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INVESTOR BRIEF: CANADIAN NATURAL RESOURCES LTD (CNRL) AND PWC

MATERIAL CLIMATE- AND LIABILITIES-RELATED MATTERS MISSING FROM 2024 FINANCIAL STATEMENTS & AUDITOR'S REPORT

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VOTING INFORMATION

Meeting date: **May 8, 2025**
Proxy cut off date: Intermediaries must receive instructions by **11:00 am MDT, May 6, 2025**
Voting information: here

NOTE: This is NOT a solicitation of your proxy; it simply provides contextual information from public sources regarding the the financial statements and auditor election. Please do not send us your proxy card—we are not able to vote your proxies nor does this communication contemplate such an event. We recommend shareholders follow voting instructions provided in management's proxy mailing.

ABOUT INVESTORS FOR PARIS COMPLIANCE

Investors for Paris Compliance (I4PC) is a shareholder advocacy organization that works to hold Canadian publicly-listed companies accountable to their net zero commitments. More information can be found here.

SUMMARY

The auditor's report exists for investors, to provide assurance that a company's financial statements are accurate. To craft a report, an auditor is required to stress test the assumptions a company makes regarding its finances, to ensure that nothing material is misstated or overlooked.

Oil and gas companies in particular make several assumptions regarding climate change, the energy transition, and liabilities that are significantly material to their accounts. For example, what is the magnitude of capital expenditures required to meet stated emissions reductions targets? What are prospective demand projections as the world shifts to renewable energy, and what are the implications of these for commodity prices, cash flow, and asset retirement obligations? Are the scale and timing of the asset retirement obligations properly reflected in the financials?

The role of the auditor is, in part, to revisit these assumptions on behalf of investors to ensure that they are reasonable and that they present fairly, in all material respects, the financial position of the company. Unfortunately, in the case of Pricewaterhouse Coopers' (PwC) 2024 auditor's report for Canadian Natural Resources (CNRL), investors are left in the dark as to whether the auditor considered these issues, since there is no mention of them.

The gaps in reporting begin with CNRL itself. According to the Climate Accounting and Audit Assessment framework established by Carbon Tracker on behalf of Climate Action 100+[1], the financial impacts of climate-related matters were not sufficiently addressed in CNRL's 2023 financial statements.[2] Our application of the same framework, with additional detailed analysis, indicates the same significant gaps remain in CNRL's 2024 financial statements. They do not clarify whether the energy transition may decrease the useful lives and cashflow projections of its oil and gas production assets, and in turn, bring forward the timing of associated decommissioning expenditures and clean-up liabilities.

These considerations are required by applicable accounting standards,[3] and are at least partly dealt with in the financials of other oil and gas companies such as Shell.

Furthermore, the scale of CNRL's decommissioning liabilities may be understated based on the type of discount rate applied and the magnitude of the total liabilities stated.

1 Climate Action 100+ is an initiative led by 600+ institutional investors, including Blackrock International, BMO Global Asset Management, RBC Global Asset Management, and TD Asset Management, to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change in order to mitigate financial risk and to maximize the long-term value of assets.

2 CA100+, CNRL 2024 assessment, at Criteria 6 for the Disclosure Framework and in its Climate Accounting and Audit Assessment.

3 IFRS Accounting Standards, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 36 impairment standard, and IAS 16 for asset lives/depreciation.

Despite these gaps, PwC nonetheless states that CNRL's financial statements are completed in accordance with applicable accounting standards. The 2024 auditor's report does not address whether, how, or to what extent material climate-related matters were considered in the audit. PwC does not mention the uncertainty regarding the status of CNRL's climate targets and the cost implications of trying or not trying to meet them. It also does not stress test assumptions regarding liabilities.

Not only is this required by applicable auditor standards,[4] but PwC has publicly committed to do so and even published related guidance. We also see PwC applying these practices in its audit of other oil and gas company financials, namely at Eni S.p.A.

These gaps in reporting are of importance to CNRL's investors, audit committee, and regulators. They give rise to uncertainty that potentially distorts the investment environment and needs to be addressed.

NOTE: IMPACTS OF CNRL REMOVING ALL REFERENCES TO ITS NET ZERO COMMITMENT

Since Canadian anti-greenwashing laws were strengthened in 2024, CNRL announced that it would be temporarily removing all of its climate disclosures and associated materials from its website.[5] All references have also been removed from its 2024 Annual Report and notes to its 2024 financial statements. This extends to the website for the Pathways Alliance initiative, which represents CNRL and other Canadian oil sands companies' plans for achieving their scope 1 and 2 net zero emissions targets. This raises uncertainty regarding CNRL's net zero commitment and near-term decarbonization targets, which are material to the accuracy and reasonableness of its financial statements. As such, this is also material to the Auditor's Report but is not mentioned by PwC.

WHY THE ENERGY TRANSITION IS MATERIAL TO CNRL

As a major oil sands producer and refiner, CNRL is subject to various costs and risks associated with its own transition commitments, as well as transition-related market shifts that could affect the profitability and viability of its assets. Investors expect these risks to be reflected in its financials, and tested by its auditor.

4 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement (October 2020); Canadian Public Accountability Board, Impact of climate-related risks on financial statements audits (March 2024).

5 Pathways Alliance, Competition Act amendments silence Canadian businesses taking climate action (June 2024).

The IEA 2024 World Energy Outlook's scenarios see global oil consumption dropping between 3.5% to 18.9% by 2030, and 26.7% to 57% by 2040.[6] BP's Energy Outlook foresees similar trends, with both its current trajectory and net zero scenarios projecting no future growth of oil demand after 2025.[7] Shifting consumer demand, technological advances, and availability of capital are transition risk drivers that can result in stranded assets.[8] Stranded assets are "tangible assets that experience premature devaluations (impairments) or conversion to liabilities as a result of over-exposure to poorly understood and mispriced exogenous risks such as climate change."[9]

Canada's oil sands are more vulnerable to shifts in demand than conventional oil, as pointed out by the Canada Energy Regulator, due to high upfront costs and longer-term capital recovery.[10] In today's market, oil sands projects are some of the most expensive oil projects in the world, meaning that future oil supply in a declining market is more likely to come from basins where costs are cheaper.[11] As the profitability of Canadian oil sands is squeezed, transition risk is a persistent and material concern to CNRL's shareholders and should be included in CNRL's annual statements.

I. MATERIAL MATTERS MISSING FROM CNRL'S 2024 FINANCIAL STATEMENTS

According to CNRL's Annual Report, its financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), which provide that climate change issues should be considered in the creation of financial statements.[12] However, according to the Climate Accounting and Audit Assessment framework established by Carbon Tracker on behalf of Climate Action 100+, the financial impacts of climate-related matters were not sufficiently addressed in CNRL's 2023 financial statements.[13] Our application of the same framework, with additional detailed analysis, indicates the same significant gaps remain in CNRL's 2024 financial statements.

CNRL's 2024 financial reporting states that climate and climate-related legislation present risks to its reserve estimates and its asset retirement obligations.[14] CNRL also highlights in the Management Discussion and Analysis relevant federal and provincial regulations to limit greenhouse gas emissions aimed at aligning with Canada's commitments to the Paris Agreement.[15] Further, CNRL notes the fact that:

6 International Energy Agency, World Energy Outlook Tables for Scenario Projections (Oct. 2024).
7 BP, BP Energy Outlook 2024 Edition, at 31.
8 Task Force on Climate-Related Financial Disclosures Knowledge Hub, Examples of Climate-Related Risks and Potential Financial Impacts, (2017).
9 Carbon Tracker, Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk, (2023).
10 Canada Energy Regulator, Canada's Energy Future 2023, at 89.
11 Rystad Energy, Shale project economics still reign supreme as cost of new oil production rises further (2024).
12 International Financial Reporting Standards, Effects of climate-related matters on financial statements (July 2023). ("IFRS Accounting Standards do not refer explicitly to climate-related matters. However, companies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole."); See also: IFRS, Exposure Draft and comment letters: Climate-related and Other Uncertainties in the Financial Statements (July 2024).
13 CA100+, CNRL 2024 assessment, at Criteria 6 for the Disclosure Framework and in its Climate Accounting and Audit Assessment.
14 CNRL, Annual Report 2024, at 71.
15 Ibid, at 41.

> *The timing and pace of change to a low carbon economy is uncertain and the ability to access insurance and capital may be adversely affected in the event that financial institutions, investors, insurers, rating agencies and/or lenders adopt more restrictive decarbonisation policies [...]*[16]

However, it is unclear how these significant risks are incorporated into its financial statements. As per Carbon Tracker's 2023 analysis, CNRL's 2024 financial statements only partially demonstrate how material climate-related matters are incorporated into current results or future plans, namely they do not detail whether energy transition risks impact its future financial health, notably:

- The determination of reserve estimates;
- The recoverability of relevant assets;
- The remaining useful lives of relevant assets; or
- The calculation of its asset retirement obligations.

Furthermore, commodity prices can be significantly affected by the energy transition and underlie the valuation of company assets. CNRL does not provide any details about whether the commodity price projection it applies considers future climate scenarios. Shell's 2024 Financial Statements provide an example of how future climate scenarios, including an IEA 1.5 degree scenario, were applied to notes on its commodity price projections.[17]

RISKS TO DECOMMISSIONING COSTS AND TIMELINES

As per Carbon Tracker's analysis of CNRL's 2023 financial statements, our review of CNRL's 2024 financial statements finds that material transition-related matters are only partially incorporated into current results or future plans, namely they do not detail whether energy transition risks impact the calculation of its asset retirement obligations.

According to PwC, "[a]n asset retirement obligation (ARO) is a legal obligation associated with the retirement of a tangible long-lived asset."[18] It is common for capital intensive companies, such as oil and gas companies, to have significant AROs "due to their ownership of major productive assets that ultimately will be removed from service."[19] AROs are also commonly referred to as decommissioning liabilities.[20]

In its 2024 financial statements, CNRL projects a net, discounted $8.6 billion in asset retirement obligations, based on current regulations.[21] Yet, credible estimates suggest this figure significantly understates liabilities.

16 Ibid, at 38.
17 Shell, 2024 Annual Report, at 262-265.
18 PwC, 3.1 Asset retirement obligations—chapter overview (2024).
19 Ibid.
20 BDO Canada, Assurance and Accounting, ASPE-IFRS: A Comparison, (2020).
21 CNRL, Annual Report 2024, at 40, 43, 81.

Estimates from the Alberta Energy Regulator (AER) regarding the cumulative decommissioning liability for Canada's oil and gas industry have ranged from $60 billion excluding the oil sands to $320 billion[22] including the oil sands.[23] Based on the AER's Licensee Inventory Life Cycle & Closure Activity database, CNRL is responsible for covering about 20% of the industry's estimated liabilities – one of the highest in the country.[24]

When broken down into sub-estimates for wells, pipelines, and oilsands, the oilsands accounted for $160 billion[25] — half of the AER's total estimate for industry liabilities.[26] Wells and pipelines accounted for the other half. Assuming CNRL is responsible for 20% of industry decommissioning liabilities for wells and pipelines, this equates to $32 billion in well and pipeline liabilities.

Through major acquisitions over the past decade, CNRL is now a majority owner of the oilsands.[27] As a result, it is responsible for at least half of oilsands liabilities which translates to an additional $80 billion. In total, this amounts to a minimum estimate of $112 billion in total decommissioning liabilities for CNRL.

The significant gap between CNRL's reported decommissioning liabilities ($8.6 billion) and the AER data (at least $112 billion) may be partly due to the fact that the AER's Mine Financial Security Program only requires companies to start disclosing mine decommissioning costs 15 years before the expected end of reserves.[28]

What's more, CNRL also holds assets with retirement obligations in two other geographic regions – the North Sea and Offshore Africa – further driving up total decommissioning liabilities and associated uncertainties.[29]

Finally the AER's estimates for the oil and gas industry are likely on the low end. Recent reports from the Auditor General of Alberta suggest that costs may be underestimated because pipelines are still largely excluded from the AER's liability management calculations.[30] In addition, the AER's estimates are based on what companies have been spending to clean up sites.[31] As companies tend to do work on sites that are easier and cheaper to clean up, it is probable that the cost to clean-up older, more problematic sites could be significantly higher.[32] All of which contributes to even greater uncertainty.

CNRL does disclose in its 2024 financial statements two key inputs regarding its decommissioning liabilities, for its exploration and production facilities, oil sands and mining upgrading, midstreaming and refining facilities:

22 In 2025 dollars. Adjusted for inflation using Bank of Canada's Inflation Calculator.
23 National Observer, The silence on Alberta's $260 billion environmental liability is deafening (2018); See also: Report of the Auditor General of Alberta, Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure (Mar. 2023); See also: Ecojustice, Alberta's Inactive and Orphan Wells Threaten Wallets, Health, and Nature (Nov. 2024).
24 Alberta Energy Regulator, Licensee Inventory Life Cycle & Closure Activity.
25 In 2025 dollars. Adjusted for inflation using Bank of Canada's Inflation Calculator.
26 Martin Olszynski, Andrew Leach, Drew Yewchuk, Not Fit for Purpose: Oil Sands Mines and Alberta's Mine Financial Security Program (University of Calgary, School of Public Policy, Research Paper, Vol.16:36, Dec. 2023) at 17-19 and 27.
27 Benefits and Pensions Monitor, CNRL strengthens control over oil sands with $6.5bn acquisition from Chevron (October 2024).
28 AER, Mine Financial Security Program.
29 CNRL, Annual Report 2024, at 26.
30 Report of the Auditor General, Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure - Alberta Energy Regulator, (2023).
31 The Narwhal, Alberta releases new data about progress on multibillion-dollar oil and gas cleanup problem (2024).
32 Ibid.

- A 4.8% discount rate (credit-adjusted, risk free interest rate); and
- A 60-year payment schedule timeline (based on estimated future cash flows underlying obligation).

Each is discussed further below.

DISCOUNT RATE

Due to the type of discount rate used, it is likely that CNRL's decommissioning liabilities are understated compared to some of its competitors. CNRL uses a credit-adjusted risk-free discount rate rather than a risk-free discount rate to calculate its decommissioning liabilities.[33] The International Accounting Standards Board (IASB) is considering specifying that companies must use the latter — a risk-free discount rate — when calculating its decommissioning liabilities.[34] The reason for this proposed amendment is that "rates that include non-performance risk [such as credit-adjusted risk-free discount rates] are higher than risk-free rates and result in smaller provisions."[35] In other words, CNRL would be reporting higher decommissioning liabilities if it used the type of discount rate that the IASB is recommending.

Deeply discounting decommissioning provisions, particularly those that may be settled over an extended time period, can leave investors in the dark about corresponding undiscounted obligation amounts that will inevitably need to be funded through future revenues.

TRANSITION & TIMING OF LIABILITIES

Furthermore, CNRL's financial statements provide insufficient detail about whether and how climate or transition-related matters impact the timing of and expenditures required for decommissioning assets and the recording of decommissioning liabilities by asset type and segment (e.g., Exploration & Production, Oil Sands Mining and Upgrading, Midstream and Refining). For an example of better practice in terms of disclosure, Shell provides a breakdown of and timing schedule for its decommissioning provisions, by asset type or segment.[36]

The lack of detail surrounding CNRL's full estimated timing schedule of its decommissioning activities and its total undiscounted decommissioning costs is an issue for investors. Petroleum infrastructure assets are at risk of becoming economic liabilities with valuations below zero due to significant decommissioning costs in energy transition scenarios that question the future profitability of assets.[37]

As decommissioning liabilities are expected to be paid out of future revenues, the 60-year profitability timeline CNRL projects for its assets will be subject to change in energy transition scenarios.[38] Unless oil and gas infrastructure can be repurposed (e.g. for geothermal or renewable energy storage or as refineries for biofuels), obsolescence will force many oil and gas assets into early retirement, thereby accelerating ARO maturities.[39]

33 CNRL, Re: Exposure Draft — ED/2024/8 Provisions — Targeted Improvements, (March 2025).
34 IASB, Exposure Draft: Provisions—Targeted Improvements—Proposed amendments to IAS 37 (November 2024) at 6.
35 Ibid.
36 Shell, Annual Report and Accounts 2023, at 301-302.
37 Carbon Tracker, Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk (2023).
38 Ibid.
39 Ibid.

Costs associated with AROs go beyond actual closure costs to include financial assurance costs (e.g. surety bond premiums) and increased borrowing costs (e.g. increasing collateral requirements if the debtor's ability to settle the ARO is in doubt).[40]

Investors in the UK, US, and Europe are growing concerned about companies' lack of disclosure of critical accounting estimates and assumptions used to calculate liabilities for asset retirement obligations, and are pushing for greater transparency around clean-up costs.[41] While every investor will make its own judgments regarding the scale and pace of the global energy transition, it makes sense that investors in major energy companies want the annual report to provide clarity regarding the potential magnitude and timing of decommissioning liabilities.

II. MATERIAL MATTERS MISSING FROM AUDITOR'S REPORT

By providing an independent check on companies' financial reporting, the auditor ensures that companies' financial statements are free from material misstatement.[42] The election of the auditor at CNRL's AGM is therefore an important decision for shareholders to consider.

Auditors are responsible for ensuring all material risks have been considered in the preparation of the financial statements. Auditing standard setters have confirmed that auditors are required to include material climate-related matters when preparing and auditing the accounts.[43] However, PwC does not mention climate risk once in its auditor's report of CNRL's 2024 financial statements.[44]

Without evidence that PwC considered climate change and the energy transition in its audit, shareholders do not know whether PwC is meeting the International Standards on Auditing regarding the consideration of climate-related risks.[45] The International Auditing and Assurance Standards Board is clear that, "If climate change impacts the entity, the auditor needs to consider whether the financial statements appropriately reflect this."[46]

Similarly, Canada's public company audit regulator, the Canadian Public Accounting Board, has stated that, "to the extent that climate or sustainability related events or conditions [...] may contribute to the susceptibility of the financial statements to misstatement, auditors should be considering their impact."[47] In its 2024 CNRL auditor's report, PwC provides assurance that,

40 Ibid.
41 Sarasin and Partners, Letter to SEC on Inadequate Critical Accounting Assumption Disclosures (October 2024); See also: Financial Times, How US fossil fuel companies could be left holding an unexpectedly large bill (October 2024).
42 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement. (October 2020).
43 Ibid.
44 CNRL, Annual Report 2024, at 58-60.
45 IAASB, The Consideration of Climate-Related Risks in an Audit of Financial Statement. (October 2020).
46 Ibid, at 4.
47 Canadian Public Accountability Board, Impact of climate-related risks on financial statements audits, (March 2024).

> *the consolidated financial statements [...] present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2024 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.*[48]

Previously, PwC has published guidance on how it is adapting its auditing practices to play its part in ensuring that climate change is factored into audited financial statements.[49] PwC explains that,

> *Auditors begin their audit planning by assessing the risk of material misstatement of the financial statements, and that risk assessment is based on an understanding of the factors that could prevent an organisation from achieving its goals and objectives. Those factors may well include climate risk, and so that means that investors can expect most auditors to consider the potential impact of climate risk, to some extent at least, as part of their planning and risk assessment procedures.*[50]

Despite publishing this guidance, PwC offers no detail as to whether it applied these practices in its audit of CNRL's financial reporting.

As the auditor, PwC's responsibilities also extend to assessing whether CNRL's climate pledges and strategy are reflected in the financial statements and, if not, to highlight the inconsistency. And yet, PwC did not indicate to investors if its assessment included:

- Consideration of the impacts of climate-related matters when assessing critical audit matters, aspects of the companies' financial reporting that are especially complex and could be materially impacted by climate change and the energy transition;
- Procedures to address uncertainty regarding the financially material climate-related information CNRL has provided across its reporting; or
- Sensitivity tests to assess the impact of potential transition scenarios.

CNRL's 2023 Auditor's Report was similarly found to be lacking according to the analysis undertaken by Carbon Tracker for Climate Action 100+'s company assessment.[51]

NO EVIDENCE MATERIAL CLIMATE RISK CONSIDERED WHEN ASSESSING CAMS

PwC's 2024 Auditor's Report of CNRL's 2024 Financial Statements identified two critical audit matters (CAMs) that could be materially impacted by climate-related matters. As a member of the Net Zero Financial Service Providers Alliance, PwC is committed to:

48 CNRL, Annual Report 2024, at 58.
49 PwC Global, Weathering the storm of reporting: factoring climate change into audited financial statements (2023).
50 Ibid.
51 Climate Action 100+, 2023 CNRL Assessment.

> *take companies' net zero commitments and strategies into account when auditing the material judgements and related disclosures underpinning the financial statements to which the auditor's opinion relates, as required by professional standards.*[52]

However, PwC does not provide any evidence that it has upheld this commitment in its audit of CNRL's 2024 Financial Statements, for its CAMs or otherwise.

Critical audit matters are defined by the Public Company Accounting Oversight Board (PCAOB), whose auditing standards PwC follows, as "accounts or disclosures that are material to the financial statements and…involved especially challenging, subjective, or complex auditor judgment."[53] PwC's 2024 Auditor's Report identifies two CAMs: "*Acquisition of Chevron's Assets - Valuation of Acquired Property, Plant and Equipment*" and *"The Impact of Crude Oil and Natural Gas Reserves on Property, Plant and Equipment Assets in the North America Exploration and Production Segment"*.[54]

Both were identified as CAMs by PwC due to the significant judgment by management, including the use of specialists, when valuing the relevant assets. Specifically, management's estimates of crude oil and natural gas reserves made these matters critical to the audit. While the second CAM is specifically focused on CNRL's estimates of crude oil and natural gas reserves, reserve estimates are central to the first CAM as well. For the first CAM, the fair value of the acquisition is based on reserve estimates, as well as future commodity prices, expected production volumes, future development and production costs, and discount rates.[55]

According to the Centre for Audit Quality, not only are CAMs related to reserves common for the petroleum refining industry, so too are CAMs related to the environment and asset retirement.[56] Nonetheless, PwC's Auditor's Report only focused on reserves.

For oil and gas companies like CNRL, it is common to assess company valuation based on the company's proven reserves and the timeline it expects for developing them.[57] Reserves are "the volume of oil or natural gas that can be recovered under current technical and economic conditions."[58] They are the most important assets of oil and gas companies and are crucial to company valuation as they form the basis for future output.[59] In the audited financial statements, CNRL explains that,

> *Reserves estimates, evaluated by the Company's Independent Qualified Reserves Evaluators, are based on estimated future prices and production costs, expected future rates of production, and the timing and amount of future development expenditures, all of which are subject to many uncertainties, interpretations and judgements, including the potential impact of climate related matters and in accordance with related government regulations.*[60]

52 United Nations Principles for Responsible Investment, Net zero gets boost from global financial powerhouses, (2021).
53 PCAOB, AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, at Critical Audit Matters; See also CNRL, Annual Report 2024, at 59.
54 CNRL, Annual Report 2024, at 58-60.
55 Ibid.
56 Centre for Audit Quality, Critical Audit Matters: A Year in Review (2020) at 7.
57 Publish What You Pay - United States, The Disclosures Needed to Support a Managed Decline of Oil and Gas Production and an Informed Energy Transition, (2023).
58 Natural Resources Canada, Alberta's Shale and Tight Resources (2025).
59 Misund, B., & Osmundsen, P. Valuation of proved vs. probable oil and gas reserves. Cogent Economics & Finance (2017) 5(1); See also: Financial Post, Shell posts its worst performance on oil reserves since 2004 scandal, (February 2016).
60 CNRL, Annual Report 2024, at 43.

And yet, PwC makes no mention of considering climate change and the energy transition in the procedures it took to address either of the CAMs.[61] This runs counter to expectations of Climate Action 100+ companies that climate matters are subject to significant judgments and uncertainties, and accordingly, should be included within the auditor's disclosure of CAMs as applicable under international standards.[62]

In its audits of similar companies in other jurisdictions, PwC considers climate change and the energy transition in its auditor's reports. As the auditor of Eni S.p.A. in 2023, PwC highlighted only one critical audit matter, an *Evaluation of hydrocarbon reserves, [...] also considering the impacts of the energy transition and climate changes*.[63] Similar to the CAM that PwC identified in its audit of CNRL's financial statements, the CAM that PwC identified for Eni S.p.A. is focused on reserve estimates. PwC highlighted the impact that climate change and the energy transition can have on reserve estimates for its audit of Eni S.p.A. but did not mention these risks in its audit of CNRL.

For the Eni S.p.A. CAM, PwC explains that it "verified the consistency between the decarbonisation strategic objectives set by management and the main assumptions underlying the 2024-2027 Strategic Plan and the Medium/ Long-Term Plan to 2050."[64] In simple terms, Eni S.p.A.'s stated emissions reduction targets prompted PwC to explicitly consider the financial implications of these targets and discuss them in its auditor's report. In contrast, CNRL has previously stated its own emissions reduction targets but PwC does not indicate whether it has considered the financial implications of these targets in its Auditor's Report of CNRL's 2024 Financial Statements.

UNCERTAINTY REGARDING CNRL'S TRANSITION-RELATED DISCLOSURES AND ASSET RETIREMENT OBLIGATIONS NOT ADDRESSED

CNRL's past reports state that it is committed to achieving the long-term objective of net-zero emissions from its operations by 2050 and the interim goals of achieving a 50% reduction in North American Exploration & Production Methane Emissions by 2030 from a 2016 baseline; and, achieving a 40% reduction in corporate absolute Scope 1&2 GHG Emissions by 2035 from a 2020 baseline.[65]

However, its 2024 Financial Statements, and other post-Bill C-59 disclosures do not mention its 2030, 2035, or 2050 emissions reduction targets once. This raises both significant uncertainty for shareholders regarding whether CNRL still plans to meet its 2030, 2035, and 2050 commitments, as well as challenges in auditing future obligations and predicted revenues and expenditures.

61 Ibid, at 58-60.
62 Carbon Tracker, Climate Action 100+ Net Zero Company Benchmark: Climate Accounting and Audit Assessment (2023) at 10.
63 Eni S.p.A., Annual Report 2023, at 429.
64 Ibid at 431.
65 CNRL, Stewardship Report to Stakeholders, 2022 at 5, 15.

PwC does not flag this uncertainty, discuss any potential inconsistencies in the company's financial reporting, nor does it mention applying procedures to ascertain consistency. Under PCAOB auditing standards, the information in company reports, outside of the financial statements, is subject to the auditor's consistency check.[66]

As per Carbon Tracker's analysis of CNRL's 2023 financial statements, in our review of PwC's auditor's report we note that PwC did not flag apparent or potential inconsistencies that were noted across the company's reporting, including consideration of all relevant risks or the impact of CNRL's emission reduction targets on key financial metrics including:

- Asset recoverability,
- Remaining asset lives,
- Unit of Production rates,
- Carbon-related costs
- Existing asset retirement obligations, or
- The need to record additional asset retirement obligations.

PwC does not address the significant uncertainty regarding CNRL's total asset retirement obligations in its auditor's report. Given the significant variation amongst estimates of the company's current and future liabilities, a sensitivity analysis by the auditor could have addressed the estimation uncertainty. Indeed, we see Deloitte testing the reasonableness of Enquest's stated decommissioning liabilities in their 2023 audit.[67] They assess the validity of cost reduction factors that Enquest applies to its total decommissioning liabilities, including:

- Challenging management's assumptions within the decommissioning liability cost estimate by referencing available third-party data and benchmarking to peer and market rates; and
- Considering potentially contradictory evidence from actual decommissioning spend, changes in market rates, and industry publications.

NO INDICATION OF SENSITIVITY TESTS TO ASSESS POTENTIAL TRANSITION SCENARIOS

As was identified in Carbon Tracker's 2023 assessment, we note that PwC's 2024 auditor's report of CNRL's 2024 Financial Statements did not indicate that it conducted and provided the results of sensitivities for financial statement items that could be impacted by the energy transition. Despite management acknowledging the materiality of climate risk, PwC did not indicate that it conducted any sensitivity tests related to climate matters.

66 PCAOB, AS 2701: Auditing Supplemental Information Accompanying Audited Financial Statements (2014).

67 Independent auditor's report to the members of EnQuest PLC (2023).

Auditors conduct sensitivity tests during the audit of financial statements to assess how susceptible a company's financials are to changes in certain variables or assumptions, such as the company's stated commitments to achieve net-zero in its operations by 2050 or the potential quantitative impacts of achieving net zero on various productive assets using transition scenario commodity prices. PwC did not indicate that it conducted and provided the results of sensitivities for the relevant financial statement items to achieving CNRL's emissions reduction targets.

In contrast, Ernst and Young (EY) performed a sensitivity analysis due to climate change and energy transition risks in its 2023 audit of Shell. The key audit matters identified in EY's Auditor's Report included a climate-related key audit matter, *The impact of climate change and the energy transition on the Consolidated Financial Statements*. To assess this key audit matter, EY audited Shell's sensitivity disclosures regarding:

> *The carrying value of Shell's Upstream and Integrated Gas PP&E assets to a range of future oil and gas price assumptions, reflecting reduced demand scenarios due to climate change and the energy transition.*[68]

EY also considered Shell's future commodity price assumptions to energy transition scenarios, and found that even though Shell did not apply net zero energy price scenarios, they still fell within accepted accounting standards.[69] In terms of future carbon costs, EY tested Shell's assumptions across the top of the reasonable range and found that they added an additional 2% to forecasted operating expenses over the next 10 years, which they did not consider a material increase.[70]

In its audit, EY demonstrates the importance of the auditor reviewing management's use of climate scenario analysis and applying a sensitivity analysis to estimate potential climate-related risks, risk of stranded assets in relation to current investment projects, and energy transition risks in general.

Understanding the extent to which companies include the effects of climate matters on relevant quantitative inputs enables investors, as well as regulators, to better assess a company's resilience and make their own adjustments and sensitivities more accurately.[71] Auditors must also test the credibility of material assumptions and step in where assumptions underlying material line items, such as remediation costs, appear inconsistent with the financials.[72] As mentioned above, CNRL's reporting does not provide sufficient detail about whether and how climate or transition-related matters impact the timing of decommissioning assets and the recording of decommissioning liabilities. This is a significant risk to users of the CNRL Annual Report.

68 Shell plc, Financial Statements and Supplements (2023) at 231.
69 Ibid, at 233.
70 Ibid.
71 Carbon Tracker, Flying Blind: Accounting and Audit Regulation (2021).
72 CPA Canada, Essential Guide to Valuations and Climate Change (2020).

III. AUDITOR TENURE CONCERNS

Audit tenure is the number of years an auditor has audited a company. Based on data from proxy advisory firm Institutional Shareholder Services Inc., average auditor tenure amongst S&P 500 companies is approximately 26 years.[73] Certain shareholders, the PCAOB, and other audit industry observers "have raised concerns about excessive tenure potentially compromising the independence of auditors."[74] Academic studies have found that long audit firm tenure has a negative effect on audit quality because "longer audit firm tenure leads to less timely discovery and correction of misstatements."[75]

PwC has been the auditor of CNRL for 52 years.[76]

According to Carbon Tracker, auditors with shorter tenure score better in assessments of climate auditing than those with longer tenure – meaning auditors with shorter tenure were found to have more adequately assessed the financial impacts of climate and energy transition matters.[77] Of the companies that were assessed by Carbon Tracker across Australia, Europe, and the UK, most auditors were appointed for less than 20 years.[78] The maximum for the companies in these jurisdictions was 34 years.

EOS at Federated Hermes, a global stewardship service provider, encourages companies to "establish policies of mandatory rotation of the audit firm after 20 years' tenure, with a competitive re-tender process at the interim point of 10 years."[79] They recommend this because "independence, and potentially audit quality, is at risk when the same assurance provider is maintained for too long – whether the audit partner or audit firm."[80]

CONCLUSION

Climate change and the energy transition represent a significant risk to the oil and gas industry, particularly for a high-cost producer like CNRL. While CNRL faces significant asset retirement obligations in any scenario, the energy transition may result in these liabilities coming due far sooner than is currently reflected in the company's statements, and there is also uncertainty about the scale of liabilities in the first place. Yet, neither the company nor its auditor appear to address the financial impacts of these risks for the 2024 Annual Report (including the financial statements). Investors and lenders require this information to properly assess the risks and opportunities associated with climate change and the energy transition, and to make informed investment decisions.

These gaps in reporting are of importance to CNRL's investors, audit committee, and regulators. They give rise to uncertainty that potentially distorts the investment environment and needs to be addressed.

73 ISS Governance, Auditor Ratification (U.S.) (n.d.)
74 Ibid at 1.
75 Singer, Z. and Zhang, J. Auditor Tenure and the Timeliness of Misstatement Discovery, *The Accounting Review* (2018) at 315; See also: Singer, Z. and Zhang, J. Audit Tenure and the Timeliness of Misstatement Discovery, *The Harvard Law School Forum on Corporate Governance*, (2018).
76 CNRL, Annual Report 2024, at 60.
77 Carbon Tracker, Flying Blind: Accounting and Audit Regulation, (March 2025).
78 Ibid at 53.
79 EOS at Federated Hermes, North America Vote Guidelines (2024) at 9.
80 Ibid.