



March 9, 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir or Madam:

Re: Exposure Draft – Hedge Accounting

Canadian Natural Resources Limited ("Canadian Natural") is pleased to respond to the invitation to comment on the above noted exposure draft issued by the International Accounting Standards Board ("IASB").

Canadian Natural is a senior independent oil and gas exploration and production company headquartered in Calgary, Alberta, Canada, with operations in Western Canada, the North Sea, and offshore West Africa. Our shares are publicly traded on the Toronto Stock Exchange and the New York Stock Exchange. Along with other Canadian public companies, we have adopted International Financial Reporting Standards ("IFRS") for our external financial statements and other continuous disclosure documents effective January 1, 2011. Our first results under IFRS will be reported as at and for the three months ended March 31, 2011.

As a general overall comment, we agree with the exposure draft's objective of simplifying the hedge accounting requirements and aligning hedge accounting with an entity's risk management objectives, and believe that the proposals in the exposure draft move the hedge accounting guidance in IFRS in that direction. However, we do have concerns with certain of the proposals in the exposure draft, and these concerns are discussed in our responses to specific questions posed by the IASB, attached as Appendix A. These concerns include:

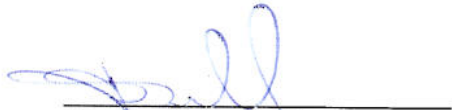
1. We believe that the proposed standard should include more guidance on hedge effectiveness in those situations when quantitative analysis is required to confirm effectiveness.
2. We disagree that entities should not be able to voluntarily discontinue hedge accounting.
3. We believe that the treatment of the time value of options that are part of hedging strategies commonly referred to as "costless collars" should be treated similarly to the time value of other options.
4. We believe that certain of the proposed disclosures could be commercially sensitive, will be costly to prepare and will not provide much benefit to the users, and therefore should be reconsidered.

Canadian Natural Resources Limited

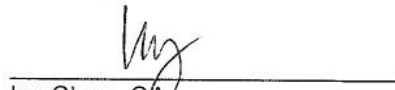
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If you have any questions or wish to discuss our comments in more detail, please do not hesitate to contact the undersigned.


Sincerely,



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Appendix – Responses to the Invitation to Comment

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

We agree with the exposure draft's objective of simplifying the hedge accounting requirements and aligning hedge accounting with an entity's risk management objectives, and believe that the proposals in the exposure draft move the hedge accounting guidance in IFRS in that direction.

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

No comment.

Question 3

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

No comment.

Question 4

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (ie a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

We agree with the exposure draft's proposal that an entity should be allowed to designate changes in the cash flows or fair value of an item attributable to a specific risk or risks (i.e. a risk component), provided that the risk component is separately identifiable and reliably measurable. In the oil and gas industry, derivative financial instruments are often used to hedge commodity price changes against benchmark crude oil prices such as West Texas Intermediate ("WTI") or Brent, which represent specific grades of crude oil sold in particular locations. The actual price an entity receives for its crude oil will usually be based on relevant benchmark prices, but will differ due to transportation and quality differentials. Under existing hedge accounting guidance, it was sometimes difficult to establish hedge effectiveness due to these differentials. By allowing components to be hedged, an entity will have the option to hedge the component of the price changes that relate to changes in the benchmark price.

Question 5

- (a) Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?*
- (b) Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?*

We agree with the exposure draft's proposal that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item. In the oil and gas industry, daily production

volumes can fluctuate, making cash flow hedging designations based on percentages of production impractical. Using a layering approach for designating cash flow hedges of commodity prices is the only practical approach for the industry to achieve effective hedge accounting.

We disagree with the exposure draft's proposal that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge. It is commonplace throughout North America for investment grade entities to issue debt that contains provisions for early repayment subject to "make whole" payments. The standard should clarify whether the use of a make-whole provision designed to keep the bondholder at equal value in the event of early redemption is in fact an option for purposes of the Standard. The existence of the ability to make early repayments does not impact interest rate volatility, and therefore should not preclude hedge accounting as long as the debt remains outstanding.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

We agree with the exposure draft's proposal to allow qualitative assessments of effectiveness. In situations where all critical terms match, this proposal will greatly simplify the effectiveness assessment process. However, we are concerned that in situations where not all critical terms match and a quantitative assessment is required, the exposure draft does not provide any guidance as to how to assess what constitutes an effective hedge relationship. In the absence of specific guidance in the standard, audit firms may develop their own bright line tests to determine what constitutes an effective test. These tests may revert back to the existing "bright line" tests, or firms may establish their own new thresholds, which could be different between firms and lead to inconsistent application in practice. We encourage the IASB to include some specific guidance on effectiveness in quantitative assessments, to facilitate more consistent application of the standard.

Question 7

- (a) *Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?*
- (b) *Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?*

We agree with the exposure draft's proposal to allow an entity to rebalance a hedging relationship, provided that the risk management objective remains the same. A change in circumstances should not cause an entity to cease hedge accounting entirely when the underlying objective remains the same. Rebalancing to reflect the change in circumstances is closer aligned to the way entities manage their risk.

Question 8

- (a) *Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?*
- (b) *Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis*

of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

We disagree with the proposal in the exposure draft that hedge accounting should be discontinued only when the hedging relationship ceases to meet the qualifying criteria. The decision to designate a hedge is a voluntary one, and so an entity should be able to voluntarily discontinue hedge accounting.

Question 9

- (a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?*
- (b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?*
- (c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?*

We agree with the proposal for fair value hedge accounting to recognize the gain or loss on the hedging instrument and the hedged item in other comprehensive income, with the ineffective portion of the gain or loss transferred to profit or loss. However, we do not agree with the proposal to present the gain or loss on the hedged item as a separate line item in the statement of financial position. We believe that this will unnecessarily expand and complicate the balance sheet, making it more confusing for users. We propose that the hedged item be shown net on the statement of financial position, with the gross value of the hedged item and the gain or loss disclosed in the notes.

Question 10

- (a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (eg like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?*
- (b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?*
- (c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (ie the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?*

We agree with the principle that the time value of an option should be accumulated in other comprehensive income and then reclassified to the initial measurement of the non-financial asset or into profit or loss when the hedged sale affects profit or loss. However, we disagree with the exposure draft's proposal that this treatment should only be available when the initial measurement of the option includes a transaction cost. Commodity sales are frequently hedged with what are commonly referred to as "costless collars", which are offsetting put and call options on the sale and purchase of the commodity, and which have a combined zero net cost at

inception. However, immediately after inception, the collars have value, as commodity prices fluctuate. Time value within the collar will never be realized, and requiring this time value to be recognized in profit and loss, only to be reversed later. We believe that the time value of options of this nature should also be deferred in other comprehensive income until the hedged transaction is realized, not just time value for options that include time value as an initial transaction cost.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

No comment.

Question 12

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement eg in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

No comment.

Question 13

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

We disagree with the proposed disclosure requirements included in paragraph 46. We believe that the information in the proposed disclosure is commercially sensitive and should not be included in public disclosures. Also, since the proposed disclosure involves forecasts, we believe that it will be difficult for auditors to provide an audit opinion on the disclosures.

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

We disagree with the proposal that derivative accounting should apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. We believe that this would add unnecessary complexity to the accounting for these transactions, as potentially all of these contracts will have to be specifically designated as for own use, rather than the automatic classification as own use under IAS 39. We believe that the "own use" scope exception in IAS 39 should be retained.

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

No comment.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

We agree with the proposed transition requirements that require prospective application of the standard, and which consider existing hedging relationships under IAS 39 that meet the criteria for hedge accounting in the exposure draft to be regarded as continuing hedging relationships.