.

Includes consumer loans receivable held for investment, held for sale and construction advances. The fair value of the loans held for investment is based on the discounted value of the remaining principal and interest cash flows.

(3) The fair value of the loans held for sale are estimated based on recent GSE mortgage-backed bond prices. The fair value of the construction advances approximates book value and the sales price of these loans.

(4) The fair values are based on changes in GSE mortgage-backed bond prices and, additionally for IRLCs, pull through rates.

(5) The fair value is estimated using market interest rates of comparable loans.

(6) The fair value is estimated using recent public transactions of similar asset-backed securities.

(7) The fair value of the mortgage servicing rights is based on the present value of expected net cash flows related to servicing these loans.

In accordance with ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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When the Company uses observable market prices for identical securities that are traded in less active markets, it classifies such securities as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs.

Financial instruments measured at fair value on a recurring basis are summarized below (in thousands):

	September 29, 2018			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S Treasury and Government (1)	\$290	\$ —	—\$290	\$ —
Mortgage-backed securities (1)	7,507	—	7,507	—
Securities issued by states and political subdivisions (1)	5,481	—	5,481	—
Corporate debt securities (1)	1,622	—	1,622	—
Marketable equity securities (2)	12,409	12,409	—	—
Interest rate lock commitment derivatives (3)	(1)	—	—	(1)
Forward loan sale commitment derivatives (3)	(88)	—	—	(88)
Mortgage servicing rights (4)	1,519	—	—	1,519

(1) Unrealized gains or losses on investments are recorded in accumulated other comprehensive income (loss) at each measurement date.

(2) Unrealized gains or losses on investments are recorded in earnings at each measurement date.

(3) Gains or losses on derivatives are recognized in current period earnings through cost of sales.

(4) Changes in the fair value of mortgage servicing rights are recognized in the current period earnings through Net revenue.

No transfers between Level 1, Level 2 or Level 3 occurred during the six months ended September 29, 2018. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

Financial instruments for which fair value is disclosed but not required to be recognized in the balance sheet on a recurring basis are summarized below (in thousands):

	September 29, 2018			
	Total	Level 1	Level 2	Level 3
Loans held for investment	\$83,139	\$ —	—	\$83,139
Loans held for sale	13,693	—	—	13,693
Loans held—construction advances	11,001	—	—	11,001
Commercial loans receivable	31,047	—	—	31,047
Securitized financings and other	(60,159)	—	(60,159)	—
Non-marketable equity investments	19,302	—	—	19,302

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No recent sales have been executed in an orderly market of manufactured home loan portfolios with comparable product features, credit characteristics or performance. Therefore, loans held for investment are measured using Level 3 inputs that are calculated using estimated discounted future cash flows from the evaluation of loan credit quality and performance history to determine expected prepayments and defaults on the portfolio, discounted with rates considered to reflect current market conditions. Loans held for sale are measured at the lower of cost or fair value using inputs that consist of quoted market prices for mortgage-backed securities or investor purchase commitments for similar types of loan commitments on hand from investors. These loans are held for relatively short periods, typically no more than 45 days. As a result, changes in loan-specific credit risk are not a significant component of the change in fair value and changes are largely driven by changes in interest rates or investor yield requirements. The cost of loans held for sale is lower than the fair value as of September 29, 2018. As noted above, activity in the manufactured housing asset-backed securities market is infrequent with no reliable market price information. As such, to determine the fair value of securitized financings, management evaluates the credit quality and performance history of the underlying loan assets to estimate the expected prepayment of the debt and credit spreads, based on market activity for similar rated bonds from other asset classes with similar durations.

The Company records impairment losses on long-lived assets held for sale when the fair value of such long-lived assets is below their carrying values. The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. No impairment charges were recorded during the six months ended September 29, 2018.

Mortgage Servicing. Mortgage Servicing Rights ("MSRs") are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities, which consist of collecting loan payments, remitting principal and interest payments to investors, managing escrow accounts, performing loss mitigation activities on behalf of investors and otherwise administering the loan servicing portfolio. MSRs are initially recorded at fair value. Changes in fair value subsequent to the initial capitalization are recorded in the Company's results of operations. The Company recognizes MSRs on all loans sold to investors that meet the requirements for sale accounting and for which servicing rights are retained.

The Company applies fair value accounting to MSRs, with all changes in fair value recorded to Net revenue in accordance with ASC 860-50, Servicing Assets and Liabilities. The fair value of MSRs is based on the present value of the expected future cash flows related to servicing these loans. The revenue components of the cash flows are servicing fees, interest earned on custodial accounts and other ancillary income. The expense components include operating costs related to servicing the loans (including delinquency and foreclosure costs) and interest expenses on servicer advances that the Company believes are consistent with the assumptions major market participants use in valuing MSRs. The expected cash flows are primarily impacted by prepayment estimates, delinquencies and market discounts. Generally, the value of MSRs is expected to increase when interest rates rise and decrease when interest rates decline, due to the effect those changes in interest rates have on prepayment estimates. Other factors noted above as well as the overall market demand for MSRs may also affect the valuation.

	September 29, March 31,			
	2018	2018		
Number of loans serviced with MSRs	4,456	4,346		
Weighted average servicing fee (basis points)	31.96	32.03		
Capitalized servicing multiple	88.17	% 84.76	%	
Capitalized servicing rate (basis points)	28.18	27.15		
Serviced portfolio with MSRs (in thousands)	\$ 538,920	\$519,167		
Mortgage servicing rights (in thousands)	\$ 1,519	\$1,410		

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21. Business Segment Information

The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations and (2) financial services, which includes manufactured housing consumer finance and insurance. The following table details Net revenue and income before income taxes by segment (in thousands):

	Three Months Ended		Six Months Ended	
	September 2018	September 30, 2017	September 2018	September 30, 2017
Net revenue:				
Factory-built housing	\$227,094	\$ 187,380	\$459,856	\$ 380,262
Financial services	14,436	13,127	28,077	27,061
	\$241,530	\$ 200,507	\$487,933	\$ 407,323
Income before income taxes:				
Factory-built housing	\$16,880	\$ 8,584	\$38,488	\$ 21,754
Financial services	2,637	(85) 5,165	2,396
	\$19,517	\$ 8,499	\$43,653	\$ 24,150

22. Subsequent Events

See Part II, Item 5, Other Information, on the Form 10-Q for a disclosure of applicable subsequent events of the Company.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Statements in this Report on Form 10-Q includes "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities and Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends," "plans," or "anticipates," or by discussions of strategy, plans or intentions. Forward-looking statements contained in this Report on Form 10-Q speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We do not intend to publicly update or revise any forward-looking statement contained in this Report on Form 10-Q or in any document incorporated herein by reference to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, may be significantly hindered. Factors that could affect our results and cause them to materially differ from those contained in the forward-looking statements include, without limitation, those discussed in Risk Factors described in Part I, Item 1A. Risk Factors in our 2018 Annual Report on Form 10-K ("Form 10-K"), which is incorporated herein. Additional factors include potential financial impact on the Company from the subpoena we received from the Securities and Exchange Commission's Division of Enforcement (the "SEC"); the risk of potential litigation or regulatory action arising from the SEC investigation and its findings; and potential reputational damage that the Company may suffer as a result of the matters under investigation, as well as the results of the Audit Committee of the Board of Directors investigation.

Introduction

The following should be read in conjunction with Cavco Industries, Inc. and its subsidiaries' (collectively, the "Company" or "Cavco") Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to "Note" or "Notes" pertain to the Notes to the Company's Consolidated Financial Statements.

Overview

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes primarily distributed through a network of independent and Company-owned retailers. We are one of the largest producers of manufactured homes in the United States, based on reported wholesale shipments, marketed under a variety of brand names, including Cavco Homes, Fleetwood Homes, Palm Harbor Homes, Fairmont Homes, Friendship Homes, Chariot Eagle and Lexington Homes. The Company is also a leading builder of park model RVs, vacation cabins and systems-built commercial structures, as well as modular homes built primarily under the Nationwide Homes brand. Cavco's mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage-backed securities issuer that offers conforming mortgages, non-conforming mortgages and home-only loans to purchasers of factory-built homes. Our insurance subsidiary, Standard Casualty Co. ("Standard Casualty"), provides property and casualty insurance primarily to owners of manufactured homes.

Company Growth

From its inception in 1965, Cavco traditionally served affordable housing markets in the southwestern United States principally through manufactured home production. During the period from 1997 to 2000, Cavco was purchased by and became a wholly-owned subsidiary of Centex Corporation, which operated the Company until 2003, when Cavco became a stand-alone publicly-held Company traded on the NASDAQ Global Select Market under the ticker symbol CVCO.

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Beginning in 2007, the overall housing industry experienced a multi-year decline, which included the manufactured housing industry. Since this downturn, Cavco strategically expanded its factory operations and related business initiatives primarily through the acquisition of industry competitor operations. This development has enabled the Company to more broadly participate in the overall housing industry recovery.

In 2009, the Company acquired certain manufactured housing assets and liabilities of Fleetwood Enterprises, Inc. ("Fleetwood"). The assets purchased included seven operating production facilities as well as idle factories. During fiscal year 2011, the Company acquired certain manufactured housing assets and liabilities of Palm Harbor Homes, Inc., a Florida corporation. The assets purchased included five operating production facilities as well as idle factories, 49 operating retail locations, a manufactured housing finance company and a homeowners insurance company. These acquisitions expanded the Company's presence across the United States.

In 2015, the Company purchased the business and operating assets of Chariot Eagle, a Florida-based manufacturer of park model RVs and manufactured homes, as well as certain assets and liabilities of Fairmont Homes. These transactions provided additional home production capabilities, grew the Company's offering of park model RV product lines and further strengthened our market position in the Southeast, Midwest, the western Great Plains states and several provinces in Canada.

On April 3, 2017, the Company purchased Lexington Homes, which operates one manufacturing facility in Lexington, Mississippi. This transaction was accounted for as a business combination and provides additional home production capabilities and increased distribution into new markets in the Southeast.

The Company operates 20 homebuilding facilities located in Millersburg and Woodburn, Oregon; Nampa, Idaho; Riverside, California; Phoenix and Goodyear, Arizona; Austin, Fort Worth, Seguin and Waco, Texas; Montevideo, Minnesota; Nappanee, Indiana; Lafayette, Tennessee; Lexington, Mississippi; Martinsville and Rocky Mount, Virginia; Douglas, Georgia; and Ocala and Plant City, Florida. The majority of the homes produced are sold to and distributed by independently owned retailers located primarily throughout the United States and Canada. In addition, our homes are sold through 38 Company-owned U.S. retail locations.

Company Outlook

We maintain a conservative cost structure in an effort to build added value into our homes. In addition, the Company has worked diligently to maintain a solid financial position. Our balance sheet strength and position in cash and cash equivalents should help us avoid liquidity problems and enable us to act effectively as market opportunities present themselves.

With manufacturing facilities strategically positioned across the United States, we utilize local market research to design homes to meet the demands of our customers. We have the ability to customize floor plans and designs to fulfill specific needs and interests. By offering a full range of homes from entry-level models to large custom homes with the ability to engineer designs in-house, we can accommodate virtually any customer request. In addition to homes built in accordance with the National Manufacturing Home Construction and Safety Standards ("HUD code") promulgated by the U.S. Department of Housing and Urban Development ("HUD"), we construct modular homes that conform to state and local codes, park model RVs and cabins and light commercial buildings at many of our manufacturing facilities.

We employ a concerted effort to identify niche market opportunities where our diverse product lines and custom building capabilities provide us with a competitive advantage. Our green building initiatives involve the creation of an energy efficient envelope and higher utilization of renewable materials. These homes provide environmentally-friendly maintenance requirements, typically lower utility costs, specially designed ventilation systems and sustainability. Cavco also builds homes designed to use alternative energy sources, such as solar and wind. From bamboo flooring and tankless water heaters to solar-powered homes, our products are diverse and tailored to a wide range of consumer interests. Innovation in housing design is a forte of the Company and we continue to introduce new models at competitive price points with expressive interiors and exteriors that complement home styles in the areas in which they are located.

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Based on the relatively low cost associated with manufactured home ownership, our products have traditionally competed with rental housing's monthly payment affordability. Rental housing activity is reported to have continued to increase in recent years. As a result, tenant housing vacancy rates appear to have declined, causing a corresponding rise in associated rental rates. These rental market factors may cause some renters to become interested buyers of affordable-housing alternatives, including manufactured homes.

Further, with respect to the general rise in demand for rental housing, we have realized a larger proportion of orders from developers and community owners for new manufactured homes intended for use as rental housing. The Company is responsive to the unique product and related requirements of these home buyers and values the opportunity to provide homes that are well suited for these purposes.

The backlog of sales orders at September 29, 2018 varied among our 20 factories and in total was approximately \$204 million compared to \$199 million at September 30, 2017. Retailers may cancel orders prior to production without penalty. Accordingly, until the production of a particular home has commenced, we do not consider our backlog to be firm orders. In response to this accelerating demand, we have raised production levels by increasing our workforce size and capabilities. However, the constrained labor market is a key challenge to further increasing production to keep pace with order rates. In addition, we have implemented higher product pricing to offset rising input costs, including labor and material price increases, although large backlogs may cause deferred realization of the full benefits.

The Company participates in certain commercial loan programs with members of the Company's independent wholesale distribution chain. Under these programs, the Company provides a significant amount of the funds that independent financiers then lend to distributors to finance retail inventories of our products. In addition, the Company has entered into direct commercial loan arrangements with distributors, communities and developers under which the Company provides funds for financing homes (see Note 7 to the Consolidated Financial Statements). The Company's involvement in commercial loans has increased the availability of manufactured home financing to distributors and users of our products. We believe that our participation in wholesale financing is helpful to retailers, communities and developers and allows our homes additional opportunities for exposure to potential home buyers. These initiatives support the Company's ongoing efforts to expand our distribution base in all of our markets with existing and new customers. However, the initiatives expose the Company to risks associated with the creditworthiness of certain customers and business partners, including independent retailers, developers, communities and inventory financing partners.

Restrictive underwriting guidelines, irregular appraisal processes, higher interest rates compared to site-built homes, regulatory burdens, a limited number of institutions lending to manufactured home buyers and limited secondary market availability for manufactured home loans have been significant constraints to industry growth. We are working directly with other industry participants to develop manufactured home consumer financing loan portfolios to attract industry financiers interested in furthering or expanding lending opportunities in the industry. Additionally, we continue to invest in community-based lending initiatives that provide home-only financing to new residents of certain manufactured home communities. Our mortgage subsidiary also develops and invests in home-only lending programs to grow sales of homes through traditional distribution points. We believe that growing our participation in home-only lending may provide additional sales growth opportunities for our factory-built housing operations.

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We are also working through industry trade associations to encourage favorable legislative and Government-Sponsored Enterprise ("GSE") action to address the mortgage financing needs of potential buyers of affordable homes. Federal law requires the GSEs to issue a regulation to implement the "Duty to Serve" requirements specified in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008. In December 2017, FNMA and FHLMC released their final Underserved Markets Plan that describes, with specificity, the actions they will take over a three-year period to fulfill the "Duty to Serve" obligation. These plans became effective on January 1, 2018. Each of the three-year plans offers an enhanced mortgage loan product through their "MH Advantage" and "MH ChoiceHome" programs, as well as establishes a pilot program to purchase home-only loans. Expansion of the secondary market for lending through the GSEs could provide further demand for housing, as lending options would likely become more available to home buyers. Although some limited progress has been made in the area, meaningful positive impact in the form of increased home orders has yet to be realized.

On January 25, 2018, HUD announced a top-to-bottom review of its manufactured housing rules as part of a broader effort to identify regulations that may be ineffective, overly burdensome, or excessively costly given the critical need for affordable housing. If certain changes are made, the Company may be able to more effectively serve buyers of affordable homes.

The insurance subsidiary is subject to adverse effects from excessive policy claims that may occur during periods of inclement weather, including seasonal spring storms or fall hurricane activity in Texas where most of its policies are underwritten. Where applicable, losses from catastrophic events are somewhat limited by reinsurance contracts in place as part of the Company's loss mitigation structure.

During the second quarter of fiscal 2018, Hurricane Harvey produced the largest recorded rain volume for a single weather event in U.S. history, resulting in historic flooding and widespread property damage, primarily in southeast Texas, causing high homeowners' insurance claim volume. While not as severe, during the second quarter of fiscal year 2019, the insurance subsidiary's results were impacted by a windstorm in Arizona, which resulted in increased homeowners' insurance claims for the period. Also, Hurricanes Florence and Michael caused widespread damage across several regions of the country. While our operations were not impacted by these storms, increased consumer demand for replacement of homes lost as a result of these events may occur. In addition, there may be a need for disaster-relief homes for the Federal Emergency Management Agency. The Company produced a limited number of these homes during the third and fourth quarters of fiscal year 2018 as a result of Hurricane Harvey.

As disclosed in Part I, Item 3, Legal Proceedings, the Company and Joseph Stegmayer received subpoenas from the SEC's Division of Enforcement seeking documents related to trading in stock of another public company (the "Public Company"). The Company expects to incur expenses related to this matter that may materially impact earnings over the next several quarters. Those costs will include, among other items, advancement of expenses for Mr. Stegmayer pursuant to his indemnity arrangements with the Company.

Industry Overview

According to data reported by the Manufactured Housing Institute ("MHI"), industry home shipments continue to improve, increasing 9.7% for the first 8 months of calendar year 2018 compared to the same period in the prior year. During calendar year 2017 our industry shipped approximately 93,000 HUD code manufactured homes, an increase of 14.8% over the approximately 81,000 units shipped in 2016. This was preceded by 71,000 homes shipped in 2015, 64,000 in 2014, 60,000 in 2013 and 55,000 in calendar year 2012, which was among the lowest levels since industry shipment statistics began to be recorded in 1959. Annual home shipments from 2009 to 2016 were less than the annual home shipments for each of the 40 years from 1969 to 2008. While industry HUD code manufactured home shipments have improved in recent years, the manufactured housing industry continues to operate at relatively low levels compared to historical shipment statistics.

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We believe that employment rates and underemployment among potential home buyers who favor affordable housing as well as consumer confidence levels are improving. "First-time" and "move-up" buyers of affordable homes are historically among the largest segments of new manufactured home purchasers. Included in this group are lower-income households that were particularly affected by an extended period of persistently low employment rates and underemployment. The process of repairing damaged credit among consumers and efforts to save for a home loan down-payment often require substantial time; however, improving consumer confidence in the U.S. economy is evident among manufactured home buyers interested in our products for seasonal or retirement living. Home buyers, who previously have been concerned about financial stability, now appear to be less hesitant to commit to a new home purchase. We believe sales of our products may continue to increase as employment and consumer confidence levels continue to rise.

The two largest manufactured housing consumer demographics, young adults and those who are 55+ years old, are both growing. The U.S. adult population is estimated to expand by approximately 12.1 million between 2018 and 2023. Young adults born from 1976 to 1995, sometimes referred to as Gen Y, represent a large segment of the population. Late-stage Gen Y is approximately 2.2 million people larger than the next age category born from 1966 to 1975, Gen X, and is considered to be in the peak home-buying years. Gen Y represents prime first-time home buyers who may be attracted by the affordability, diversity of style choices and location flexibility of factory-built homes. The age 55 and older category is reported to be the fastest growing segment of the U.S. population. This group is similarly interested in the value proposition; however, they are also motivated by the energy efficiency and low maintenance requirements of systems-built homes, and by the lifestyle offered by planned communities specifically designed for homeowners in this age group.

Results of Operations

Three and six months ended September 29, 2018 compared to September 30, 2017

Net Revenue.

Net revenue consisted of the following for the three and six months ended September 29, 2018 and September 30, 2017, respectively (dollars in thousands):

	Three Months Ended		Change	% Change
	September 29, 2018	September 30, 2017		
Net revenue:				
Factory-built housing	\$227,094	\$ 187,380	\$39,714	21.2 %
Financial services	14,436	13,127	1,309	10.0 %
	\$241,530	\$ 200,507	\$41,023	20.5 %
Total homes sold	3,536	3,298	238	7.2 %
Net factory-built housing revenue per home sold	\$64,223	\$ 56,816	\$7,407	13.0 %
	Six Months Ended		Change	% Change
	September 29, 2018	September 30, 2017		
Net revenue:				
Factory-built housing	\$459,856	\$ 380,262	\$79,594	20.9 %
Financial services	28,077	27,061	1,016	3.8 %
	\$487,933	\$ 407,323	\$80,610	19.8 %
Total homes sold	7,423	6,773	650	9.6 %
Net factory-built housing revenue per home sold	\$61,950	\$ 56,144	\$5,806	10.3 %

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The increase in Net revenue from the factory-built housing segment for the three and six months ended September 29, 2018 compared to the same period last year was from higher home selling prices from input cost inflation, modestly larger home sizes and improved home sales volume. Net revenue for the three and six months ended September 29, 2018 includes subcontracted pass-through services of \$6.2 million and \$12.8 million, respectively, from this fiscal year's required implementation of accounting standards whereby subcontracted pass-through services, such as the preparation of a home site or other home enhancements, are now recognized on a gross basis rather than net of associated costs.

Net factory-built housing revenue per home sold is a volatile metric dependent upon several factors. A primary factor is the price disparity between sales of homes to independent retailers, builders, communities and developers ("Wholesale") and sales of homes to consumers by Company-owned retail centers ("Retail"). Wholesale sales prices are primarily comprised of the home and the cost to ship the home from a homebuilding facility to the home-site. Retail home prices include these items and retail markup, as well as items that are largely subject to home buyer discretion, including, but not limited to, installation, utility connections, site improvements, landscaping and additional services. Changes to the proportion of home sales among these distribution channels between reporting periods impacts the overall Net revenue per home sold. For the six months ended September 29, 2018, the Company sold 6,036 homes Wholesale and 1,387 Retail versus 5,541 homes Wholesale and 1,232 homes Retail in the comparable prior year period. Further, fluctuations in net factory-built housing revenue per home sold are the result of changes in product mix, which results from home buyer tastes and preferences as they select home types/models, as well as optional home upgrades when purchasing the home. These selections vary regularly based on consumer interests, local housing preferences and economic circumstances. Our product prices are also periodically adjusted for the cost and availability of raw materials included in, and labor used to produce, each home. For these reasons, we have experienced, and expect to continue to experience, volatility in overall net factory-built housing revenue per home sold.

Financial services segment revenue increased, resulting from 5.1% more home loan sales period over period and more insurance policies in force in the current year compared to the prior year. In addition, the prior year period revenue contains a reduction in net sales of \$1.4 million for additional premiums that were paid to reinstate reinsurance coverage that was utilized to mitigate losses incident to Hurricane Harvey activity. The overall increase is partially offset by lower interest income earned on securitized loan portfolios that continue to amortize.

Gross Profit.

Gross profit consisted of the following for the three and six months ended September 29, 2018 and September 30, 2017, respectively (in thousands):

	Three Months Ended		\$	%	
	September 29, 2018	September 30, 2017			
Gross profit:					
Factory-built housing	\$41,798	\$ 29,919	\$11,879	39.7	%
Financial services	7,618	4,635	2,983	64.4	%
	\$49,416	\$ 34,554	\$14,862	43.0	%
Gross profit as % of Net revenue:	20.5	% 17.2	% N/A	3.3	%

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	Six Months Ended			
	September 29, 2018	September 30, 2017	\$ Change	% Change
Gross profit:				
Factory-built housing	\$85,684	\$ 64,419	\$21,265	33.0 %
Financial services	15,208	12,101	3,107	25.7 %
	\$100,892	\$ 76,520	\$24,372	31.9 %

Gross profit as % of Net revenue: 20.7 % 18.8 % N/A 1.9 %

Factory-built housing gross profit for the three and six months ended September 29, 2018 increased from higher home sales and average home selling prices from input cost inflation, as well as factory efficiencies from improved utilization. In addition, the prior year's second quarter was impacted by Hurricane Harvey, which caused delays in manufacturing and retail sales, as well as new home inventory damage at certain Company-owned retail centers. Financial services gross profit for the three and six months ended September 29, 2018 increased as the prior year's second quarter was impacted by Hurricane Harvey, resulting in significant homeowners' insurance claims. While not as significant, during the second quarter of fiscal year 2019, there were high homeowners' insurance claims related to a windstorm in Arizona. The Company maintains reinsurance for catastrophic losses in excess of \$1.5 million. In addition, the overall increase was partially offset by lower interest income earned on securitized loan portfolios that continue to amortize.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses consisted of the following for the three and six months ended September 29, 2018 and September 30, 2017, respectively (in thousands):

	Three Months Ended			
	September 29, 2018	September 30, 2017	\$ Change	% Change
Selling, general and administrative expenses:				
Factory-built housing	\$25,921	\$ 22,386	\$ 3,535	15.8 %
Financial services	4,114	3,767	347	9.2 %
	\$30,035	\$ 26,153	\$ 3,882	14.8 %

Selling, general and administrative expenses as % of Net revenue: 12.4 % 13.0 % N/A (0.6)%

	Six Months Ended			
	September 29, 2018	September 30, 2017	\$ Change	% Change
Selling, general and administrative expenses:				
Factory-built housing	\$50,970	\$ 44,683	\$ 6,287	14.1 %
Financial services	8,278	7,775	503	6.5 %
	\$59,248	\$ 52,458	\$ 6,790	12.9 %

Selling, general and administrative expenses as % of Net revenue: 12.1 % 12.9 % N/A (0.8)%

Selling, general and administrative expenses related to factory-built housing and financial services increased for the three and six months ended September 29, 2018 primarily from higher salary and incentive compensation expense from improved results.

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As a percentage of Net revenue, Selling, general and administrative expenses decreased modestly from fixed cost efficiencies gained from higher sales volume.

Interest Expense.

Interest expense was \$941,000 and \$1.0 million for the three months ended September 29, 2018 and September 30, 2017, respectively. For the six months ended September 29, 2018 and September 30, 2017, Interest expense was \$1.9 million and \$2.1 million, respectively. The decrease for the three and six months ended September 29, 2018 compared to the same periods in the prior year is attributable to lower interest expense on securitized portfolios that continue to amortize, partially offset by interest related to secured credit facilities and capital leases of manufacturing facilities and land entered into as part of the Lexington Homes acquisition during fiscal year 2018.

Other Income, net.

Other income, net was \$1.1 million in each of the three months ended September 29, 2018 and September 30, 2017. For the six months ended September 29, 2018 and September 30, 2017, Other income, net was \$3.9 million and \$2.2 million, respectively. The six months ended September 29, 2018 includes \$1.1 million in unrealized gains on corporate investments from this year's implementation of ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Unrealized gains and losses are now required to be reported on the Consolidated Statement of Comprehensive Income instead of recording these amounts in accumulated other comprehensive income on the Consolidated Balance Sheets. In addition, interest income increased by \$805,000 in the six months ended September 29, 2018 versus the comparable period from higher interest rates on larger cash balances.

Income Before Income Taxes.

Income before income taxes consisted of the following for the three and six months ended September 29, 2018 and September 30, 2017, respectively (in thousands):

	Three Months Ended		Change	% Change
	September 29, 2018	September 30, 2017		
Income before income taxes:				
Factory-built housing	\$16,880	\$ 8,584	\$8,296	96.6 %
Financial services	2,637	(85)	2,722	(3,202.4)%
	\$19,517	\$ 8,499	\$11,018	129.6 %

	Six Months Ended		Change	% Change
	September 29, 2018	September 30, 2017		
Income before income taxes:				
Factory-built housing	\$38,488	\$ 21,754	\$16,734	76.9 %
Financial services	5,165	2,396	2,769	115.6 %
	\$43,653	\$ 24,150	\$19,503	80.8 %

Income tax expense.

Income tax expense was \$3.9 million and \$2.3 million for the three months ended September 29, 2018 and September 30, 2017. For the six months ended September 29, 2018 and September 30, 2017, Income tax expense was \$8.4 million and \$6.2 million, respectively. The effective income tax rate for the second fiscal quarter was 20.2% compared to an effective tax rate of 27.3% for the same period last year. For the six months ended September 29, 2018 and September 30, 2017, the effective income tax rate was 19.2% and 25.7%, respectively.

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The decrease in our effective tax rate for the three and six months ended September 29, 2018 is attributed to the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, which reduced the federal corporate tax rate to 21% for our fiscal year ending March 30, 2019. Income tax expense also includes a benefit of \$1.1 million and \$2.3 million for the three and six months ended September 29, 2018, respectively, related to excess tax benefits from exercises of stock options, compared to a benefit of \$300,000 and \$1.7 million in the comparable prior year periods, respectively.

Liquidity and Capital Resources

We believe that cash and cash equivalents at September 29, 2018, together with cash flow from operations, will be sufficient to fund our operations and provide for growth for the next 12 months and into the foreseeable future. We maintain cash in U.S. Treasury money market funds and money market funds, some of which are in excess of federally insured limits. We expect to continue to evaluate potential acquisitions of, or strategic investments in, businesses that are complementary to our Company. Such transactions may require the use of cash and have other impacts on the Company's liquidity and capital resources in the event of such a transaction. Because of the Company's sufficient cash position, we have not sought external sources of liquidity, with the exception of certain credit facilities for our home-only lending programs. However, depending on our operating results and strategic opportunities, we may need to seek additional or alternative sources of financing. There can be no assurance that such financing would be available on satisfactory terms, if at all. If this financing were not available, it could be necessary for us to reevaluate our long-term operating plans to make more efficient use of our existing capital resources. The exact nature of any changes to our plans that would be considered depends on various factors, such as conditions in the factory-built housing industry and general economic conditions outside of our control.

The following is a summary of our cash flows for the six months ended September 29, 2018 and September 30, 2017, respectively (in thousands):

	Six Months Ended		\$ Change
	September 29, 2018	September 30, 2017	
Cash, cash equivalents and restricted cash at beginning of the period	\$ 199,258	\$ 144,839	\$ 54,419
Net cash provided by operating activities	17,808	8,685	9,123
Net cash used in investing activities	(3,170)	(2,169)	(1,001)
Net cash used in financing activities	(4,201)	(942)	(3,259)
Cash, cash equivalents and restricted cash at end of the period	\$ 209,695	\$ 150,413	\$ 59,282

Net cash provided by operating activities increased during the six months ended September 29, 2018, compared to the six months ended September 30, 2017, primarily as a result of cash generated by operating income before non-cash charges from increased home sales volume and profitability compared to the prior year. This increase was partially offset by additional lending to expand the Company's commercial and home-only lending programs. Additionally, loan origination activity in excess of proceeds from the sale of loans and increased accounts receivable resulting from higher home sales offset the cash generated from net income before non-cash charges during the period.

Consumer loan originations decreased by \$1.8 million to \$64.5 million for the six months ended September 29, 2018 from \$66.3 million for the six months ended September 30, 2017. These decreases relate to longer factory backlogs extending the loan closing time frame. Proceeds from sales of consumer loans provided \$62.2 million in cash, compared to \$59.2 million in the previous year. While loan originations were down during the period, there were additional sales from loans held for investment, which include home-only loans originated in prior periods.

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With respect to consumer lending for the purchase of manufactured housing, states may classify manufactured homes for both legal and tax purposes as personal property rather than real estate. As a result, financing for the purchase of manufactured homes is characterized by shorter loan maturities and higher interest rates. Unfavorable changes in these factors and the current lack of availability of financing in the industry may have material negative effects on liquidity. See Item IA, "Risk Factors" in our Form 10-K.

Cavco has entered into programs to provide some of the capital used by inventory lenders to finance wholesale home purchases by retailers. The Company has also entered into direct commercial loan arrangements with distributors, communities and developers under which the Company provides funds for financing homes and has invested in community-based lending initiatives that provide home-only financing to new residents of certain manufactured home communities (see Note 7 to the Consolidated Financial Statements). Further, the Company has invested in and developed home-only loan pools and lending programs to attract third party financier interest and to grow sales of new homes through traditional distribution points as well.

Cash used for investing activities during the six months ended September 29, 2018 increased compared to the same period last year as the Company continues to focus on investing in production capacity and efficiency initiatives, which has led to increased purchases of property, plant and equipment during the current period compared to last year. This increase is partially offset by lower purchases of investments.

Financing activities used \$3.3 million of additional cash during the current period compared to the same period last year, as there were lower proceeds from secured credit facilities, partially offset by lower payments related to stock option exercises.

Financings. As of September 29, 2018, there were two classes of securitized bond debt outstanding: one totaling \$19.1 million with a coupon rate of 5.20% with a call date in January 2019, and one totaling \$20.7 million with a coupon rate of 5.846% with a call date in July 2019. It is anticipated that we will purchase or refinance these facilities at or prior to their call dates.

CountryPlace's securitized debt is subject to provisions that require certain levels of overcollateralization.

Overcollateralization is equal to CountryPlace's equity in the bonds. Failure to satisfy these provisions could cause cash, which would normally be distributed to CountryPlace, to be used for repayment of the principal of the related Class A bonds until the required overcollateralization level is reached. During periods when the overcollateralization is below the specified level, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee and surety, are applied to reduce the Class A debt until such time overcollateralization reaches the specified level. Therefore, failure to meet the overcollateralization requirement could adversely affect the timing of cash flows received by CountryPlace. However, principal payments of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of September 29, 2018, the 2005-1 and 2007-1 securitized portfolios were within the required overcollateralization level.

The Company has entered into secured credit facilities with independent third party banks with draw periods from one to fifteen months and maturity dates of ten years after the expiration of the draw periods. The proceeds are used by the Company to originate and hold consumer home-only loans secured by manufactured homes, which are pledged as collateral to the facilities. Upon completion of the draw down period, the facilities are converted into an amortizing loan based on a 20 or 25 year amortization period with a balloon payment due upon maturity. The maximum advance for loans under this program is 80% of the outstanding collateral principal balance, with the Company providing the remaining funds. As of September 29, 2018, the outstanding balance of the converted loans was \$11.5 million at a weighted average interest rate of 4.9%, with \$5.0 million available to draw. Amounts drawn bear interest at 5.15%. Once converted, the initial annual interest rate of 5.15% will adjust every 5 years beginning in 2024 to Prime plus 0.40%. The per annum interest rate shall never be less than 5.00% or greater than 6.00%.

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Critical Accounting Policies

In Part II, Item 7 of our Form 10-K, under the heading "Critical Accounting Policies," we have provided a discussion of the critical accounting policies that management believes affect its more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for a discussion of recently issued and adopted accounting pronouncements.

Off Balance Sheet Arrangements

See Note 16 to the Consolidated Financial Statements for a discussion of our off-balance sheet commitments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the quantitative and qualitative disclosures about market risk previously disclosed in our 2018 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our President and Acting Chief Executive Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our President and Acting Chief Executive Officer and Chief Accounting Officer concluded that, as of September 29, 2018, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended September 29, 2018, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Part I, Item 3, Legal Proceedings, in our 2018 Annual Report on Form 10-K. The following describes legal proceedings, if any, that became reportable during the period ended September 29, 2018, and, if applicable, amends and restates descriptions of previously reported legal proceedings in which there have been material developments during such quarter.

On August 20, 2018, the Company received a subpoena from the SEC's Division of Enforcement requesting certain documents relating to, among other items, trading in the stock of Public Company. On October 1, 2018, the SEC sent a subpoena for documents and testimony to Joseph Stegmayer, the Company's former Chairman, President, and Chief Executive Officer, regarding similar issues. At this time, the Company believes that Mr. Stegmayer traded in certain publicly traded stock in his personal accounts as well as in accounts held by the Company at a time when the Company had agreed to refrain from such trading. The Company has initiated an independent investigation and intends to cooperate fully with the SEC's investigation.

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We are party to certain legal proceedings that arise in the ordinary course and are incidental to our business. Certain of the claims pending against us in these proceedings allege, among other things, breach of contract, breach of express and implied warranties, construction defect, deceptive trade practices, unfair insurance practices, product liability and personal injury. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, future events or circumstances currently unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A, Risk Factors, in our 2018 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. These risk factors have not materially changed from the disclosures provided in our 2018 Annual Report on Form 10-K, except for the following:

We may face risks related to the potential outcomes of the SEC subpoena, including potential penalties, expense, the use of significant management time and attention, potential litigation or regulatory action, and potential reputational damage that the Company may suffer as a result of the matters under investigation.

As disclosed in the Legal Proceedings section on page 42, on August 20, 2018 the Company received a subpoena from the SEC requesting certain documents relating to, among other items, trading in the stock of the Public Company. On October 1, 2018, the SEC sent a subpoena for documents and testimony to former Chairman of the Board, President and Chief Executive Officer, Joseph Stegmayer, regarding similar issues. At this time, the Company believes that Mr. Stegmayer traded in certain publicly traded stock in his personal accounts as well as in accounts held by Cavco at a time when the Company had agreed to refrain from such trading. The Company intends to cooperate fully with the SEC's investigation.

Effective November 8, 2018, Mr. Stegmayer stepped down from his position as Chairman, President and Chief Executive Officer of the Company after an internal investigation, conducted by independent legal counsel to the Audit Committee of the Board of Directors, identified certain violations of Company policy related to securities trading activities conducted by Mr. Stegmayer.

We are unable to predict what consequences any investigation by any regulatory agency or by our Audit Committee may have on us. Our cooperation with these investigations could result in significant legal and accounting expenses, has diverted management's attention from other business concerns which could harm our business and could result in reputational damage. Any proceedings commenced against us by a regulatory agency could result in administrative orders against us, the imposition of penalties and/or fines against us, and/or the imposition of sanctions against certain of our current or former officers, directors and/or employees. The investigations, results of the investigations, or remedial actions we have taken or may take as a result of such investigations may adversely affect our business. If we are subject to adverse findings resulting from the SEC investigation, or from our own independent investigation, we could be required to pay damages and/or penalties or have other remedies imposed on us.

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Item 5. Other Information

As disclosed in the Legal Proceedings section on page 42, on August 20, 2018, the Company received a subpoena from the SEC's Division of Enforcement requesting certain documents relating to, among other items, trading in the stock of Public Company. On October 1, 2018, the SEC sent a subpoena for documents and testimony to former Chairman, President and Chief Executive Officer, Joseph Stegmayer regarding similar issues. At this time, the Company believes that Mr. Stegmayer traded in certain publicly traded stock in his personal accounts as well as in accounts held by Cavco at a time when the Company had agreed to refrain from such trading. The Company intends to cooperate fully with the SEC's investigation.

Effective November 8, 2018, Mr. Stegmayer stepped down as Chairman, President and Chief Executive Officer of the Company after an internal investigation, conducted by independent legal counsel to the Audit Committee of the Board of Directors, identified certain violations of Company policy related to securities trading activities conducted by Mr. Stegmayer. The internal investigation remains ongoing. The Board's decision to transition Mr. Stegmayer to a non-executive role allows the Company to retain access to his deep industry and operational experience, while removing him from an executive role.

At the time of his resignation as a member of the Company's Board of Directors, Mr. Stegmayer had no disagreement with the Company on any matter related to the Company's operations, policies, or practices.

Also on November 8, 2018, the Board of Directors appointed Daniel L. Urness as President and Acting Chief Executive Officer. Joshua J. Barsetti will assume the duties of principal financial officer. Long-time independent board member, William Boor, will serve as non-executive Chairman of the Board of Directors.

Mr. Urness, 50, was previously Cavco's Executive Vice President, Chief Financial Officer and Treasurer from April 2015 until August 2018. Previously, Mr. Urness served as Cavco's Vice President, Chief Financial Officer and Treasurer from January 2006 to April 2015 and as a director and/or officer of certain of Cavco's subsidiaries, including Palm Harbor Homes, Inc., Fleetwood Homes, Inc., CountryPlace Acceptance Corp. and Standard Casualty Company. Mr. Urness was also Cavco's Interim Chief Financial Officer from August 2005 to January 2006, Corporate Controller from May 2005 to August 2005, financial consultant to the Company from June 2002 to May 2005 and Controller from May 1999 to June 2002. Prior to joining Cavco, Mr. Urness served as manager and staff at Deloitte & Touche LLP for approximately six years.

Effective November 8, 2018, Mr. Urness will receive a temporary compensation arrangement consisting of a base annual salary of \$255,000. Mr. Urness will be eligible for a bonus for fiscal year ending March 2019. This bonus will be determined based on what Mr. Urness would have earned as the Company's Chief Financial Officer, prorated for the portion of the fiscal year that he served as the Chief Financial Officer of the Company, plus any other bonuses to be set forth in an employment agreement to be entered into by Mr. Urness and the Company. While serving as the Company's Chief Financial Officer, Mr. Urness was eligible to receive incentive compensation based upon the Company's pre-tax income for the fiscal year ending March 30, 2019. Under the terms of his plan, Mr. Urness was eligible to receive incentive compensation equal to (i) 0.4% of the first \$70 million in pre-tax income of the Company; (ii) 1.2% of pre-tax income between \$70 million and \$80 million; (iii) 2.0% of pre-tax income between \$80 million and \$84 million; and (iv) a performance bonus of \$100,000 determined at the sole discretion of the Compensation Committee of the Board of Directors. Mr. Urness will also be eligible for certain equity awards to be set forth in the employment agreement to be entered into by Mr. Urness and the Company. In the event Mr. Urness is terminated as the result of a termination without cause, and such termination constitutes a separation from service, the Company will pay to Mr. Urness a lump sum termination payment equal to three (3) times his base salary. This employment agreement is also expected to include certain customary non-competition and change of control provisions. The Company expects to enter into the new employment agreement with Mr. Urness within thirty (30) days of his appointment as President and Acting Chief Executive Officer, but in no event later than December 31, 2018.

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Mr. Barsetti, 38, has been Cavco's Chief Accounting Officer since August 31, 2018. Previously, Mr. Barsetti served as the Company's Senior Director of Financial Administration from August 2017 to August 2018 and as the Company's Director of Internal Audit from October 2014 to August 2017. Prior to joining Cavco, he served as the Director of Financial Reporting at Universal Technical Institute ("UTI") from November 2013 to October 2014 and as UTI's Audit Manager and Senior Audit Manager from May 2011 to November 2013. He held various internal audit positions at Viad Corp. from September 2005 to May 2011, most recently as an Internal Audit Manager. Mr. Barsetti holds a Bachelor's degree in Accounting from Northern Arizona University and is a registered Certified Public Accountant. Mr. Barsetti's compensation has not changed at this time. Mr. Barsetti earns a base annual salary of \$155,000 and is eligible to receive a target bonus of \$40,000 based on goals and objectives and additional incentive compensation based on the Company's pre-tax income for the fiscal year ending March 30, 2019 equal to: (i) \$15,000 if pre-tax income falls between \$60 million and \$70 million; (ii) \$5,000 if pre-tax income falls between \$70 million and \$80 million; (iii) \$5,000 if pre-tax income falls between \$80 million and \$85 million; and (iv) \$5,000 if pre-tax income is over \$85 million. Mr. Barsetti is also eligible to participate in the Company's other benefits.

There are no family relationships between Messrs. Urness and Barsetti and any other director or executive officer of the Company. Furthermore, there are no related party transactions between Cavco and Messrs. Urness and Barsetti that require disclosure pursuant to Item 404 of Regulation S-K.

In conjunction with his resignation, the Company's Employment Agreement with Mr. Stegmayer was terminated pursuant to a written transition agreement (the "Transition Agreement"). That Transition Agreement provides for: (i) Mr. Stegmayer's immediate resignation from all positions as an officer or director of the Company and any of its subsidiaries; (ii) waiver of any severance payments that may have otherwise been due under the Employment Agreement; (iii) payment of a pre-existing deferred bonus obligation due to Mr. Stegmayer in the approximate amount of \$1 million, plus interest in two equal annual installments; (iv) payment of a pro rata share of any fiscal year 2019 incentive bonus that Mr. Stegmayer may be eligible to receive through November 7, 2018; (v) a complete release of any claims for other compensation or claims that Mr. Stegmayer may have against the Company, except for rights under the Transition Agreement and his pre-existing indemnity arrangements; (v) an at will employment relationship; (vi) an annual salary of \$150,000 with no defined incentive bonus opportunity; and (vi) no modification to the provisions of any incentive equity compensation arrangements, each of which shall remain subject to the terms of existing grant agreements and the plans pursuant to which they were granted.

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Item 6. Exhibits

Exhibit
No. Exhibit

<u>10.1</u>	<u>Transition Agreement, dated as of November 8, 2018, by and between Cavco Industries, Inc. and Joseph Stegmayer.</u>
<u>10.2</u>	<u>Employment Arrangement Letter, dated as of November 8, 2018, by and between Daniel L. Urness and Cavco Industries, Inc.</u>
<u>10.3</u>	<u>Indemnification Agreement, dated as of November 8, 2018, by and between Daniel L. Urness and Cavco Industries, Inc.</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)</u>
<u>32</u>	<u>Certification Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>99.1</u>	<u>Press Release dated November 8, 2018</u>
101	The following materials contained in this Quarterly Report on Form 10-Q for the period ended September 29, 2018 were formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements

All other items required under Part II are omitted because they are not applicable.

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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 thereunto duly authorized.

Cavco Industries, Inc.

Registrant

Signature	Title	Date
/s/ Daniel L. Urness Daniel L. Urness	President and Acting Chief Executive Officer (Principal Executive Officer)	November 8, 2018
/s/ Joshua J. Barsetti Joshua J. Barsetti	Chief Accounting Officer (Principal Financial Officer)	November 8, 2018