SEVEN GENERATIONS
ENERGY

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

March 7, 2017

Independent Auditor's Report

To the Shareholders of
Seven Generations Energy Ltd.

We have audited the accompanying consolidated financial statements of Seven Generations Energy Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Seven Generations Energy Ltd. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Balance Sheets
(millions of Canadian dollars)

As at December 31,	Notes	**2016**	2015
Assets			
Current assets			
Cash and cash equivalents	8	**630.8**	405.0
Accounts receivable		**181.9**	76.4
Risk management contracts	22	**—**	98.6
Deposits and prepaid expenses		**17.7**	12.4
		830.4	592.4
Risk management contracts	22	**—**	53.0
Oil and natural gas assets	9	**5,750.1**	3,113.5
Investment in associate	7	**21.9**	—
		6,602.4	3,758.9
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	**244.5**	187.8
Risk management contracts	22	**71.7**	18.3
		316.2	206.1
Risk management contracts	22	**77.7**	10.0
Senior notes	12	**2,111.9**	1,546.8
Other long-term liabilities	13	**165.0**	80.0
Deferred income taxes	14	**108.8**	129.4
		2,779.6	1,972.3
Equity			
Share capital	15	**3,830.5**	1,775.7
Contributed surplus		**69.4**	61.8
Deficit		**(77.1)**	(50.9)
		3,822.8	1,786.6
		6,602.4	3,758.9

Commitments and contingencies (Note 25)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

signed "Dale Hohm" *signed "Kent Jespersen"*

Dale Hohm Kent Jespersen

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Operations and Comprehensive Loss

(millions of Canadian dollars, except per share amounts)

Years ended December 31,	Notes	**2016**	2015
Revenues			
Liquids and natural gas sales		**1,246.9**	591.9
Royalties expense	5	**(6.7)**	(57.9)
		1,240.2	534.0
Risk management contracts			
Realized gain	22	**90.8**	150.6
Unrealized loss	22	**(271.6)**	(15.9)
Other income		**4.7**	6.7
		1,064.1	675.4
Expenses			
Operating	18	**181.9**	101.2
Transportation, processing and other	19	**238.6**	59.0
General and administrative	20	**47.1**	24.3
Depletion, depreciation and amortization	9	**483.6**	283.5
Stock based compensation	16	**18.0**	14.0
Finance expense	21	**138.7**	102.1
Foreign exchange (gain) loss		**(18.2)**	219.3
Gain on disposition of assets		**—**	(2.6)
Market access initiatives	7	**8.0**	—
		1,097.7	800.8
Loss before taxes		**(33.6)**	(125.4)
Income Taxes			
Deferred income tax (recovery) expense		**(8.8)**	61.8
Current income tax expense		**1.4**	0.1
	14	**(7.4)**	61.9
Net loss and comprehensive loss		**(26.2)**	(187.3)
Net loss per share			
Basic	17	**(0.09)**	(0.75)
Diluted	17	**(0.09)**	(0.75)

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)

	Notes	Share capital	Contributed surplus	Retained earnings (deficit)	Total
Balance at December 31, 2014		1,719.8	54.7	136.4	1,910.9
Net loss for the year		—	—	(187.3)	(187.3)
Tax effect of share issue costs	15	1.1	—	—	1.1
Stock based compensation	16	—	20.0	—	20.0
Exercise of stock options and performance warrants	15,16	54.8	(12.9)	—	41.9
Balance at December 31, 2015		1,775.7	61.8	(50.9)	1,786.6
Net loss for the year		**—**	**—**	**(26.2)**	**(26.2)**
Issue of common shares	15	**1,047.7**	**—**	**—**	**1,047.7**
Issue of common shares for Acquisition	6	**965.1**			**965.1**
Share issue costs (net of deferred tax)	15	**(31.8)**	**—**	**—**	**(31.8)**
Stock based compensation	16	**—**	**25.7**	**—**	**25.7**
Exercise of stock options and performance warrants	15,16	**73.8**	**(18.1)**	**—**	**55.7**
Balance at December 31, 2016		**3,830.5**	**69.4**	**(77.1)**	**3,822.8**

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Cash Flows

(millions of Canadian dollars)

Years ended December 31,	Notes	**2016**	2015
Operating activities			
Net loss for the year		**(26.2)**	(187.3)
Items not affecting cash:			
Deferred income tax (recovery) expense		**(8.8)**	61.8
Depletion, depreciation and amortization	9	**483.6**	283.5
Unrealized loss on risk management contracts	22	**271.6**	15.9
Stock based compensation	16	**18.0**	14.0
Non-cash finance expenses	21	**3.6**	2.1
Gain on disposition of assets		**—**	(2.6)
Equity loss from investment	7	**3.9**	—
Unrealized foreign exchange loss (gain)		**(16.7)**	227.2
Onerous lease provision	20, 13	**3.6**	—
Changes in non-cash working capital	24	**(88.0)**	(34.5)
Cash provided by operating activities		**644.6**	380.1
Financing activities			
Issue of shares for cash	15	**1,047.7**	—
Issue of shares on equity compensation exercises	15,16	**55.7**	41.9
Share issue costs	15	**(43.7)**	—
Issue of debt	12	**—**	515.1
Debt issue costs	12	**—**	(11.3)
Cash provided by financing activities		**1,059.7**	545.7
Investing activities			
Oil and natural gas asset additions	9	**(978.0)**	(1,309.0)
Acquisitions	6	**(505.1)**	—
Investments	7	**(25.8)**	—
Changes in non-cash working capital	24	**30.9**	(61.0)
Cash used in investing activities		**(1,478.0)**	(1,370.0)
Unrealized foreign exchange (gain) loss on cash held in foreign currencies		**(0.5)**	1.1
Increase (decrease) in cash and cash equivalents		**225.8**	(443.1)
Cash and cash equivalents, beginning of year		**405.0**	848.1
Cash and cash equivalents, end of year		**630.8**	405.0

Supplementary disclosure of cash flow information (Note 24)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2016 and 2015
(all tabular amounts in millions of Canadian dollars, except share, per share and price information)

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1. NATURE OF BUSINESS

Seven Generations Energy Ltd. (“Seven Generations” or the “Company”) is incorporated under the *Canada Business Corporations Act* and commenced operations in 2008. Seven Generations is a Canadian company focused on the exploration, development and production of oil and natural gas properties in western Canada. Seven Generations’ principal place of business is located at 4400, 525 – 8 Avenue SW Calgary, AB T2P 1G1. The Company’s Class A common shares ("Common Shares") are publicly traded on the Toronto Stock Exchange under the symbol “VII”.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value as explained in Note 22. The consolidated financial statements are presented in Canadian dollars, which is Seven Generations’ functional currency.

These consolidated financial statements include the accounts of Seven Generations and its wholly owned subsidiary, Seven Generations Energy (US) Corp. ("Seven Generations US"). All inter-entity transactions have been eliminated.

The preparation of the consolidated financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5.

The consolidated financial statements were approved and authorized for issue by the Board of Directors (the "Board") on March 7, 2017.

Certain comparative figures from prior periods have been reclassified to conform to the current year's presentation. Decommissioning liabilities and deferred credits have been disclosed as Other Long-Term Liabilities in Note 13. Marketing gains have been disclosed with Transportation, Processing and Other in Note 19, previously included in Other income.

3. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

(a) Oil and natural gas assets and other fixed assets
Oil and natural gas properties are carried at cost, less accumulated depletion and depreciation and accumulated impairment losses, if any.

Oil and natural gas properties represent all costs directly attributable to development of oil and natural gas reserves after technical feasibility and commercial viability have been established. These include lease acquisitions, geological and geophysical costs, drilling and completion costs, production equipment, pipelines and gathering equipment, processing facilities and associated turnarounds, other directly attributable costs, borrowing costs of qualifying assets and estimates of decommissioning liabilities.

Depletion of oil and natural gas assets (excluding natural gas plants) are calculated using the unit-of-production method based on estimated recoverable reserves before royalties. Natural gas reserves and production are converted to barrels of oil equivalent based upon the relative energy content (6:1). The depletion base includes capitalized costs, plus future costs to be incurred in developing estimated recoverable proved and probable reserves and excludes the cost of assets not yet available for use. Natural gas plants are depreciated on a straight-line basis over their estimated useful lives, which may be the same as the estimated life of the underlying reserves. Undeveloped land is not depreciated.

Other fixed assets include office furniture and fixtures, computer equipment and field vehicles. They are carried at cost and depreciated over their estimated useful lives. Depreciation is recognized in net income (loss) on a straight-line basis or declining balance basis over the estimated useful lives of the fixed assets. The useful lives for depreciable assets are as follows:

Gas plants	40 years
Leasehold improvements	Lease term
Computer Software	100% declining balance
Computer Hardware	50% declining balance
Vehicles	30% declining balance
Furniture, fixtures and equipment	20% declining balance

(b) Exploration and evaluation assets
Exploration and evaluation ("E&E") assets are those investments for an area or project for which technical feasibility and commercial viability have not yet been determined. The Company capitalizes all E&E costs after the right to explore has been obtained, including geological and geophysical costs, land acquisition costs and costs for drilling, completion and testing of exploration wells. When technical feasibility and commercial viability is established, the associated E&E assets are tested for impairment at the lower of cost and the estimated recoverable amount and are transferred to property, plant and equipment. Any costs in excess of the estimated recoverable amount are charged to expense.

E&E assets are not amortized.

Farm-in and farm-out arrangements for E&E properties are accounted for at cost. No gain or loss is recognized on the disposition of a working interest through a farm-out arrangement.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs, other than for financial instruments at fair value through profit and loss, are added to or deducted from the fair value of the financial instrument on recognition. Transaction costs for financial instruments at fair value through profit and loss are recognized immediately in net income (loss).

Measurement in subsequent periods is dependent upon whether the financial instrument has been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables or other financial liabilities. The classification is determined at the time of initial recognition depending upon of the the nature and purpose of the financial instrument.

Financial instruments designated as fair value through profit and loss are subsequently measured at fair value with changes to those fair values recognized immediately in net income (loss). Available for sale financial assets are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Amounts recognized in other comprehensive income (loss) for available for sale financial assets are transferred to net income (loss) when realized through disposal or impairment. Held to maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method less any impairment.

An embedded derivative is a component of a contract that modifies the cash flows of the contract. These hybrid contracts are considered to consist of a host contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative unless the economic characteristics and risks of the embedded derivative are closely related to the host contract. The Company has no material embedded derivatives.

Impairment

(a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net income (loss). An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The impairment reversal is recognized in net income (loss).

(b) Non-Financial assets

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset’s recoverable amount is estimated. For goodwill, an impairment test is completed each year, or when indicators of impairment exist. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Oil and natural gas assets

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves.

For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a prorata basis.

Investment in associate
The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in net income (loss). Upon loss of significant influence over the associate, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in net income (loss).

Provisions

(a) General
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows where the effect of the time value of money is material.

(b) Decommissioning liabilities
The Company records a liability for obligations associated with the decommissioning of its oil and natural gas assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. Actual costs incurred upon settlement of the obligations are charged against the liability.

(c) Onerous contracts
A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is initially recorded at the present value of the estimated future cash flows associated with the contract and is subsequently adjusted at the end of each period to reflect the passage of time and changes in the estimated cash flows underlying the obligation as well as any changes in the discount rate. The net amount of actual costs incurred and sublease recoveries earned are charged against the onerous contract provision.

Income taxes

Income tax comprises current and deferred taxes. Income tax is recognized in net income (loss), except when it relates to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the related tax expense or recovery is also recognized in other comprehensive income (loss) or equity, respectively.

Current income tax expense is the expected cash tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all temporary differences, except for temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting net income (loss). Deferred income tax is determined on a non-discounted basis using tax rates that have been enacted or substantively enacted at the reporting date and that are expected to apply in the periods that the temporary differences reverse. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock based compensation

Compensation cost attributable to stock options, performance warrants, deferred share units ("DSUs") and performance and restricted share units ("PRSUs") granted to employees, officers, and directors of Seven Generations is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase in contributed surplus. Fair value is determined using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of stock options, performance warrants and PRSUs that vest, whereas DSUs vest immediately. The performance share units ("PSUs") may be granted with certain market conditions, specified at the grant date as determined by the Company's Board of Directors. If the Company satisfies the market conditions, a pre-determined adjustment factor is applied to PSUs eligible to vest at the end of the performance period, based upon the relative share price performance of the Company compared to a peer group over the performance period. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor. If the actual final adjustment factor is higher than estimated at grant, additional expense is recognized on vesting for the incremental fair value.

Upon the exercise of the stock options, performance warrants, DSUs, PSUs and Restricted Share Units ("RSUs"), consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company's DSU and PRSU plans allow the holder of a DSU or PRSU to receive a cash payment or its equivalent in fully-paid common shares, at the Company's discretion, equal to the fair market value of the Company's Common Shares calculated at the date of such payment. The Company does not intend to make cash payments under the DSU or PRSU plans and, as such, the units are accounted for within equity.

Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate in effect when the asset was acquired or the liability was incurred. Revenues and expenses are translated at average exchange rates for the period. Translation gains and losses are recognized in net income (loss) in the period in which they are incurred and are reported on a net basis.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity of 90 days or less.

Revenue recognition

Revenue from the sale of oil and natural gas is recognized when risk and rewards of ownership are transferred from the Company to its customers.

Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use. A qualifying asset is an asset that requires a period of one year or greater to complete or prepare for its intended use. All other borrowing costs are recognized in net income (loss) using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company’s outstanding borrowings during the period.

Jointly operated assets

The Company’s oil and natural gas activities may involve jointly operated assets. The consolidated financial statements of the Company include the Company’s share of these jointly operated assets and a proportionate share of the related revenue and costs.

Per share information

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. For diluted per share information, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net income (loss). Diluted per share information is calculated using the treasury stock method which assumes that proceeds received from the exercise of in-the-money stock options plus the unamortized stock based compensation expense would be used to buy back common shares at the average market price for the period.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case-by-case basis. If the acquisition meets the definition of a business combination, the assets and liabilities are recognized based on the contractual terms, economic conditions, the Company's operating and accounting policies and other factors that exist on the acquisition date, which is the date on which control is transferred to the Company. The identifiable assets and liabilities are measured at their fair values on the acquisition date with limited exceptions. Any additional consideration payable, contingent upon the occurrence of a future event, is recognized at fair value on the acquisition date; subsequent changes in the fair value of the liability are recognized in net income (loss).

Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is recognized as goodwill. Goodwill is subsequently carried at cost less accumulated impairment losses, if any. Any difference in the cost of acquisition below the fair value of the net identifiable assets acquired is credited to net income (loss) in the period of acquisition. Associated transaction costs are expensed when incurred and included in general and administrative expenses in the Consolidated Statements of Operations.

Investment in associate

An associate is an entity for which the Company has significant influence and thereby has the power to participate in the financial and operational decisions but does not control or jointly control the investee. Investments in associates are accounted for using the equity method of accounting and are recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of the investee’s net assets. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes.

Market access initiatives / Internally generated intangible assets

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in net income (loss) in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. NEW ACCOUNTING POLICIES

Changes in accounting policies

There were no material new or amended accounting standards adopted during the year ended December 31, 2016.

Future accounting policy changes

In February 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 includes a principle-based approach for classification and measurement of financial assets, a single expected loss impairment model and a substantially-reformed approach to hedge accounting. The impact of the standard has been evaluated and is expected to have no material impact on the Company’s consolidated financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. In July 2015, the IASB issued an amendment to IFRS 15, deferring the effective date by one year. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard is required to be adopted either retrospectively or using a modified transition approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The impact of the standard has been evaluated and is expected to have no

material impact on the Company's consolidated financial statements. Additional disclosure may be required upon implementation of IFRS 15 that help provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

In January 2016, the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases" for annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 "Revenue from Contracts with Customers" is also applied. Under IFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Company is currently evaluating the impact of the standard on the consolidated financial statements.

In April 2016, the IASB issued amendments to IAS 7 "Statement of Cash Flows" and IAS 12 "Income Taxes" for annual periods beginning on or after January 1, 2017, with earlier application permitted. IAS 7 and IAS 12 have been revised to incorporate amendments issued by the IASB in January 2016. The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The impact of the standard has been evaluated and is not expected to have material impact on the Company's consolidated financial statements. Additional disclosure will be required on implementation of IAS 7 that provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. As the Company measures its debt instruments at amortized cost, the standard has no material impact on the Company's consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

(a) Judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and management's judgment regarding other factors that are considered to be relevant and reasonable in the circumstances. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes.

IFRS requires that the Company's oil and natural gas properties be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment. The Company's assets are currently held in one CGU.

The Company applies judgment in determining the transfer of risks and rewards of ownership from the Company to its customers. Oil and natural gas revenues are recognized in accordance with this transfer, which typically occurs upon title of asset transfer, at which point cash consideration is receivable, or as products are taken in kind as consideration and the Company has no continuing involvement with the goods or services provided.

The Company assesses revenue agreements using specific criteria to determine whether it is acting as an agent or principal. The Company recognizes revenue on a gross basis when the Company is acting in a principal capacity and on a net basis when the Company is acting in an agent capacity. The Company has concluded it acts in an agent capacity for all revenue transactions whereby third party oil and natural gas volumes are purchased and sold and the Company recognizes the net revenues and net losses in transportation, processing expenses and other separately from liquids and natural gas sales in the Consolidated Statement of Operations.

The determination of the Company's income tax and royalty liabilities requires interpretation of complex laws and regulations. As such, income taxes and royalties are subject to measurement uncertainty. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. In addition, the recoverability of loss carryforwards and investment tax credits is uncertain. The Company records deferred income tax assets and liabilities using income tax rates substantively enacted at the balance sheet date.

(b) Estimates and assumptions

The amounts recorded for depletion and depreciation of oil and natural gas properties are based on estimated recoverable reserves and future costs. The level of estimated recoverable reserves and associated future cash flows are also key determinants in assessing whether the carrying values of the Company's oil and natural gas assets and goodwill have been impaired. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty. Reserve estimates are determined in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook. The determination of reserve estimates involves the exercise of judgment and the use of estimates for oil and natural gas volumes in place, recovery factors, production rates, future commodity prices and future royalty, operating and capital costs.

The Company's provisions for decommissioning liabilities are based on judgments regarding interpretation of current legal and constructive requirements and estimates of future costs and expected timing for remediation. Actual costs may differ from estimated costs because of changes in laws and regulations, reserves, market conditions, discovery and analysis of site conditions and changes in technology.

The Company uses the Black-Scholes model to estimate the fair value of stock options and performance warrants granted. This requires assumptions regarding interest rates, dividend rates, the underlying volatility of the shares and the expected life and forfeitures of the stock options and performance warrants.

The estimated fair values of financial instruments, by their very nature, are subject to measurement uncertainty. Fair value of financial instruments, where active market quotes are not available, are estimated using the Company's assessment of available market inputs and other assumptions. These estimates may vary from the actual prices that will be achieved upon settlement of the financial instruments.

Changes in Royalty Estimates

During the year ended December 31, 2016, the Company recognized $27.4 million in royalty recoveries for Gas Cost Allowance ("GCA") credits and for planned amendments to past condensate royalties. The portion relating to GCA is a reduction of royalties payable to Alberta Energy to recognize capital and operating expenditures incurred in the gathering and processing of the Crown's share of natural gas production. The majority of the GCA recoveries relate to 2015 actual eligible costs compared to estimates of those amounts previously used. The GCA adjustments were received from Alberta Energy in June 2016. During the year ended December 31, 2016, Seven Generations began reporting field condensate separately at the wellhead. Field condensate incurs royalties on a sliding scale basis whereas previously, the Company reported condensate as a natural gas equivalent which resulted in royalties at a fixed 40% rate before incentives. With the change in reporting, the Company recorded an estimate for planned amendments and anticipated refunds of past condensate royalties. The Company has accounted for all of these royalty adjustments as changes in estimates and accordingly reported the decrease to royalties expense for the year ended December 31, 2016.

Changes in Decommissioning Estimates

During the preparation of the fourth quarter 2016 estimates, management consulted an external engineering firm to assist with determining appropriate abandonment and reclamation estimates for the Company's wholly owned facilities. The engineering firm considered recent experience dismantling similar facilities in the area. The results provided a more detailed inventory of the work to be performed and a $27.9 million increase was recognized as a change in estimate in other long term liabilities.

6. ACQUISITION

On July 6, 2016, the Company announced an agreement to acquire Alberta Montney assets for consideration valued at $1.9 billion, at the time of announcement (the "Acquisition"). Upon closing on August 18, 2016, total consideration for the Acquisition included $505.1 million in cash, the issuance of 33.5 million common shares, the assumption of US$450 million of senior notes and the right, title and interest of certain oil and natural gas properties valued at $6.0 million. Costs associated with the transaction of $7.4 million are recorded under general and administrative expense (Note 20) in the Consolidated Statement of Operations. The following table summarizes the net assets acquired and liabilities assumed:

Fair value of net assets acquired	
Oil and natural gas assets [1]	2,072.3
Senior notes [2]	(585.4)
Decommissioning liabilities [3]	(10.7)
Total net assets acquired	1,476.2
Consideration	
Cash [4]	505.1
Shares issued (33.5 million Common Shares) [5]	965.1
Oil and natural gas assets	6.0
Total purchase price	1,476.2

(1) Includes $300 million of Exploration and Evaluation assets (Note 9).
(2) Assumed senior notes of US$450 million which bear interest at 6.875% and are due in 2023. Valued at fair value at the time of close (101%) using August 18, 2016 US$ to C$ exchange rate of 1.277. Includes $5.1 million of interest accrued on the senior notes assumed.

(3) Decommissioning liabilities were discounted with a credit adjusted risk free rate of 6.3% (Note 13).
(4) $475 million in cash plus closing adjustments.
(5) Closing share price on August 18, 2016 was $28.81 per Common Share (Note 15).

In connection with the Acquisition, the Company acquired approximately $2.4 billion of take or pay commitments to secure processing and market access for natural gas, condensate and NGLs. No assets or liabilities associated with these take or pay commitments were recognized as the terms and economic benefits were considered to approximate current market rates. These processing and transportation commitments have been disclosed in Note 25.

Included in the Consolidated Statement of Operations are the following amounts:

Amounts since acquisition	
Oil and natural gas sales	74.4
Oil and natural gas sales less royalties, transportation and operating expenses	42.6

If the Acquisition had been effective on January 1, 2016, the Company's oil and natural gas sales and oil and natural gas sales less royalties, transportation and operating expenses for the year ended December 31, 2016 would have been as follows:

Year ended December 31, 2016	As stated	Amounts prior to acquisition	Pro Forma
Oil and natural gas sales	1,246.9	150.5	1,397.4
Oil and natural gas sales less royalties, transportation and operating expenses	819.7	68.9	888.6

This pro forma information is not necessarily indicative of the results should the business combination have actually occurred on January 1, 2016.

The operations of the assets acquired are not managed as a separate business unit or division of the Company as the properties acquired are in Seven Generations' existing property area.

7. INVESTMENT IN ASSOCIATE

Investment in Steelhead LNG

In the third quarter of 2016, the Company invested $25.8 million in Steelhead LNG ("Steelhead LNG") for a 34% equity interest, which is reported in the consolidated financial statements using the equity method of accounting given the judgment that Seven Generations has significant influence.

Steelhead LNG also granted Seven Generations an option to increase its ownership interest to 50%, subject to certain conditions, which terminates upon the earlier of (i) one year from the Company's investment in Steelhead LNG and (ii) thirty days from Steelhead LNG signing a binding offtake agreement that meets certain thresholds.

Steelhead LNG is a Vancouver-based energy company focused on the development of LNG projects in British Columbia.

For the year ended December 31, 2016, the Company's share of Steelhead LNG Limited Partnership's net loss was $3.9 million recognized in market access initiatives expense in the Consolidated Statement of Operations.

Market access initiatives with Steelhead LNG

Concurrent with the investment in Steelhead LNG, the Company entered into a development arrangement with Steelhead LNG, in which the Company agreed to contribute $3.0 million in cash and committed to invest up to $9.0 million to participate in the pre-development of transportation alternatives to the west coast of British Columbia. At December 31, 2016, the Company had incurred $1.1 million of the $9.0 million committed capital. Subsequent to year end, the Company was issued an additional 3.0 million units in Steelhead LNG for the $3.0 million cash contributed for the development arrangement.

Steelhead LNG and Seven Generations have also entered into an option agreement under which Seven Generations has an option to supply natural gas to any LNG facility developed by Steelhead LNG on the west coast of British Columbia upon fulfillment of certain terms and conditions.

Due to common directorships and certain significant shareholders, these transactions were considered related party transactions and measured at the exchange value. Azimuth Capital Management ("Azimuth") has a majority ownership in Steelhead LNG. Three of Seven Generations' directors have professional ties to Azimuth.

At the end of each reporting period, the Company reviews for impairment indicators to ensure that the carrying value of its investments in associates is recoverable. At December 31, 2016, there were no indicators of impairment.
For the year ended December 31, 2016, the Company recorded $4.1 million included in market access initiatives expense in the Consolidated Statement of Operations for the costs incurred on pre-development of transportation alternatives.

8. CASH AND CASH EQUIVALENTS

As at December 31,	2016	2015
Cash	**325.5**	77.1
GIC collateral accounts, bearing interest at a weighted average rate of 0.9% (1)	**59.2**	—
Short term investments, bearing interest at a weighted average rate of 0.8% (December 31, 2015 – 0.7%)	**246.1**	327.9
Cash and cash equivalents	**630.8**	405.0

(1) Cash and cash equivalents includes two unrestricted interest-bearing, cash collateral Guaranteed Investment Certificates ("GIC collateral accounts") into which the Company is required to deposit cash to secure letters of credit issued under the Company's $1.1 billion revolving credit facility that was entered into on November 30, 2016 (Note 10). As at December 31, 2016, the GIC Collateral accounts included $35.3 million as Canadian dollar GIC collateral and $23.9 million as US dollar GIC collateral (US$17.8 million).

9. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other (1)	Total
Cost				
Balance at December 31, 2014	214.5	2,089.7	10.3	2,314.5
Additions	13.5	1,293.6	1.9	1,309.0
Dispositions	(5.4)	2.0	—	(3.4)
Non-cash capitalized costs (2)	—	37.7	—	37.7
Balance at December 31, 2015	222.6	3,423.0	12.2	3,657.8
Acquisition (Note 6)	**300.0**	**1,772.3**	**—**	**2,072.3**
Additions	**—**	**976.1**	**1.9**	**978.0**
Dispositions (Note 6)	**—**	**(6.0)**	**—**	**(6.0)**
Transfers	**(11.0)**	**11.0**	**—**	**—**
Non-cash capitalized costs (2)	**—**	**75.9**	**—**	**75.9**
Balance at December 31, 2016	**511.6**	**6,252.3**	**14.1**	**6,778.0**
Accumulated depletion, depreciation and amortization				
Balance at December 31, 2014	—	259.0	1.8	260.8
Depletion, depreciation and amortization expense	—	282.0	1.5	283.5
Balance at December 31, 2015	—	541.0	3.3	544.3
Depletion, depreciation and amortization expense	**—**	**481.5**	**2.1**	**483.6**
Balance at December 31, 2016	**—**	**1,022.5**	**5.4**	**1,027.9**
Net book value				
Balance at December 31, 2015	222.6	2,882.0	8.9	3,113.5
Balance at December 31, 2016	**511.6**	**5,229.8**	**8.7**	**5,750.1**

1) Comparative figures have been reclassified to conform to current period presentation.

(2) For year ended December 31, 2016, non-cash capitalized costs include $68.0 million of decommissioning obligation assets (year ended December 31, 2015 - $25.3 million) and $0.1 million of borrowing costs.

As at December 31, 2016, the calculation for depletion included an estimated $10.7 billion (December 31, 2015 - $6.4 billion) for future development capital associated with undeveloped estimated recoverable proved plus probable reserves and excluded $459.7 million (December 31, 2015 - $149.0 million) for the cost of undeveloped land for which no

recoverable reserves have been assigned and $383.9 million for tangible oil and natural gas assets depreciated and other capital projects not yet in use (December 31, 2015 - $392.0 million).

During the year ended December 31, 2016, the Company capitalized $17.0 million (year ended December 31, 2015 - $15.8 million) of general and administrative expenses based on direct salaries and benefits paid to development personnel specifically related to capital activities, including $7.7 million (year ended December 31, 2015 - $6.0 million) related to stock based compensation.

During the year ended December 31, 2016, the Company capitalized $3.7 million of borrowing costs (year ended December 31, 2015 - $4.4 million).

During the year ended December 31, 2015, the Company closed asset swap arrangements in which non-producing assets were acquired and non-producing assets were disposed of. For purposes of determining the gain on disposition, the estimated fair market value was based on the fair value of the assets received. The Company recorded a gain of $2.6 million for the year ended December 31, 2015.

At the end of each reporting period, the Company reviews for indicators of impairment to ensure that the carrying value of its oil and natural gas properties and associated goodwill is recoverable. At December 31, 2016 and 2015, there were no indicators of impairment.

10. BANK DEBT

At December 31, 2016, the Company had $1.1 billion available funds on a revolving credit facility (December 31, 2015 – $811.8 million) with a syndicate of banks (the “credit facility”), expiring in May 2019. The credit facility is subject to a redetermination of the borrowing base semi-annually and is secured by a floating charge over the Company’s assets. The credit facility bears interest based on a pricing grid that increases or decreases based on the ratio of indebtedness to earnings before interest, taxes, depreciation, depletion and amortization. The credit facility also includes standby fees on balances not drawn.

In 2015, the Company had drawn against the credit facility by issuing $38.2 million letters of credit, of which $16.6 million (US$12.0 million) was issued in US dollars. $Nil was drawn on the $1.1 billion credit facility at December 31, 2016.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	**2016**	2015
Trade	**29.0**	37.2
Accrued liabilities	**197.8**	133.6
Interest payable	**17.7**	17.0
	244.5	187.8

12. SENIOR NOTES

As at December 31,	**2016**	2015
US$700 million 8.25% senior notes, due May 15, 2020 (1)	**939.9**	968.8
US$425 million 6.75% senior notes, due May 1, 2023 (2)	**570.6**	588.2
US$450 million 6.875% senior notes, due June 30, 2023 (3)	**604.2**	—
	2,114.7	1,557.0
Less unamortized debt issue costs	**(25.5)**	(31.8)
Plus unamortized premium	**22.7**	21.6
	2,111.9	1,546.8

(1) On May 10, 2013, the Company closed a private placement of US$400.0 million of senior unsecured notes. The notes bear interest at 8.25% per annum (calculated using a 360-day year) payable on May 15 and November 15 of each year, commencing on November 15, 2013. The notes will mature on May 15, 2020. After May 15 of each of the following years, the notes are redeemable at the Company’s option, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount of the notes): 2017 at 104.125%, 2018 at 102.063% and 2019 at 100%.

On February 5, 2014, the Company closed a private placement of US$300.0 million of senior unsecured notes issued under a supplemental indenture to the indenture governing the terms of the US$400.0 million of senior unsecured notes issued on May 10, 2013. The February 2014 notes were issued at 107% of par, resulting in gross proceeds to the Company of US$321.0 million. The terms for this second placement are the same as above.

(2) On April 30, 2015, the Company issued US$425.0 million of additional senior unsecured notes that bear interest at 6.75% per annum (calculated using a 360-day year) payable on May 1 and November 1 of each year, commencing on November 1, 2015. The notes will mature on May 1, 2023. On or after May 1, 2018, the notes are redeemable at the Company's option, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount of the notes): 2018 at 105.063%, 2019 at 103.375%, 2020 at 101.688% and 2021 and thereafter at 100%. In addition, at any time prior to May 1, 2018, the Company may redeem all or a part of the notes at a redemption price equal to 100% of the aggregate principal amount plus an applicable premium that will be the greater of: (a) 1.0% of the principal amount; and (b) an amount equal to the excess of the present value at such redemption date of the redemption price at May 1, 2018 (105.063%) plus all accrued interest due through May 1, 2018 over the principal amount of the note.

(3) In connection with the Acquisition (Note 6), the Company assumed US$450 million of senior unsecured notes that bear interest at 6.875% per annum (calculated using a 360-day year), payable on June 30 and December 31 of each year, commencing on June 30, 2016. These notes will mature on June 30, 2023. No principal payments are required until maturity. On or after June 30, 2018, the notes are redeemable at the Company's option, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount of the notes): 2018 at 105.156%, 2019 at 103.438%, 2020 at 101.719% and 2021 and thereafter at 100%. In addition, at any time prior to June 30, 2018, the Company may redeem all or a part of the notes at a redemption price equal to 100% of the aggregate principal amount plus an applicable premium that will be an amount equal to the excess of the present value at such redemption date of the redemption price at June 30, 2018 (105.156%) plus all accrued interest due through June 30, 2018 over the principal amount of the note.

The Company reviewed the terms of each of the senior notes to determine if the prepayment options were embedded derivatives. While the prepayment options meet the definition of an embedded derivative, the Company determined the fair value of the prepayment options was not material and an embedded derivative has not been recorded.

The US dollar denominated senior notes were translated into Canadian dollars at the year end exchange rate of US $1=C$1.34 (December 31, 2015 - US$1=C$1.38).

Subject to certain exceptions and qualifications, the senior unsecured notes have no financial covenants but limit the Company’s ability to, among other things: make certain payments and distributions; incur additional indebtedness; issue disqualified or preferred stock; create or permit liens to exist; make certain dispositions; transfers of assets; and engage in amalgamations, mergers or consolidations. At December 31, 2016, the Company was in compliance with the covenants of the senior notes.

The notes are carried at amortized cost, net of transaction costs. The notes accrete up to the principal balance on maturity using the effective interest rate method and an effective interest rate of 6.6%, 7.0%, 7.3% and 8.6% for the 2016 assumed notes and the 2015, 2014 and 2013 issuances, respectively. Canadian dollar to US dollar exchange rates at the time of the assumption of the 6.875% 2016 notes was 0.783 and for the 2015, 2014 and 2013 issuances were 0.825, 0.901 and 0.940, respectively.

13. OTHER LONG-TERM LIABILITIES

As at December 31,	**2016**	2015
Decommissioning liabilities	**160.7**	79.1
Onerous lease	**3.6**	—
Deferred credits [1]	**0.7**	0.9
Total other long-term liabilities	**165.0**	80.0

(1) At December 31, 2016, the Company held $0.7 million of deferred credits for lease inducements (December 31, 2015 - $0.9 million).

Decommissioning liabilities

	2016	2015
Balance, beginning of year	**79.1**	52.2
Liabilities incurred	**21.3**	25.2
Liabilities acquired through Acquisition (Note 6)	**10.7**	—
Changes in estimates	**27.9**	(1.1)
Changes in discount rates [1]	**18.9**	1.1
Accretion	**2.8**	1.7
Balance, end of year	**160.7**	79.1

(1) Changes in discount rates includes a $20.5 million increase to acquired liabilities for the decrease from the 6.3% credit adjusted risk free rate at acquisition to a risk free rate of 2.3% at period end.

The total future decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the decommissioning liabilities at December 31, 2016 is approximately $310.6 million (December 31, 2015 – $139.1 million) which is expected to be incurred over the next 35 years with the majority of costs incurred between 2041 and 2051. At December 31, 2016, a risk free rate of 2.3% (December 31, 2015 – 2.2%) and an inflation rate of 2.0% (December 31, 2015 – 2.0%) were used to calculate the provision for decommissioning liabilities.

Onerous lease

During the year ended December 31, 2016, the Company recorded a $3.6 million provision related to one of the Company's office leases, which has been determined to be an onerous contract. The provision represents the present value of the difference between the minimum future lease payments that the Company is obligated to make under the non-cancellable operating lease contract and estimated sublease recoveries. The undiscounted amount of estimated future cash flows to settle the obligations was $4.8 million. These cashflows have been discounted using a risk-free rate of 1.6%. The onerous contract provision is estimated to be settled in periods up to the year 2023.

14. INCOME TAXES

The provision for income tax expense is different from the amount computed by applying the combined Canadian federal and provincial income tax rate to income (loss) before income taxes. The reasons for the differences are as follows:

Years ended December 31,	**2016**	2015
Loss before taxes	**(33.6)**	(125.4)
Statutory income tax rate	**27%**	26%
Expected income tax recovery	**(9.1)**	(32.6)
Add (deduct):		
Non-deductible stock based compensation	**4.9**	3.6
Non-taxable portion of foreign exchange capital (gains) losses	**(2.2)**	29.2
Non-deductible tax position - IceFyre	**—**	22.6
Change in unrecognized deferred tax asset	**(1.2)**	31.6
Other and change in tax rates	**0.2**	7.5
Income tax (recovery) expense	**(7.4)**	61.9

During the year ended December 31, 2015, the Canada Revenue Agency challenged tax losses utilized by the Company which were derived from the Company's predecessor entity, IceFyre Semiconductor Corporation and resulted in a $22.6 million tax effected decrease to the Company's tax pools.

For the year ended December 31, 2016, $1.4 million was recorded for current income tax expense relating to foreign sourced income earned from the Company's subsidiary in the United States. Total tax pools in Canada at December 31, 2016 were $5.0 billion (December 31, 2015 - $2.7 billion). Of this amount, $0.9 billion is available for deduction against taxable income for the current fiscal year. Non-capital losses begin expiring in 2034. Included in the unrecognized deferred tax asset are foreign exchange capital losses of $37.9 million and $1.0 million related to investments in associates.

Changes in the components of the deferred tax liability are as follows:

	January 1, 2016	**Movement**	**December 31, 2016**
Property, plant and equipment	**193.0**	**142.3**	**335.3**
Mark-to-market financial instruments	**33.3**	**(73.6)**	**(40.3)**
Non-capital losses	**(63.1)**	**(61.6)**	**(124.7)**
Decommissioning liabilities	**(21.4)**	**(22.0)**	**(43.4)**
Financing costs	**(10.9)**	**(4.9)**	**(15.8)**
Unrealized foreign exchange losses	**(40.0)**	**2.1**	**(37.9)**
Other	**(1.3)**	**(1.6)**	**(2.9)**
	89.6	**(19.3)**	**70.3**
Unrecognized deferred tax asset	**39.8**	**(1.3)**	**38.5**
	129.4	**(20.6)**	**108.8**

	January 1, 2015	Movement	December 31, 2015
Property, plant and equipment	79.1	113.9	193.0
Mark-to-market financial instruments	34.8	(1.5)	33.3
Investment tax credits	(9.1)	9.1	—
Non-capital losses	(4.7)	(58.4)	(63.1)
Decommissioning liabilities	(13.0)	(8.4)	(21.4)
Financing costs	(12.5)	1.6	(10.9)
Unrealized foreign exchange losses	(8.9)	(31.1)	(40.0)
Other	(5.3)	4.0	(1.3)
	60.4	29.2	89.6
Unrecognized deferred tax asset	8.2	31.6	39.8
	68.6	60.8	129.4

The changes in the deferred tax liability were allocated to:

Year ended December 31	**2016**	2015
Income statement	**(8.8)**	61.8
Share capital	**(11.8)**	(1.0)
	(20.6)	60.8

15. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Class A Common Voting Shares, Class B Common Non-Voting Shares, Preferred A, B, C and D Shares and Special Voting Shares. There are no Class B Common Non-Voting Shares, Preferred Shares or Special Voting Shares issued and outstanding.

The following tables summarize changes to the Company's Common Share capital:

Years ended December 31,	**2016**		2015	
	Number (millions)	**Amount ($)**	Number (millions)	Amount ($)
Class A Common Voting Shares				
Balance, beginning of year	**254.4**	**1,775.7**	244.7	1,716.1
Issued for cash (a) (b)	**52.1**	**1,047.7**	—	—
Issued for Acquisition (c)	**33.5**	**965.1**	—	—
Share issue costs, net of deferred tax [1]	**—**	**(31.8)**	—	1.1
Issued on exercise of stock options and performance warrants	**10.3**	**55.7**	8.7	41.9
Transfer from contributed surplus on exercise of stock options	**—**	**18.1**	—	12.9
Conversion of Class B Common Non-Voting Shares [2]	**—**	**—**	1.0	3.7
Balance, end of year	**350.3**	**3,830.5**	254.4	1,775.7

(1) Gross share issue costs were $43.8 million for the year ended December 31, 2016 (2015 - $Nil).
(2) On conversion of Class B Non-Voting Shares into Class A Common Voting Shares, holders received two Class A Common Voting Shares for each Class B Non-Voting Share converted.

(a) On February 24, 2016, the Company completed a private placement of 21.4 million Common Shares at a price of $14.00 per share for gross proceeds of $300.0 million. Net proceeds after commissions and expenses were approximately $287.0 million.

(b) On July 26, 2016, the Company closed a bought-deal financing issuing 30.7 million Subscription Receipts at $24.35 per Subscription Receipt for gross proceeds of $747.7 million. Each holder of Subscription Receipts received one Common Share for each Subscription Receipt held upon the closing of the Acquisition. Net proceeds after commissions and expenses were approximately $717.7 million.

(c) On August 18, 2016, the Company closed the Acquisition and as part of the consideration, issued 33.5 million Common Shares (Note 6). The closing price of the Common Shares on August 18, 2016 was $28.81 per share.

Class B Non-Voting Shares

During the year ended December 31, 2016, the two thousand remaining Class B Non-Voting Shares were converted into Class A Common Voting Shares, where holders received two Class A Common Voting Shares for each Class B

Non-Voting Share (December 31, 2015 - 526 thousand Class B Non-Voting Shares converted). At December 31, 2016, Nil Class B Non-Voting were issued and outstanding (December 31, 2015, two thousand).

16. STOCK BASED COMPENSATION

Stock Options

The Company's stock option plan allows for the granting of options to directors, officers, employees and service providers of the Company. Options granted are generally fully exercisable for Class A Common Voting Shares after three years and expire 10 years after the grant date.

The following table sets forth a reconciliation of stock options exercisable into Class A Common Voting Shares:

Years ended December 31,	**Year ended December 31, 2016**		Year ended December 31, 2015	
	Number (Millions)	**Exercise price ($)**	Number (Millions)	Exercise price ($)
Balance, beginning of year	**12.0**	**8.43**	12.4	6.71
Granted	**2.6**	**29.81**	2.3	13.19
Exercised	**(3.2)**	**5.62**	(2.4)	3.74
Forfeited	**(0.2)**	**19.35**	(0.3)	12.58
Balance, end of year	**11.2**	**13.95**	12.0	8.43

A summary of stock options outstanding and exercisable into Common Shares at December 31, 2016 is as follows:

	Options outstanding		**Options exercisable**	
Exercise price ($)	Number of options (Millions)	Weighted average remaining life (years)	Number of options (Millions)	Weighted average remaining life (years)
2.50 – 5.49	2.4	1.1	2.4	1.1
5.50 – 12.49	3.6	5.4	2.6	4.0
12.50 – 17.49	0.5	7.1	0.1	6.1
17.50 – 20.00	2.3	4.8	1.4	4.6
20.00 – 30.90	2.4	9.7	0.0	9.8
	11.2	**5.4**	**6.4**	**3.1**

The fair value of stock options granted was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Years ended December 31,	**2016**	2015
Fair value of options granted ($/option)	**12.92**	6.67
Risk-free interest rate (%)	**0.82**	0.79
Expected life (years)	**6.0**	5.0
Expected forfeiture rate (%)	**4.4**	4.0
Expected volatility (%) [(1)]	**45.2**	60.0
Expected dividend yield (%)	**—**	—

(1) Expected volatility is estimated by using the historical price movements of the Company's common shares.

Performance Warrants

Prior to the Company's Initial Public Offering ("IPO") that was completed on November 5, 2014, Seven Generations issued performance warrants to its directors, officers, and employees. These performance warrants were granted pursuant to the Amended and Restated Shareholder Agreement effective while Seven Generations was a private company. After the November 5, 2014 closing of the IPO, no additional performance warrants may be granted.

The following table sets forth a reconciliation of performance warrants exercisable into Common Shares:

Years ended December 31,	**2016**		2015	
	Number (Millions)	**Exercise price ($)**	Number (Millions)	Exercise price ($)
Balance, beginning of year	**18.5**	**6.14**	25.9	5.99
Exercised	**(7.1)**	**5.37**	(6.2)	5.27
Forfeited	**—**	**9.12**	(1.2)	7.30
Balance, end of year	**11.4**	**6.62**	18.5	6.14

A summary of performance warrants outstanding and exercisable into Common Shares at December 31, 2016 is as follows:

	Warrants outstanding		**Warrants exercisable**	
Weighted average exercise price ($)	Number of warrants (Millions)	Weighted average remaining life (years)	Number of warrants (Millions)	Weighted average remaining life (years)
3.75 - 5.25	3.8	1.1	3.8	1.1
5.26 - 5.85	1.8	3.0	1.1	2.9
5.86 - 12.50	4.9	1.5	4.4	1.3
12.50 - 17.50	1.0	4.4	0.3	4.4
	11.4	**1.9**	**9.6**	**1.5**

Share Units

The Performance and Restricted Share Unit Plan (“PRSU Plan”) allows for the granting of RSUs and PSUs to officers and employees of the Company. RSUs and PSUs represent the right for the holder to receive Common Voting Shares or, at the election of the holder and the Company, a cash payment equal to the fair market value of the Common Shares calculated at the date of such payment. RSUs and PSUs granted to date under the PRSU Plan generally vest annually over a three year period.

The vesting of PSUs are conditional on the satisfaction of certain performance criteria as determined by the Company's Board of Directors. If the Company satisfies the performance criteria, PSUs become eligible to vest and a pre-determined multiplier is applied to eligible PSUs. In calculating stock based compensation for the PSUs the Company used an adjustment factor of 1.0, which assumed that the Company will be within the 50% percentile of its relative peer group, based on total shareholder return at the respective vesting dates. Upon vest date in the second quarter of 2016, the performance criteria for the first tranche of vested PSUs met the highest performance multiplier of 2.0 for total shareholder return criteria relative to the Company's peer group resulting in an additional issue of 48,817 PSUs. For the year ended December 31, 2016, share based compensation expense relating to the PSUs was $2.8 million (for the year ended December 31, 2015 - $0.8 million). Assuming the highest performance multiplier, as at December 31, 2016, the maximum number of Common Shares issuable pertaining to the outstanding PSUs is 0.7 million.

The following table sets forth a reconciliation of PSUs and RSUs exercisable into Common Shares:

Years ended December 31,	**2016**	2015
	Number (Millions)	Number (Millions)
Balance, beginning of year	**0.4**	—
Granted	**0.2**	0.4
Balance, end of year	**0.6**	0.4

As at December 31, 2016, the outstanding balance was comprised of 0.4 million PSUs and 0.2 million RSUs, with a weighted average remaining life of 8.9 years. The fair value of PRSUs granted for the year ended December 31, 2016 was $21.54 per unit (year ended December 31, 2015 - $12.11) using a 4% forfeiture rate (December 31, 2015 - 4%).

The Deferred Share Unit Plan ("DSU Plan") allows for granting of DSUs to directors of the Company. DSUs represent the right for the holder to receive Common Shares or, at the election of the holder and the Company, a cash payment equal to the fair market value of the Common Shares calculated at the date of such payment. DSUs granted under the DSU Plan generally vest immediately upon grant.

The following table sets forth a reconciliation of DSUs exercisable into Class A Common Voting Shares:

Years ended December 31,	**2016**	2015
	Number (Millions)	Number (Millions)
Balance, beginning of year	**0.1**	—
Granted	**—**	0.1
Balance, end of year	**0.1**	0.1

The weighted average fair value of DSUs for the year ended December 31, 2016 was $27.80 per unit (year ended December 31, 2015 - $13.63) using a nil% forfeiture rate (December 31, 2015 - nil%).

17. PER SHARE AMOUNTS

Basic and diluted per share amounts have been calculated based on the following:

Years ended December 31,	**2016**	2015
(millions)		
Weighted average number of Common Shares – basic	**299.8**	249.6
Effect of outstanding stock options, performance warrants and equity compensation units (1)	**—**	—
Weighted average number of Common Shares - diluted	**299.8**	**249.6**

(1) For the year ended December 31, 2016, 6.5 million stock options and 12.1 million performance warrants (December 31, 2015 - 6.8 million stock options and 13.9 million performance warrants) have been excluded from the diluted earnings per share calculation since these are anti-dilutive as the Company was in a net loss position.

18. OPERATING EXPENSES

Years ended December 31,	**2016**	2015
Equipment rental and maintenance	**62.0**	30.5
Trucking and disposal	**56.6**	31.4
Staff and contractor costs (1)	**25.7**	16.0
Chemicals and fuel	**25.4**	15.0
Other	**12.2**	8.3
Operating expenses	**181.9**	101.2

(1) The Company incurred $31.5 million of field staff and contractor costs for the year ended December 31, 2016 (2015 – $22.1 million), of which $25.7 million (2015 – $16.0 million) was recorded as staff and contractor costs in operating expense and $5.8 million was capitalized to oil and natural gas assets (2015 – $6.1 million). Staff and contractor costs include salaries, benefits and contractor costs.

19. TRANSPORTATION, PROCESSING AND OTHER EXPENSES

Years ended December 31,	**2016**	2015(1)
Pipeline tariffs	**164.2**	10.2
Trucking and other	**66.9**	50.1
Processing	**21.2**	—
Marketing gains	**(13.7)**	(1.3)
Transportation, processing and other	**238.6**	59.0

(1) Comparative figures have been reclassified to conform to current period presentation.

As of December 1, 2015, the Company began delivering and selling its natural gas directly into the Chicago market to customers and started recognizing the associated pipeline tariffs in transportation expenses. Prior to December 1, 2015, natural gas pipeline tariffs were netted against revenue as title change occurred in the field. Pipeline tariffs include all pipeline tolls where the Company has firm transportation service.

20. GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

Years ended December 31,	2016	2015 [1]
Personnel	**26.6**	18.8
Office costs, travel and other	**10.1**	6.8
Onerous lease (Note 13)	**3.6**	—
Professional fees	**2.6**	1.8
Information technology costs	**2.5**	2.3
Transaction costs (Note 6)	**7.4**	—
Gross G&A expenses	**52.8**	29.7
Capitalized salaries and benefits	**(3.5)**	(3.6)
Operating overhead recoveries	**(2.2)**	(1.8)
G&A expenses	**47.1**	24.3

(1) Comparative figures have been reclassified to conform to current period presentation.

21. FINANCE EXPENSE

Years ended December 31,	2016	2015
Interest on senior notes	**131.3**	98.9
Revolving credit facility fees and other	**7.5**	5.5
Amortization of premium and debt issue costs	**0.8**	0.4
Accretion (Note 13)	**2.8**	1.7
Total finance costs	**142.4**	106.5
Capitalized borrowing costs [1] (Note 9)	**(3.7)**	(4.4)
Finance expense	**138.7**	102.1

(1) For the year ended December 31, 2016, non-cash capitalized interest was $0.1 million (2015 - $0.4 million).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

Financial instrument classification and measurement

The Company's financial instruments include cash and cash equivalents, accounts receivable, deposits, risk management contracts, accounts payable and accrued liabilities, the credit facility and senior notes.

The Company's financial instruments that are carried at fair value on the balance sheets include cash and cash equivalents and risk management contracts. The senior notes are carried at amortized cost, net of transaction costs and accrete to the principal balance on maturity using the effective interest rate method.

Seven Generations classifies the fair value of these instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed in the marketplace.
- Level 3 - Valuations in this level are those inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are classified as Level 1 measurements. Risk management contracts and fair value disclosure for the senior notes are classified as Level 2 measurements. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. Seven Generations does not have any fair value measurements classified as Level 3. There were no transfers within the hierarchy in the years ended December 31, 2016 and 2015. The carrying value of the Company's accounts receivable, deposits, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The classification, carrying values and fair values of the Company's financial instruments are as follows:

As at December 31,	**2016**		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Fair Value Through Profit and Loss				
Cash and cash equivalents	**630.8**	**630.8**	405.0	405.0
Risk management contracts	**—**	**—**	151.6	151.6
Loans and Receivables				
Accounts receivable	**181.9**	**181.9**	76.4	76.4
Deposits	**11.9**	**11.9**	8.9	8.9
Financial Liabilities				
Fair Value Through Profit and Loss				
Risk management contracts	**149.4**	**149.4**	28.3	28.3
Other Financial Liabilities				
Accounts payable and accrued liabilities	**244.5**	**244.5**	187.8	187.8
Senior notes	**2,111.9**	**2,254.0**	1,546.8	1,354.0

Financial assets and financial liabilities subject to offsetting

The Company's risk management contracts are subject to master netting agreements that create a legally enforceable right of counterparties, which could have an impact on the related financial assets and financial liabilities on the Company's balance sheet. The following is a summary of financial assets and financial liabilities that are subject to offset:

As at December 31, 2016	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial assets (liabilities) offset in balance sheet	Net amounts of recognized financial assets (liabilities) recognized in balance sheet
Risk management contracts			
Current asset	**1.5**	**(1.5)**	**—**
Long-term asset	**3.6**	**(3.6)**	**—**
Current liability	**(73.2)**	**1.5**	**(71.7)**
Long-term liability	**(81.3)**	**3.6**	**(77.7)**
Net position	**(149.4)**	**—**	**(149.4)**

As at December 31, 2015	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial assets (liabilities) offset in balance sheet	Net amounts of recognized financial assets (liabilities) recognized in balance sheet
Risk management contracts			
Current asset	102.3	(3.7)	98.6
Long-term asset	62.9	(9.9)	53.0
Current liability	(22.0)	3.7	(18.3)
Long-term liability	(19.9)	9.9	(10.0)
Net position	123.3	—	123.3

The following is a summary of the carrying value of risk management contracts in place by contract type:

As at December 31,	**2016**	2015
Natural gas	**(70.0)**	58.1
Oil	**(71.0)**	93.5
Foreign exchange swap	**(8.4)**	(28.3)
Net position (liability) asset	**(149.4)**	123.3

Risk management contracts

The Company had the following risk management contracts in place at December 31, 2016:

	Crude Oil				Natural Gas				Foreign exchange	
	WTI Collars		WTI 3 Way Collars		Chicago Citygate Swaps		AECO 7A Collars		CAD/USD Swaps	
Period	bbl/d	C$/bbl	bbl/d	C$/bbl	MMbtu/d	US$/ MMbtu	GJ/d	C$/Gj	USD $MM	US$/C$
Q1 2017	16,000	$67.25 - $81.18	5,000	$42.00/$58.00/$80.41	200,000	$ 3.16	50,000	$2.50 - $3.04	57.0	1.2710
Q2 2017	11,000	$65.55 - $79.61	9,000	$41.11/$56.67/$76.83	170,000	$ 3.10	50,000	$2.50 - $3.04	48.0	1.2853
Q3 2017	11,000	$65.37 - $76.69	9,000	$41.11/$56.67/$76.83	160,000	$ 2.99	50,000	$2.50 - $3.04	44.0	1.3138
Q4 2017	11,000	$65.37 - $76.69	9,000	$41.11/$56.67/$76.83	170,000	$ 2.99	60,000	$2.50 - $3.03	46.7	1.3137
Q1 2018	12,000	$64.09 - $77.13	12,000	$40.83/$56.25/$75.54	160,000	$ 2.93	50,000	$2.50 - $2.99	42.2	1.3233
Q2 2018	12,000	$64.09 - $77.13	12,000	$40.83/$56.25/$75.54	130,000	$ 2.90	50,000	$2.50 - $2.99	34.3	1.3290
Q3 2018	7,000	$60.71 - $78.96	12,000	$40.83/$56.25/$75.54	130,000	$ 2.90	50,000	$2.50 - $2.99	34.7	1.3256
Q4 2018	6,000	$60.00 - $79.45	12,000	$40.83/$56.25/$75.54	120,000	$ 2.89	50,000	$2.50 - $2.99	31.9	1.3277
Q1 2019	6,000	$60.00 - $79.45	12,000	$40.83/$56.25/$75.54	70,000	$ 2.94	50,000	$2.50 - $2.99	18.6	1.3065
Q2 2019	6,000	$60.00 - $79.45	8,000	$41.25/$56.88/$77.64	60,000	$ 2.95	50,000	$2.50 - $2.99	16.1	1.3067
Q3 2019	6,000	$60.00 - $79.45	4,000	$42.50/$57.50/$81.01	40,000	$ 2.94	50,000	$2.50 - $2.99	10.8	1.3163
Q4 2019	4,000	$60.00 - $81.18	—	—	30,000	$ 2.94	50,000	$2.50 - $2.99	8.1	1.3234

During the year ended December 31, 2016, the Company's risk management contracts resulted in realized gains of $90.8 million (year ended December 31, 2015 – realized gains of $150.6 million) and unrealized losses of $271.6 million (year ended December 31, 2015 – unrealized losses of $15.9 million).

The following table demonstrates the impact of changes in commodity pricing on income before tax, based on risk management contracts in place at December 31, 2016:

	Gain (Loss)
10% increase in C$ WTI/bbl	(102.7)
10% decrease in C$ WTI/bbl	77.7
10% increase in US$ Chicago Citygate/MMbtu	(43.7)
10% decrease in US$ Chicago Citygate/MMbtu	43.7
10% increase in C$ AECO/GJ	(12.8)
10% decrease in C$ AECO/GJ	3.1

The Company enters into physical delivery contracts at the terminus of the Alliance Pipeline in Chicago and at the AECO hub in Alberta on a month-to-month and term contract basis. Pricing of the physical delivery contracts is primarily based on published North American natural gas indices and fixed prices. These instruments are not used for trading or speculative purposes. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The following table illustrates the average daily volumes the Company has committed to deliver on a term contract basis as at December 31, 2016:

	Alliance Chicago Exchange	AECO Hub
Contracts expiring in the year ended December 31,	MMBtu/d	GJ/d
2017	207,500	22,600
2018	16,667	21,600
2019	—	19,800

(b) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The senior notes payable bear interest at a fixed rate. The Company's credit facility bears a floating rate of interest and, accordingly, the Company is exposed to interest rate fluctuations to the extent that any advances remaining outstanding under the facility. During the year ended December 31, 2016, no amounts were drawn on the credit facility.

(c) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

Prices for oil are determined in global markets and generally denominated in US dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply.

With respect to exchange rate impacts to the Company, an increase in the value of the Canadian dollar as compared to the US dollar will generally reduce the prices received by the Company for its liquids and natural gas sales. The Company manages foreign currency exchange risk by entering into a variety of risk management contracts (see Risk management contracts section above). The Company enters into US dollar swaps to crystallize the Canadian dollar value of risk management contract entered into.

The Company is exposed to foreign exchange rate fluctuations on the principal and interest related to the senior notes payable, as well as on cash and cash equivalent balances held in US dollars. Foreign currency risk associated with interest payments is partially offset by marketing arrangements for the sale of the Company's natural gas and natural gas liquids, excluding condensate, which are denominated in US dollars.

The following table demonstrates the impact of changes in the Canadian to US dollar exchange rate on income before tax, based on US denominated balances outstanding (including the foreign exchange risk management contracts) at December 31, 2016:

	Gain (Loss)
10% increase in US$ to C$	131.6
10% decrease in US$ to C$	(172.5)

The carrying amount of the Company's US dollar denominated monetary assets and liabilities was as follows:

As at December 31,	**2016**	2015
Assets	**113.0**	35.5
Liabilities	**2,136.9**	1,563.8

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. The Company manages its liquidity risk through ensuring, as reasonably as possible, that it will have sufficient liquidity to meets its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation. At December 31, 2016, the Company had $630.8 million of cash and cash equivalents, plus available credit facility of $1.1 billion. Management believes it has sufficient funding to meet foreseeable liquidity requirements. The Company prepares capital expenditure budgets which are regularly monitored and updated. As well, the Company utilizes authorizations for expenditure on both operated and non-operated projects to manage capital investments.

The following are the contractual maturities of financial liabilities at December 31, 2016:

	Less than 1 year	2-3 years	4-5 years	Thereafter	Total
Accounts payable and accrued liabilities	244.5	—	—	—	**244.5**
Risk management contracts	71.7	76.0	1.7	—	**149.4**
Senior notes [(1)]	—	—	939.9	1,174.9	**2,114.8**
Interest on senior notes [(1)]	157.6	315.2	189.2	113.7	**775.7**
Total	473.8	391.2	1,130.8	1,288.6	**3,284.4**

(1) Balances denominated in US dollars have been translated at the December 31, 2016, US dollar to Canadian dollar exchange rate of 0.745.

23. CAPITAL MANAGEMENT

The capital structure of the Company is as follows:

As at December 31,	2016	2015
Total debt [1]	**2,111.9**	1,546.7
Total equity [2]	**3,822.8**	1,786.7
Total capital	**5,934.7**	3,333.4

(1) Senior unsecured notes.

(2) Equity is defined as share capital plus contributed surplus plus any deficit and other comprehensive deficit.

The Company's objective for managing capital continues to be to maintain a strong balance sheet and capital base to provide financial flexibility to position the Company for growth and development. The Company strives to grow and maximize long-term shareholder value by ensuring it has the financing capacity to fund projects that are expected to add value to shareholders. Near-term major acquisitions and capital development will be funded by funds from operations, cash or cash equivalents, equity financings, the credit facility (Note 10) and debt financings (Note 12). The Company endeavors to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital investments.

The Company had adjusted working capital of $585.9 million (current assets less current liabilities excluding the current portion of risk management contracts and deferred credits) plus $1.1 billion of credit facility less $59.2 million of letters of credit, creating available funding of $1.6 billion at December 31, 2016. The Company plans to use these funds, along with funds from operations for the execution of its 2017 capital program. Refer to Note 12 for non-financial covenants on the senior unsecured notes.

24. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital

Years ended December 31,	2016	2015
Accounts receivable	**(105.5)**	(13.2)
Deposits and prepaid expenses	**(5.3)**	(3.1)
Accounts payable and accrued liabilities [1]	**53.7**	(79.2)
	(57.1)	(95.5)
Relating to:		
Operating activities [1]	**(88.0)**	(34.5)
Financing activities	**—**	—
Investing activities	**30.9**	(61.0)

(1) Adjusts for interest payment from the Acquisition of $5.1 million (Note 6).

Other cash flow information

Years ended December 31,	2016	2015
Cash interest paid	**139.9**	94.1
Cash taxes paid	**1.5**	—

25. COMMITMENTS AND CONTINGENCIES

The following table lists the Company's estimated material contractual commitments at December 31, 2016:

	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Senior notes [1]	**2,114.7**	—	—	939.9	1,174.8
Interest on senior notes	**775.7**	157.6	315.2	189.2	113.7
Firm transportation and processing agreements [2]	**4,172.0**	364.0	848.2	912.3	2,047.5
Operating leases [3]	**26.0**	3.8	7.6	6.6	8.0
Estimated contractual obligations	**7,088.4**	525.4	1,171.0	2,048.0	3,344.0

(1) Balance represents US$1.6 billion principal converted to Canadian dollars at the closing exchange rate for the period end.
(2) Subject to completion of certain pipeline and facility upgrades by counterparty transportation companies.
(3) The Company is committed under operating leases for office premises.

The following table outlines the take or pay obligations, on average over the next five years under the Company's significant transportation and processing agreements:

	2017	**2018**	**2019**	**2020**	**2021**	**Expiring**[1]
Transportation						
Condensate and oil						
Pembina (mbbls/d)	28.7	42.2	42.4	49.0	55.3	June 30, 2030
Natural gas						
Alliance (MMcf/d)	435	467	500	500	500	October 31, 2022
NGTL (MMcf/d)	158	293	368	363	349	June 30, 2026 [2]
NGPL (Dth/d) [4]	100	83	—	—	—	October 31, 2018
NGLs						
Pembina (mbbls/d)	15.8	19.8	19.8	22.3	24.8	June 30, 2030[3]
Processing						
Natural gas *(MMcf/d)*	154	174	194	200	200	April 20, 2036
NGLs (mbbls/d)	35.5	34.9	33.8	33.8	33.8	March 31, 2028

(1) When lines include multiple contracts of various expiration dates, the latest expiration date has been referenced.
(2) The timing of the firm commitments under the agreement with Nova Gas Transmission Ltd. ("NGTL"), a wholly owned subsidiary of TransCanada Corporation, is dependent upon the completion of NGTL system expansion, which is expected mid-2018.
(3) The timing of the firm commitments under the agreement with Pembina is dependent upon the completion of the Phase 3 expansion, which is expected July 1, 2017.
(4) Natural Gas Pipeline Company of America LLC ("NGPL").

26. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions. Key management personnel are comprised of all directors and officers of the Company. Amounts paid to directors and officers are disclosed in the table below:

Years ended December 31,	**2016**	2015
Salaries, benefits and other short-term compensation	**7.9**	8.8
Stock based compensation	**10.7**	8.9
Retention expense [1]	**1.1**	1.3
	19.7	19.0

(1) In November 2014, the Board of Directors approved a retention bonus plan for management and employees. The retention bonuses were payable in four equal installments payable every six months starting on May 5, 2015. Each installment payment was contingent upon the individual being employed by the Company on the date of payment. The maximum retention bonuses was $6.0 million, payable over the two-year period starting November 5, 2014.

CORPORATE INFORMATION

Management

Pat Carlson
CEO

Marty Proctor
President & COO

Christopher Law
CFO

Glen Nevokshonoff
Senior Vice President, Operations

Susan Targett
Senior Vice President

Merlyn Spence
Senior Vice President, Marketing

Tim Stauft
Senior Vice President

Kyle Brunner
General Counsel

Chris Feltin
Vice President, Corporate Planning

Randall Hnatuik
Vice President, Business Development

Barry Hucik
Vice President, Drilling

Kevin Johnston
Vice President, Accounting & Controller

Brian Newmarch
Vice President, Capital Markets

Charlotte Raggett
Vice President, Midstream Business Development

Directors

Kent Jespersen
Chairman

Pat Carlson
CEO

Kevin Brown

Avik Dey

Harvey Doerr

Paul Hand

Dale Hohm

Michael Kanovsky

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The Bank of Nova Scotia
The Toronto-Dominion Bank
Alberta Treasury Branches
Caisse Centrale Desjardins
JP Morgan Chase Bank, N.A., Toronto Branch
Wells Fargo Bank, N.A., Canadian Branch
Export Development Canada

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Independent Evaluators

McDaniel & Associates Consultants Ltd.

Stock Symbol

VII
Toronto Stock Exchange