

WORKING WITH MUNICIPALITIES



ALBERTA'S ECONOMIC CONTEXT

Canada's oil and natural gas industry is going through one of the most severe economic downturns in generations as North American benchmark oil prices have fallen dramatically over the past year.

The impacts of this new economic reality are particularly acute in Alberta, where many of Canada's oil and natural gas resources are located:

- Canada's oil and natural gas industry revenues and cash flows have fallen dramatically, with operating margins narrowing to become losses.
- Overall, industry capital spending in Alberta has fallen by approximately 40 per cent in 2015, and almost 35 per cent again in 2016.

Source: CAPP

- Alberta's unemployment rate is now above the national average for the first time since 1988.

Source: Statistics Canada

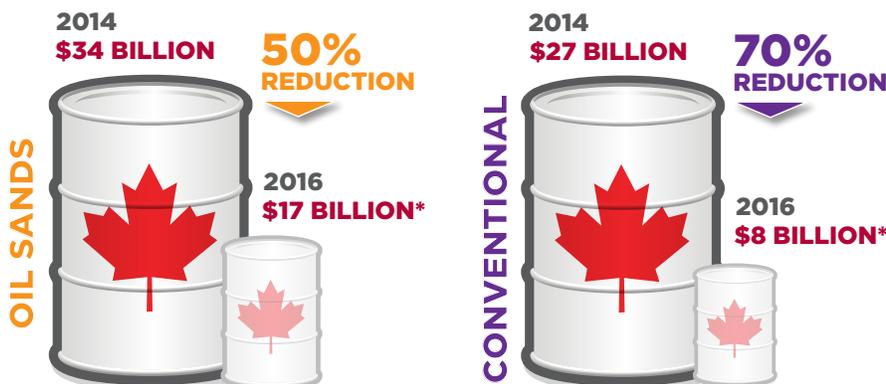
- Job losses have been significant beyond Calgary and Edmonton, as the unemployment rate increased from four per cent in February 2014 to 6.9 per cent in February 2016 in the rest of Alberta.

Source: Statistics Canada

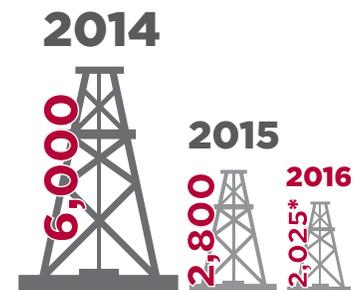
Including indirect jobs, more than 100,000 jobs have been lost in Canada, the majority in Alberta, since the beginning of 2015 as a result of the economic downturn in the oil and natural gas sector.

Source: CAPP

DECLINE OF INVESTMENT IN ALBERTA



*Forecast
Source: CAPP



Number of wells drilled in Alberta per year. *Forecast

Source: CAPP

INDUSTRY CONTRIBUTIONS TO LOCAL COMMUNITIES

Canada's oil and natural gas industry provides economic benefits to the province and local communities:

- In 2014, approximately 42 per cent of Alberta's economic activity was attributable to oil and natural gas activity. In 2015, we estimate that fell to approximately 28 per cent.
Source: CAPP
- In 2014, approximately three in 10 jobs in Alberta were supported by oil and natural gas activity. In 2015, we estimate that fell to approximately one in five.
Source: CAPP
- We contribute to local communities and the province through property taxes, well drilling equipment taxes, corporate taxes, royalties, community investment, surface leases, and procuring goods and services locally where possible.
- We paid an estimated \$1.1 billion in municipal property taxes in 2014, the largest cost paid to Alberta governments after royalties.
Source: CAPP

CONTROLLING COSTS IN CANADA'S OIL AND NATURAL GAS INDUSTRY

The new reality of low oil and natural gas prices, and increasing costs at the provincial and municipal government level highlight the need for industry, municipalities and the province to work together to keep communities strong and create jobs. Industry is reducing the costs we can control, and is willing to work with municipalities and the province to make our sector more economically sustainable in Alberta.

We recognize the importance of contributing to communities and the province. However, property taxes should be distributed equitably between residential and non-residential ratepayers, and be based on a property assessment that is consistent across the province.

A WAY FORWARD

Creative thinking and collaboration are needed to get Alberta through this downturn, and to strengthen the oil and natural gas industry's ability to attract the investment that supports jobs. Doing nothing is not an option.

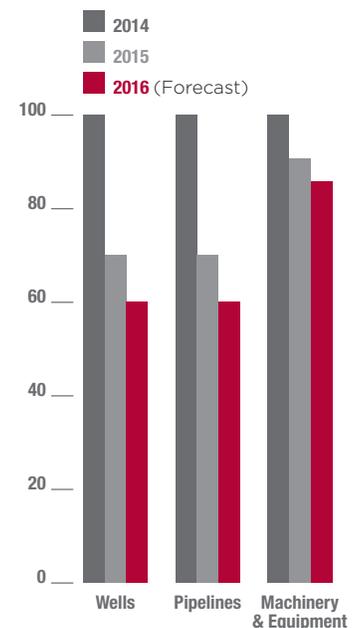
We are looking to work with municipalities and the province to take advantage of lower material costs and contractor rates, which should allow municipalities to reduce municipal budget requirements without impacting the quality of services. We also encourage municipalities to collaborate on benchmarking through the Alberta Municipal Benchmarking Initiative, under which municipalities collectively identify opportunities to improve how services are delivered. Costs are saved as a result, transparency is improved and municipal services are provided at the best value to taxpayers. Industry and municipalities could also partner on mutually beneficial infrastructure projects through a joint funding program.

A strong oil and natural gas sector is good for all Albertans.

LOCAL BENEFITS

“Close to 100 per cent of a barrel's value was consumed by costs in 2012 and 2013, the first time since 1960.”

Royalty review advisory panel report



Industry Construction Costs as Percentages of 2014 Construction Costs

Source: CAPP