

## PREPAYMENT OF TAXES AGREEMENT

THIS AGREEMENT made as of the 24<sup>th</sup> day of August, 2012.

**BETWEEN:**

**STURGEON COUNTY**, a municipal corporation formed in the Province of Alberta (the "County")

-and-

**NORTH WEST REDWATER PARTNERSHIP**, a Partnership comprising equal ownership by North West Upgrading Inc. and Canadian Natural Upgrading Limited, formed in the Province of Alberta ("NWR")

**WHEREAS** NWR owns the Upgrader Lands on which NWR plans to build an Upgrader Facility;

**AND WHEREAS** NWR wishes to prepay certain Municipal Taxes payable to the County in respect of the Upgrader Lands;

**NOW THEREFORE** for good and valuable consideration and the mutual covenants contained herein, the Parties agree as follows:

### 1. Definitions

In this Agreement, the following terms have the following meanings:

- (a) **"Agreement"** means this Agreement, including the schedules attached hereto;
- (b) **"County"** means Sturgeon County, an Alberta municipal corporation;
- (c) **"Commence Operation"** means the degree of operation necessary to make machinery and equipment improvements, as defined in Alberta Regulation 220/2004, assessable for taxation purposes under the Municipal Government Act;
- (d) **"Maturity Date"** means the earlier of June 30, 2021 or June 30 in the fifth year following the date on which the first Prepayment Credit is made pursuant to paragraph 3 of this Agreement;
- (e) **"Municipal Taxes"** means the municipal taxes levied by Sturgeon County from time to time in respect of the Upgrader Lands, pursuant to the Municipal Government Act (Alberta) and excludes school taxes;
- (f) **"Parties"** means NWR and the County, and "Party" means either one of the Parties;

- (g) **"Prepayment"** means the payment of the Prepayment Amount advanced by NWR to the County in accordance with the terms of this Agreement;
- (h) **"Prepayment Amount"** means the sum of FIVE MILLION FIVE HUNDRED AND EIGHTY EIGHT THOUSAND (\$5,588,000.00) DOLLARS;
- (i) **"Prepayment Credit"** means the portion of the Prepayment Amount applied in part or total satisfaction of the Municipal Taxes in one year, with methodology as described in Schedule B of this agreement;
- (j) **"Upgrading Facility"** means the first phase of a fully operational upgrader and associated infrastructure with an ultimate design capacity of 7,950 cubic metres per day (50,000 bbl/d) of bitumen;
- (k) **"Upgrader Lands"** means the lands described in Schedule A attached to this Agreement.

## **2. Prepayment Amount**

NWR hereby agrees to make the Prepayment to the County no later than the earlier of; economic sanctioning of the Project by the Management of NWR, or, December 31, 2012.

## **3. Prepayment Credits**

- (a) The County will apply to the tax rolls for the Upgrader Lands, five (5) equal yearly Prepayment Credits of ONE MILLION ONE HUNDRED AND SEVENTEEN THOUSAND SIX HUNDRED (\$1,117,600.00) DOLLARS commencing on June 30 in the year after the Upgrading Facility Commences Operation, and on June 30 each year thereafter until the full Prepayment Amount, is credited in full. Attached as Schedule B to this Agreement is the methodology used to calculate the Prepayment Credits commencing on June 30, 2017, which assumes the Upgrading Facility Commences Operation on or before December 31, 2016.
- (b) Notwithstanding paragraph 3(a), if the Upgrading Facility does not Commence Operation on or before December 31, 2016, the County is not obligated to apply or give credit for the Prepayment Credit on June 30, 2017 and the Prepayment Credit will not be credited or payable in each subsequent year until the first year following the year in which the Upgrading Facility Commences Operation and, in any event, the obligation of the County to apply any Prepayment Credit ends on June 30, 2021. For greater certainty NWR and any party liable to pay taxes on the Upgrader Lands has no right or entitlement to any Prepayment Credit which is not credited or paid under this paragraph and NWR shall make no claim thereto.
- (c) If the Upgrading Facility does not Commence Operation on or before December 31, 2021, the County has no further obligations with respect to repaying the Prepayment Amount or applying any Prepayment Credits.

**4. Additional Covenants**

The County covenant and agrees with NWR:

- a) to observe and perform all obligations, covenants and agreements under the terms of this Agreement in the manner provided herein;
- b) in consideration of the Prepayment to be made by NWR to the County on or prior to December 31, 2012, the County will treat the Prepayment as satisfaction of any Off-Site Road levy or fee imposed by an offsite levy bylaw against the Upgrader Lands pursuant to Sturgeon County Bylaws.

**5. Representations and Warranties**

The County represents and warrants that:

- (a) The County is a municipal corporation under the laws of the Province of Alberta;
- (b) The County has the necessary power and authority to:
  - (i) enter into this Agreement;
  - (ii) receive the Prepayment Amount;
  - (iii) grant the Prepayment Credit, and
  - (iv) perform all of its remaining obligations under this Agreement;
- (c) To the best of the County's knowledge, there is no fact known to the County which materially adversely affects the County or its ability to perform its obligations under this Agreement; and
- (d) The County is current in all statutory remittances required by law, including but not limited to employment insurance remittances, Canada Pension Plan remittances, employee income tax remittances, Workers' Compensation Board premiums and business taxes.

**6. Notices**

Any notice, demand or other communication which may be or is required to be given or made pursuant to this Agreement shall, unless otherwise expressly provided herein, be in writing and shall be personally delivered or sent by facsimile to either Party at its address set forth below:

(a) if to the County at:

Sturgeon County  
9613 – 100 Street,  
Morinville, AB T8R 1L9

Attention: Chief Administrative Officer  
Facsimile: (780) 939-3003

(b) if to NWR, at:

North West Redwater Partnership  
2800, 140 – 4<sup>th</sup> Avenue S.W.  
Calgary, AB T2P 3N3

Attention: Chief Financial Officer  
Facsimile: (403) 451-4197

All notices to be given hereunder may be given by registered letter addressed to the other Party as indicated above; or such other addresses as either Party may respectively from time to time designate in writing, and any such notice shall be deemed to have been given to and received by the addressee fourteen (14) days after the mailing thereof, postage prepaid and registered.

#### **Assignment**

The Parties will not assign or transfer any of their respective rights or obligations under this Agreement without the prior written consent of the other Party, which consent may not be unreasonably withheld.

#### **8. Governing Law**

The Parties agree that this Agreement will be governed by and construed in accordance with the laws of the Province of Alberta and of Canada applicable therein.

#### **9. Successors and Assigns**

All covenants, agreements, representations and warranties made herein or in any certificate delivered in connection herewith shall bind and enure to the benefit of the successors and permitted assigns of each of the Parties.

#### **10. Amendment and Waiver**

No provision of this Agreement or any of the documents collateral hereto or thereto may be changed, modified or amended other than by an agreement in writing signed by the Parties.

**11. Severability**

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement. Any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provisions in any other jurisdiction.

**12. Survival and Non-Merger**

All representations, warranties, covenants and agreements made in this Agreement or otherwise in writing in connection with this Agreement by the County shall remain binding on the County notwithstanding the advance of the Prepayment.

**13. Time of Essence**

Time shall be of the essence of this Agreement.

**14. Counterpart Execution**

This Contract may be executed in several counterparts, each of which when so executed shall be deemed to be an original and all counterparts together shall constitute one and the same instrument. A facsimile of a counterpart executed by a Party shall be acceptable evidence of the execution by that Party of that counterpart and shall be binding upon that Party for all purposes.

**15. Termination of Prior Agreements**

The Parties agree that the June 6, 2011 Road Improvement Agreement and any other agreement between the Parties which provided for prepayment of taxes is terminated as of the date of this agreement being the date first above written.

**IN WITNESS WHEREOF** the Parties duly execute this Agreement as of the date written above.

**STURGEON COUNTY**

**NORTH WEST REDWATER PARTNERSHIP**

Per: 

Per: 

Title: CAO - County Commissioner

Title: VP REGULATORY AFFAIRS

Per: \_\_\_\_\_

Per: \_\_\_\_\_

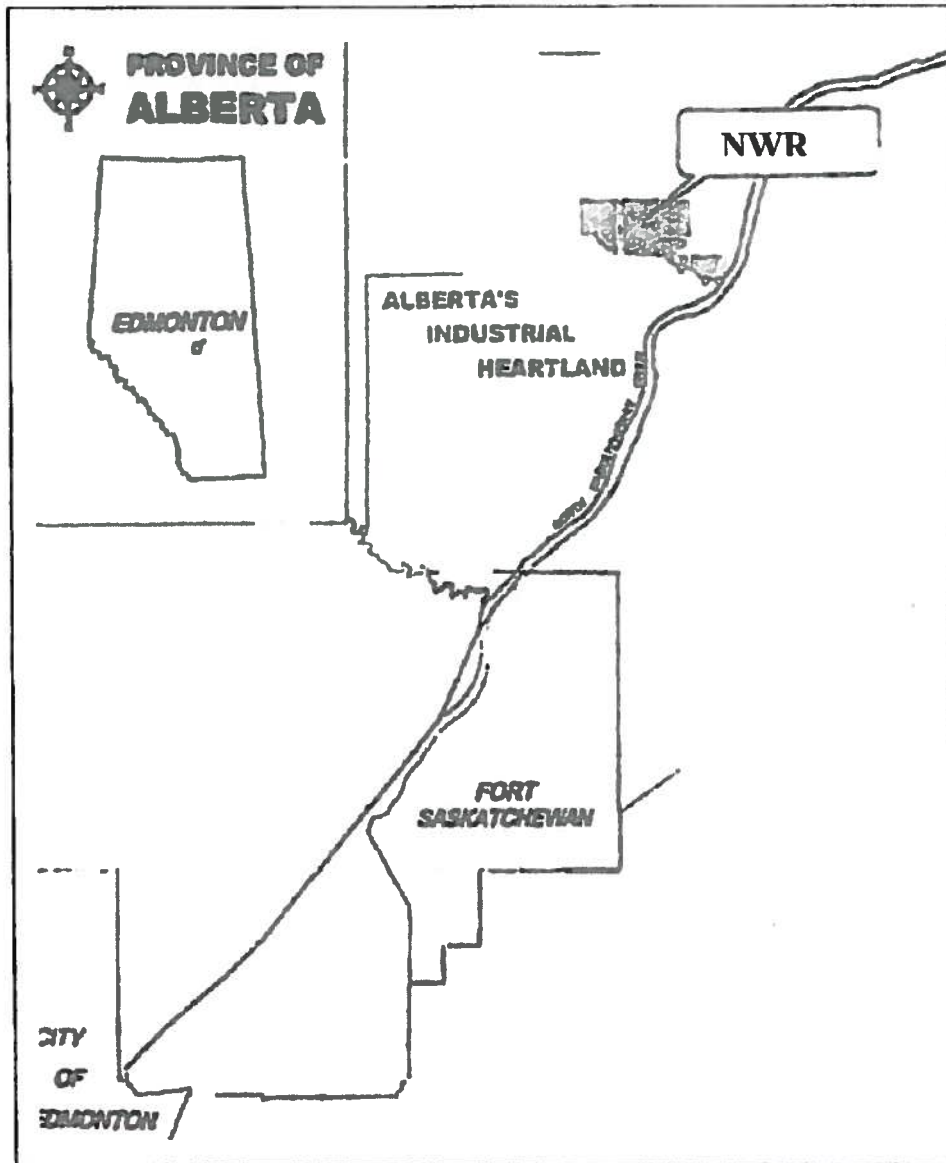
Title: \_\_\_\_\_

Title: \_\_\_\_\_

## SCHEDULE A

Attached to and forming part of the Sturgeon County Prepayment of Taxes Agreement between Sturgeon County and North West Redwater Partnership, dated the 24<sup>th</sup> day of August, 2012.

### UPGRADER LANDS



*Handwritten signature/initials in blue ink.*

## SCHEDULE B

Attached to and forming part of the Sturgeon County Prepayment of Taxes Agreement between Sturgeon County and North West Redwater Partnership dated the 24<sup>th</sup> day of August, 2012.

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### METHODOLOGY FOR CALCULATING PREPAYMENT CREDITS

Date	Prepayment Amount Outstanding:	Prepayment Credit:
6/30/2016	\$5,588,000.00	\$Nil
6/30/2017	\$4,470,000.00	\$1,117,600.00
6/30/2018	\$3,352,800.00	\$1,117,600.00
6/30/2019	\$2,235,200.00	\$1,117,600.00
6/30/2020	\$1,117,600.00	\$1,117,600.00
6/30/2021	\$NIL	\$1,117,600.00

*[Handwritten signature]*