



Mr. Steve Upham, Reeve
County of St. Paul
5015 - 49 Avenue
St. Paul, AB T0A 3A4

August 5, 2016

Dear Mr. Upham:

Re: Property Taxes Follow-up

Canadian Natural is urgently focused on reducing costs and improving the way we do business to keep people working. To this end, I wrote you earlier this year to request a 30% reduction in property taxes. As we enter into the 2017 budget cycle for municipalities, I write to again request your assistance by reducing the property tax burden.

The last two years have been challenging for oil and natural gas, made difficult by cost escalation, low commodity prices, and fundamental changes to the global industry. We are, however, optimistic. We are requesting your assistance precisely because Canadian Natural can see a strong future for Alberta oil and natural gas including associated jobs and government revenues, if we work together to adapt to the fundamental transformation that has occurred in the industry.

To create value and maintain investment and jobs, Canadian Natural has been urgently focused on improving the way we do business, while adhering to our core values of safety, asset integrity, environmental stewardship, and working with communities. To this end, Canadian Natural believes it is important to keep our high-performance team together to focus on effective, efficient, and reliable operations as we deliver on our plans. As such, Canadian Natural has not laid off staff due to the economic downturn, and instead reduced senior management and staff salaries. Canadian Natural has also reduced operating costs by over \$1 billion in 2015, and is targeting further reductions in 2016.

As we work to identify further opportunities for reductions, property taxes emerge as a significant cost for the oil and natural gas industry. It is appropriate for industry to pay property taxes at a level commensurate with municipal services received at the reduced cost of services in today's market, at a rate equitable to other ratepayers, and assessed fairly relative to the value of the facility. But property taxes have risen to an unsustainable level. Despite our success in reducing overall costs, there remain too many properties where property taxes are a concern. Increasing property taxes are likely to result in early abandonment of wells and facilities which will reduce the assessment base, local employment, and royalties.

Canadian Natural Resources Limited

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Despite maintaining strong production volumes of oil and natural gas through 2015 and the first part of 2016, Canadian Natural has shut-in an estimated 1,700 wells and 50 natural gas compressors. Additionally, Canadian Natural is estimating that we will shut-in an additional 600 wells and 20 natural gas compressors throughout the remainder of 2016. In evaluating properties to determine whether to shut-in further production, the primary consideration will be high costs including the property tax burden.

In this context, Canadian Natural requests a 30% reduction in the property tax burden from 2015 levels. Based on the combination of the following factors, Canadian Natural decided that it is reasonable to request a 30% reduction:

- Canadian Natural's property tax burden has increased by much more than 30%. From 2004 to 2014, Canadian Natural realized a 1.5 times increase in revenue per barrel of oil equivalent (BOE). Over the same period, our property taxes grew 5.2 times more than revenues per BOE.
- According to the Canadian Association of Petroleum Producers (CAPP), total oil and natural gas capital investment in 2016 is forecast to decline by \$50 billion from 2014 levels. According to the same CAPP report, more than 110,000 people across Canada have lost jobs (direct and indirect) as a result of the downturn. Given reduced activity levels, it is likely that demands on municipal infrastructure and services will also be reduced.
- Market conditions have also generated significant reductions in material costs and contractor rates. Significant cost efficiencies should be available to municipalities.

I note that forthcoming changes will require municipalities to adopt three-year operating plans and five-year capital plans. This requirement provides a significant opportunity to review spending and budgets in order to find cost reductions and ensure that spending is built-to-need and right-sized.

Canadian Natural is urgently focused on reducing costs and improving the way we do business to attract investment and keep people working. We are dedicated to this endeavor because we are optimistic about the future, if we can all adapt to the fundamental transformation that has occurred in the oil and natural gas industry. Local Canadian Natural representatives will once again be in touch to discuss these challenges in your municipality. Thank you for your consideration.

Sincerely,



Scott Stauth
Senior Vice President, North American Operations
Canadian Natural Resources Limited

CC. Council
CAO