Extractive Sector Transparency Measures Act Report

Reporting Year: From: 1/1/2016 To: 12/31/2016
Reporting Entity Name: Progress Energy Canada Ltd.
Reporting Entity ESTMA Identification Number: E662962
Subsidiary Reporting Entities (if necessary)

☐ Attestation (by Reporting Entity)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest I have reviewed the information contained in the ESTMA report for the entity(ies) listed above. Based on my knowledge, and having exercised reasonable diligence, the information in the ESTMA report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

☑ Attestation (through independent audit)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.

The auditor expressed an unmodified opinion, dated 5/29/2017, on the ESTMA report for the entity and period listed above.

The independent auditor’s report is included within this PDF report.

Director or Officer of Reporting Entity Full Name: Kevin Georget
Position Title: Chief Financial Officer
Date: 5/29/2017
## Reporting Year
From: 1/1/2016  
To: 12/31/2016

**Reporting Entity Name**  
Progress Energy Canada Ltd.

**Reporting Entity ESTMA Identification Number**  
E662962

### Subsidiary Reporting Entities

<table>
<thead>
<tr>
<th>Canada</th>
<th>Payee Name</th>
<th>Taxes</th>
<th>Royalties</th>
<th>Fees</th>
<th>Production Entitlements</th>
<th>Bonuses</th>
<th>Dividends</th>
<th>Infrastructure Improvement Payments</th>
<th>Total Amount paid to Payee</th>
<th>Notes</th>
</tr>
</thead>
</table>
|        | Government of Alberta | $6,970,000 | $12,520,000 | $13,530,000 | - | - | - | - | $33,020,000 | Government of BC contains the following:  
- BC LAND TITLE & SURVEY  
- BC OIL & GAS COMMISSION  
- MINISTER OF FINANCE (multiple departments)  
- PROVINCE OF BC RURAL PROPERTY TAX  
- WORK SAFE BC  
Calculation of in-kind oil royalties are described in Note 1. |
|        | Government of British Columbia | $1,450,000 | $10,000 | - | - | - | - | - | $1,460,000 | |
|        | Municipal District of Greenview | - | - | - | - | - | - | - | $150,000 | |
|        | Municipal District of Hudson's Hope | - | - | - | - | - | - | - | $150,000 | |
|        | Total | $8,570,000 | $18,990,000 | $14,560,000 | $30,000 | - | - | - | $42,150,000 | |

Please refer to "Note 1 - Financial Reporting Framework" for explanatory information and disclosures related to this Annual Report.
### Payments by Project

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Taxes</th>
<th>Royalties</th>
<th>Fees</th>
<th>Production Entitlements</th>
<th>Bonuses</th>
<th>Dividends</th>
<th>Infrastructure Improvement Payments</th>
<th>Total Amount paid by Project</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Basin Business Unit</td>
<td>$1,450,000</td>
<td>$6,470,000</td>
<td>$1,030,000</td>
<td></td>
<td>$30,000</td>
<td>-</td>
<td></td>
<td>$8,980,000</td>
<td>Calculation of in-kind oil royalties are described in Note 1.</td>
</tr>
<tr>
<td>Progress Sasol Montney Partnership</td>
<td>2,430,000</td>
<td>1,730,000</td>
<td>1,820,000</td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
<td>5,980,000</td>
<td>Certain payments are also disclosed by the Partnership (ESTMA ID: E088016) in their separate report for the period from July 1, 2015 – June 30, 2016.</td>
</tr>
<tr>
<td>North Montney Joint Venture</td>
<td>4,690,000</td>
<td>10,790,000</td>
<td>11,710,000</td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
<td>27,190,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,570,000</td>
<td>$18,990,000</td>
<td>$14,560,000</td>
<td></td>
<td>$30,000</td>
<td>-</td>
<td></td>
<td>$42,150,000</td>
<td></td>
</tr>
</tbody>
</table>

Please refer to "Note 1 - Financial Reporting Framework" for explanatory information and disclosures related to this Annual Report.
Note 1 – Financial Reporting Framework

(a) Basis of accounting:

The Schedule of Payments by Payee and the Schedule of Payments by Project (collectively “the Schedules”) prepared by Progress Energy Canada Ltd. (the “Company”) for the year ended December 31, 2016 has been prepared in accordance with the financial reporting provisions in Section 9 of the Extractive Sector Transparency Measures Act, Section 2.3 of the Extractive Sector Transparency Measures Act – Technical Reporting Specifications and Sections 3.1 to 3.6 of the Extractive Sector Transparency Measures Act – Guidance (collectively the “financial reporting framework”).

The Schedules are prepared to provide information to the Directors of Progress Energy Canada Ltd. and the Minister of Natural Resources Canada to assist in meeting the requirements of the Extractive Sector Transparency Measures Act. As a result, the schedules may not be suitable for another purpose.

(b) Significant accounting policies:

i) Cash basis

The Schedules have been prepared on a cash basis of accounting, as required by the financial reporting framework, and exclude any accruals related to payments due to governments (as defined in the financial reporting framework).

The Schedules include all cash payments made, without inclusion of cash inflows from a government. Where the Company makes a payment to a government that is net of credits from that government, the net payment amount has been presented.

ii) Projects

The Company has aligned its projects with its cash generating units as determined for financial statement reporting purposes.

- North Montney Joint Venture – focused on development of Montney natural gas in North East British Columbia (“NEBC”) for sale within North America and to Pacific NorthWest LNG LP, upon the start of commercial operations;
- Progress Sasol Montney Partnership – focused on appraising and developing Montney natural gas in NEBC for sale within North America; and
- Deep Basin Business Unit – focused on Dunvegan oil production within Alberta.

iii) Operator

The Company has reported all payments made by it, on its own behalf and in its role as operator, directly to the government on a ‘gross’ basis. Amounts paid by third party operators, who are subject to the financial reporting framework, have not been included in the Schedules.

iv) Take in kind payments

The Company has valued in-kind payments based on the cost to the Company, consistent with the Company’s financial reporting calculations.

v) Excluded payments

Certain payments related to the operation of the Company’s head office, payments made to governments for commercial services or payments made to governments which are not related to the commercial extraction of oil and natural gas resources have been excluded from the Schedules, as described in the financial reporting framework.
INDEPENDENT AUDITORS’ REPORT

To the Directors of Progress Energy Canada Ltd. and the Minister of Natural Resources Canada

We have audited the accompanying Schedule of Payments by Payee totaling $42,150,000 and the Schedule of Payments by Project totaling $42,150,000 of Progress Energy Canada Ltd. for the year ended December 31, 2016 and notes, comprising a summary of significant accounting policies (together “the schedules”). The schedules have been prepared by management in accordance with the financial reporting provisions in Section 2, 3, 4 and 9 of the Extractive Sector Transparency Measures Act, Section 2.3 of the Extractive Sector Transparency Measures Act – Technical Reporting Specifications and Sections 3.1 to 3.6 of the Extractive Sector Transparency Measures Act – Guidance (collectively, the “financial reporting framework”).

Management’s Responsibility for the Schedules

Management is responsible for the preparation of the schedules in accordance with the financial reporting framework referred to above, and for such internal control as management determines is necessary to enable the preparation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these schedules based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and
the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule of Payments by Payee amounting to $42,150,000 and the Schedule of Payments by Project amounting to $42,150,000 of Progress Energy Canada Ltd. for the year ended December 31, 2016 are prepared, in all material respects, in accordance with the financial reporting framework referred to above.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the schedules, which describes the basis of accounting. The schedules are prepared to provide information to the Directors of Progress Energy Canada Ltd. and the Minister of Natural Resources Canada to assist in meeting the requirements of the Extractive Sector Transparency Measures Act. As a result, the schedules may not be suitable for another purpose.

Our report is intended solely for the Directors of Progress Energy Canada Ltd. and the Minister of Natural Resources Canada and should not be used by parties other than the Directors of Progress Energy Canada Ltd. and the Minister of Natural Resources Canada.

Chartered Professional Accountants
May 29, 2017
Calgary, Canada