

Extractive Sector Transparency Measures Act:

ANNUAL REPORT 2016

Introduction

This Report provides an overview of the payments to governments made by Devon Operating Company Ltd. and its subsidiaries Devon Canada Corporation and Devon NEC Corporation (collectively “Devon Canada”) for the 2016 fiscal year (January – December) as required under Canada’s *Extractive Sector Transparency Measures Act* (the “Act”).

The Act requires all extractive entities active in Canada that meet the thresholds set out in Section 8 of the Act (each a “Reporting Entity”) to publicly disclose on an annual basis specific payments made to all governments in Canada and abroad by such Reporting Entity.

Relevant Information

The Minister requires, as prescribed in the Act and the Technical Reporting Specifications issued by the Minister in regards to the Act and found online at www.nrcan.gc.ca/mining-materials/estma/18192 (the “Reporting Specifications”), that a Reporting Entity is to report payments via two different categories: by “Payee” and by “Project”.

Payee

A Payee is either: (a) any government in Canada or in a foreign state; (b) a body that is established by two or more governments; or (c) any trust, board, commission, corporation or body or authority that is established to exercise or perform a power, duty or function of government for a government.

In Canada, Devon Canada considers this to be the Federal Government, the relevant Provincial Governments, and the relevant Municipal Governments in the jurisdictions where we develop our energy resources. This will also include Aboriginal Governments, however, the Act is clear that Reporting Entities do not have to report on these Payees until after June 1, 2017.

Project

A Project is defined in the Reporting Specifications as operational activities which are governed by a single contract, licence, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government. Additionally, if multiple such agreements are substantially interconnected, together they shall be considered one Project.

Based on this guidance, Devon Canada is reporting six separate Projects: Jackfish, Bonnyville, Pike, Corporate, New Ventures and Technology and Divested Properties. For clarity, as Pike is a 50/50 joint venture with BP Canada Energy Group ULC (“BP”) and as Devon NEC Corporation is the operator of this joint venture, Devon Canada is responsible for reporting all payments (including BP’s 50% share) to Payees in connection with this joint venture.

Devon Canada Projects

Jackfish

The reporting of this Project will include the payments made to Payees in regards to Devon Canada’s ongoing and developing Steam Assisted Gravity Drainage (SAGD) Jackfish operations in the southern Athabasca oil sands region.

Bonnyville

The reporting of this Project will include the payments made to Payees as a result of Devon Canada’s Cold Heavy Oil Production in Sand (CHOPS) operations found in the Bonnyville and Lloydminster areas of Alberta.

Pike

The reporting of this Project will include the payments made to Payees in regards to the joint venture between Devon Canada and BP for the development and operation of the Pike SAGD project in the southern Athabasca oil sands region.

Corporate

The reporting of this Project will include the payments made to Payees by Devon Canada that are not project specific. For instance, business tax or corporate tax payments paid would fall into this Project.

New Ventures and Technology

The reporting of this Project will include the payments made to Payees in regards to Devon Canada’s ongoing research and development, pilot projects, and other related experimental work and processes pertaining to exploration and production operations in Alberta.

Divested Properties

The reporting of this Project will include the payments made to Payees in regards to assets that were previously divested by Devon Canada.

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Payment

Payment means – whether monetary or in-kind – a payment that is made to a Payee in relation to the commercial development of oil, gas or minerals and that fall within any of the following categories:

- Taxes, other than consumption taxes and personal income taxes;
- Royalties;
- Fees, including rental fees, entry fees and regulatory charges as well as fees or other consideration for licences, permits, or concessions;
- Production entitlements;
- Bonuses, including signature, discovery and production bonuses;
- Dividends other than dividends paid as ordinary shareholders; and
- Infrastructure improvement payments.

Taxes

A tax generally means any type of government charge that is enforceable by law, imposed under statutory authority, levied by a public body and intended for a public purpose. The tax category is intended to capture income, profit and production tax payments in relation to the commercial development of oil, gas or minerals.

Fees

The term “fee” is left very broad in the Act to capture any other payments made for the commercial development of oil, gas or minerals. Usually these are sums paid as consideration for acquiring a licence, permit or approval for gaining access to an area where extractive activities are performed.

Production Entitlements

This refers to a Payee’s share of oil, gas or mineral production under a production sharing agreement or similar contractual or legislated arrangement. In certain cases, production entitlements are paid on an in-kind basis.

Bonuses

This is a broad category but usually refers to signing, discovery, production and any other type of bonus paid to a Payee in relation to the commercial development of oil, gas or minerals.

Dividends

These are dividend payments other than dividends paid to a government as an ordinary shareholder of an entity unless paid in lieu of production entitlements or royalties.

Infrastructure Improvements

These are payments made to fulfill obligations, contractual or otherwise, which relate to the construction of infrastructure not substantially dedicated for the use of extractive activities. For instance, if a company is obligated to build a road on behalf of a municipality which services a local school, that would be considered an infrastructure improvement payment.

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Payments by Payee										
Country	Payee Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total amount paid to Payee	Notes
Canada	Canadian Federal Government	\$418,149		\$5,743,500					\$6,161,649	RECEIVER GENERAL FOR CANADA
Canada	Provincial Government of Alberta		\$44,011,253	\$3,922,003				\$232,709	\$48,165,965	ALBERTA BOILERS SAFETY ASSOCIATION, ALBERTA ENERGY REGULATORS, ALBERTA ONE-CALL CORPORATION, ALBERTA PETROLEUM MARKETING, GOVERNMENT OF ALBERTA, MINISTER OF FINANCE, MINISTER OF FINANCE & CORPORATE, PROVINCE OF ALBERTA, DEPARTMENT OF ENERGY. TIK royalty valuation calculated using corporate average price.
Canada	Municipal Government of Alberta	\$32,731,116						\$728,197	\$33,459,313	BIRCH HILLS COUNTY, CITY OF LLOYDMINSTER, CLEARWATER COUNTY, COUNTY OF MINBURN NO. 27, COUNTY OF ST. PAUL NO. 19, COUNTY OF STETTLER NO 6, COUNTY OF TWO HILLS NO.21, COUNTY OF VERMILION RIVER #24, COUNTY OF VERMILION RIVER#24 GAS, FLAGSTAFF COUNTY, LAC LA BICHE COUNTY, MACKENZIE COUNTY, MUNICIPAL DISTRICT OF BONNYVILLE, MUNICIPAL DISTRICT OF CLEAR HILLS #21, MUNICIPAL DISTRICT OF GREENVIEW, MUNICIPAL DISTRICT OF OPPORTUNITY, MUNICIPAL DISTRICT OF RANCHLAND NO. 46, MUNICIPAL DISTRICT OF TABER NO. 14, MUNICIPAL DISTRICT OF VERMILION, MUNICIPAL DISTRICT OF WAINWRIGHT, MUNICIPALITY OF CROWSNEST PASS, RED DEER COUNTY, REGIONAL MUNICIPALITY OF WOOD BUFFALO, SMOKY LAKE COUNTY, TOWN OF ROCKY MOUNTAIN HOUSE, TOWN OF VERMILION, YELLOWHEAD COUNTY
Canada	Provincial Government of BC			\$610,964					\$610,964	OIL AND GAS COMMISSION, MINISTRY OF ENERGY AND MINES, MINISTER OF FINANCE
	Total								\$88,397,891	

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Payments by Project										
Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total amount paid by Project	Notes
Canada	Jackfish	\$22,958,606	\$17,635,032	\$1,256,039				\$160,015	\$42,009,692	
Canada	Bonnyville	\$9,067,756	\$26,255,705	\$1,841,708				\$651,393	\$37,816,563	TIK royalty valuation calculated using corporate average price.
Canada	Pike	\$678,232		\$655,434				\$149,497	\$1,483,163	
Canada	Corporate	\$294,417		\$5,744,881					\$6,039,298	
Canada	New Ventures and Technology	\$134,397		\$687,960					\$822,357	
Canada	Divested Properties		\$120,517	\$106,300					\$226,817	
	Total								\$88,397,891	