SEVEN GENERATIONS
ENERGY

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

SEVEN GENERATIONS ENERGY LTD.

Condensed Interim Consolidated Balance Sheets (unaudited)

(millions of Canadian dollars)

As at	Notes		June 30, 2018		December 31, 2017
Assets					
Current assets					
Cash and cash equivalents	4	**$**	**151.8**	$	165.3
Accounts receivable	5		**304.6**		302.7
Risk management contracts	7		**13.2**		36.2
Deposits and prepaid expenses			**27.8**		18.8
			497.4		523.0
Risk management contracts	7		**18.9**		36.1
Oil and natural gas assets	6		**7,512.1**		6,733.0
Investment in associate			**—**		2.4
			8,028.4		7,294.5
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities			**542.2**		377.3
Risk management contracts	7		**171.0**		17.5
Credit facility	8		**131.7**		—
			844.9		394.8
Risk management contracts	7		**100.6**		16.5
Senior notes	9		**2,054.3**		1,956.4
Other long-term liabilities	10		**212.7**		198.0
Deferred income taxes			**320.3**		278.4
			3,532.8		2,844.1
Equity					
Share capital	11		**3,912.5**		3,864.4
Contributed surplus			**99.6**		100.6
Retained earnings			**483.5**		485.4
			4,495.6		4,450.4
		$	**8,028.4**	$	7,294.5

Commitments and contingencies (Note 18)

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(millions of Canadian dollars, except per share amounts)

	Notes	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues					
Liquids and natural gas sales	3,13	**$ 797.8**	$ 522.1	**$ 1,555.4**	$ 1,011.4
Royalties expense		**(16.4)**	(9.3)	**(35.3)**	(26.1)
		781.4	512.8	**1,520.1**	985.3
Risk management contracts					
Realized gain (loss)	7	**(17.7)**	1.8	**(30.8)**	(5.4)
Unrealized gain (loss)	7	**(203.6)**	93.0	**(277.8)**	255.8
Other income		**0.3**	1.2	**2.6**	2.4
		560.4	608.8	**1,214.1**	1,238.1
Expenses					
Operating expenses	14	**102.2**	93.9	**199.0**	162.7
Transportation, processing and other	15	**130.3**	82.3	**254.2**	154.3
Product purchases	3,13	**54.2**	17.0	**137.6**	17.0
Depletion and depreciation	6	**191.9**	171.1	**384.0**	328.3
General and administrative		**13.9**	12.3	**24.8**	23.1
Stock-based compensation	17	**4.5**	8.2	**10.1**	14.2
Finance expense	16	**32.4**	40.1	**63.8**	83.5
Foreign exchange (gain) loss		**43.3**	(48.5)	**97.2**	(68.3)
Loss on associate		**1.3**	2.2	**2.4**	1.9
		574.0	378.6	**1,173.1**	716.7
Income (loss) before taxes		**(13.6)**	230.2	**41.0**	521.4
Income Taxes					
Current income tax expense		**0.5**	1.0	**1.0**	1.7
Deferred income tax expense		**10.5**	51.1	**41.9**	126.4
		11.0	52.1	**42.9**	128.1
Net income (loss) and comprehensive income (loss)		**$ (24.6)**	$ 178.1	**$ (1.9)**	$ 393.3
Net income (loss) per share					
Basic	12	**$ (0.07)**	$ 0.50	**$ (0.01)**	$ 1.12
Diluted	12	**$ (0.07)**	$ 0.49	**$ (0.01)**	$ 1.08

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(millions of Canadian dollars)

		Three months ended June 30,		Six months ended June 30,	
	Notes	2018	2017	2018	2017
Operating activities					
Net income (loss) for the period		**(24.6)**	178.1	**(1.9)**	393.3
Items not affecting cash:					
Deferred income tax expense		**10.5**	51.1	**41.9**	126.4
Depletion and depreciation	6	**191.9**	171.1	**384.0**	328.3
Unrealized (gain) loss on risk management contracts	7	**203.6**	(93.0)	**277.8**	(255.8)
Unrealized foreign exchange (gain) loss		**45.5**	(49.5)	**98.1**	(68.6)
Stock-based compensation	17	**4.5**	8.2	**10.1**	14.2
Non-cash finance expenses and other	16	**1.3**	0.4	**2.7**	2.1
(Gain) loss on associate		**1.3**	1.7	**2.4**	0.5
Prepaid processing fees on third-party facilities	6	**—**	(23.5)	**—**	(23.5)
Reclamation expenditures	10	**—**	—	**(1.6)**	—
Changes in non-cash working capital	19	**(8.8)**	(50.7)	**35.8**	12.7
Cash provided by operating activities		**425.2**	193.9	**849.3**	529.6
Financing activities					
Exercise of equity compensation units	11	**28.9**	14.5	**33.4**	21.4
Proceeds from credit facility draws	8	**128.5**	—	**128.5**	—
Changes in non-cash working capital	19	**—**	—	**—**	—
Cash provided by financing activities		**157.4**	14.5	**161.9**	21.4
Investing activities					
Investments in oil and natural gas assets	6	**(562.6)**	(512.5)	**(1,145.2)**	(874.8)
Changes in non-cash working capital	19	**9.4**	78.8	**120.2**	108.0
Cash used in investing activities		**(553.2)**	(433.7)	**(1,025.0)**	(766.8)
Foreign exchange gain (loss) on cash held in foreign currencies		**0.2**	(1.1)	**0.3**	(1.8)
Increase (decrease) in cash and cash equivalents		**29.6**	(226.4)	**(13.5)**	(217.6)
Cash and cash equivalents, beginning of period		**122.2**	639.6	**165.3**	630.8
Cash and cash equivalents, end of period		**151.8**	413.2	**151.8**	413.2

Supplementary disclosure of changes in non-cash working capital (Note 19)

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

(millions of Canadian dollars)

Six months ended June 30,	Notes	2018	2017
Share capital			
Balance, beginning of period		**$ 3,864.4**	$ 3,830.5
Exercise of equity compensation units	17	**48.1**	28.8
Balance, end of period		**3,912.5**	3,859.3
Contributed surplus			
Balance, beginning of period		**100.6**	69.4
Stock-based compensation	17	**13.7**	20.3
Exercise of equity compensation units	17	**(14.7)**	(7.4)
Balance, end of period		**99.6**	82.3
Retained earnings (deficit)			
Balance, beginning of period		**485.4**	(77.1)
Net income (loss) for the period		**(1.9)**	393.3
Balance, end of period		**483.5**	316.2
Total shareholders equity, beginning of period		**$ 4,450.4**	$ 3,822.8
Total shareholders equity, end of period		**$ 4,495.6**	$ 4,257.8

See accompanying notes to the condensed interim consolidated financial statements.

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 condensate 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 voting common shares ("common shares") are publicly traded on the Toronto Stock Exchange under the symbol "VII". These condensed interim consolidated financial statements were approved and authorized by the Company's Board of Directors on August 1, 2018.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These consolidated financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and, therefore, should be read in conjunction with Seven Generations' consolidated financial statements for the years ended December 31, 2017 and 2016. All financial information is reported in millions of Canadian dollars, unless otherwise noted. References to "US$" are to United States dollars.

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies included in Note 3 and Note 4 of Seven Generations' consolidated financial statements for the years ended December 31, 2017 and 2016. Starting in 2018, the Company began presenting pentanes plus in the natural gas liquids ("NGLs") mix as condensate sales (previously reported as NGL sales). During the three and six months ended June 30, 2017, $24.6 million and $51.2 million of pentanes plus sales were reclassified as condensate sales, respectively (year ended December 31, 2017 - $122.5 million) (Note 13).

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

3. NEW ACCOUNTING POLICIES

These consolidated financial statements follow the same accounting policies as the consolidated financial statements for the years ended December 31, 2017 and 2016, other than for the following changes in respect of new IFRS accounting standards that were retrospectively adopted by Seven Generations on January 1, 2018:

- **IFRS 15 Revenue from Contracts with Customers** replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 provides a single, five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue for the amount it expects to receive from the sale of goods and services when control is transferred to the purchaser. The adoption of IFRS 15 did not have a material impact to the Company's revenue recognition policy in the consolidated financial statements. Consistent with Seven Generations' 2017 revenue recognition policy, the Company continues to recognize revenue from the sale of condensate, natural gas and NGLs when the risks and rewards of ownership of the products are transferred to the buyer which occurs at the point of sale. The majority of the Company's trade receivables are settled within 30 days following the month of sale.

  Seven Generations purchases condensate and natural gas for resale on a monthly basis in order to satisfy transportation commitments or fulfill pipeline sales nominations. During the year ended December 31, 2017, resales of condensate and natural gas were presented net of the cost of purchases within liquids and natural gas sales on the income statement. Starting on January 1, 2018, Seven Generations began presenting these purchases of condensate and natural gas separately.

  In 2017, Seven Generations received a net share of a margin that was earned in respect of third party marketing arrangements that optimized Seven Generations' transportation capacity primarily on the Alliance pipeline. This third party marketing income was presented net within transportation, processing and other expenses. Starting in the fourth quarter of 2017, Seven Generations began optimizing its Alliance pipeline capacity without the use of a third party. The purchase and resale of liquids and natural gas in respect of the Company's in-house marketing activities, primarily on the Alliance pipeline, have been presented separately for the three and six months ended June 30, 2018. The comparative third-party marketing income earned in 2017 continues to be presented net within transportation, processing and other expenses (Note 15).

  For the three and six months ended June 30, 2017 comparative periods, Seven Generations reclassified $17.0 million in condensate and natural gas purchases acquired for resale separately on the income statement. For the year ended December 31, 2017, Seven Generations reclassified $101.1 million of product purchases in respect of condensate and natural gas acquired for resale.

- **IFRS 9 Financial Instruments** replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces multiple principles in IAS 39. The Company's cash and cash equivalents and risk management contracts previously classified as held for trading are now classified at fair value through profit and loss. Accounts receivable and accounts payable are now classified at amortized cost, previously classified as loans and receivables and other financial liabilities, respectively. The Company's senior notes are now classified at amortized cost (previously classified as other financial liabilities). The changes in classification did not impact the measurement of the Company's financial instruments in 2018.

  The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and the number of days past due in order to estimate bad debts. The adoption of IFRS 9 did not result in a material impact to the Company's consolidated financial statements due to the high credit quality of Seven Generations' customers.

The following IFRS accounting standard will be adopted by Seven Generations on January 1, 2019:

- **IFRS 16 Leases** replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition by lessees of assets and liabilities for most leases, including subleases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

  Seven Generations is currently evaluating the financial impact of IFRS 16 on the Company's consolidated financial statements. As at June 30, 2018, Seven Generations anticipates that its minimum commitments with respect to corporate office lease arrangements will require the recognition of a right of use asset and corresponding lease liability on the balance sheet following the adoption of IFRS 16 on January 1, 2019. Seven Generations continues to assess the impact of the new leasing standard on the Company's consolidated financial statements which could be subject to change prior to the implementation of the new standard in 2019. The Company plans to adopt IFRS 16 using the modified retrospective approach.

4. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017
Cash	**$ 150.7**	$ 164.5
Short-term investments(1)	**1.1**	0.8
Cash and cash equivalents	**$ 151.8**	$ 165.3

(1) As at June 30, 2018, the short-term investments earned interest at a weighted average rate of 1.86% (December 31, 2017 - 1.35%)

As at June 30, 2018, the credit risk associated with the Company's cash and cash equivalent balances was considered low as the balances were held with two large Canadian chartered banks.

5. ACCOUNTS RECEIVABLE

	June 30, 2018	December 31, 2017
Liquids and natural gas sales	**$ 253.7**	$ 243.2
GST, royalty recoveries and other	**36.7**	46.5
Joint venture billings	**14.2**	13.0
Accounts receivable	**$ 304.6**	$ 302.7

As at June 30, 2018, management believed collection risk on the outstanding accounts receivable balances is low given the Company's history of collections and over 90% of the Company's accounts receivables were held with investment-grade counterparties. There were no material amounts past due as at June 30, 2018 (December 31, 2017 - no material amounts).

6. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other assets	Total
Investments in oil and natural gas assets				
Balance at December 31, 2016	$ 511.6	$ 6,252.3	$ 14.1	**$ 6,778.0**
Additions	19.6	1,628.3	3.5	**1,651.4**
Transfers from E&E to PP&E	(200.0)	200.0	—	**—**
Prepaid processing fees on third-party facilities	—	—	21.0	**21.0**
Non-cash capitalized costs(1)	—	41.3	—	**41.3**
Balance at December 31, 2017	331.2	8,121.9	38.6	**8,491.7**
Additions	21.9	1,120.8	2.5	**1,145.2**
Non-cash capitalized costs(1)	1.2	17.3	—	**18.5**
Balance at June 30, 2018	354.3	9,260.0	41.1	**9,655.4**
Accumulated depletion and depreciation				
Balance at December 31, 2016	—	1,022.5	5.4	**1,027.9**
Amortization of prepaid processing expenses	—	—	0.6	**0.6**
Depletion and depreciation	4.5	724.1	1.6	**730.2**
Balance at December 31, 2017	4.5	1,746.6	7.6	**1,758.7**
Amortization of prepaid processing expenses	—	—	0.6	**0.6**
Depletion and depreciation	—	382.9	1.1	**384.0**
Balance at June 30, 2018	$ 4.5	$ 2,129.5	$ 9.3	**$ 2,143.3**
Net book value				
Balance at December 31, 2017	$ 326.7	$ 6,375.3	$ 31.0	**$ 6,733.0**
Balance at June 30, 2018	$ 349.8	$ 7,130.5	$ 31.8	**$ 7,512.1**

(1) For the six months ended June 30, 2018, non-cash capitalized costs consisted of $14.9 million of decommissioning obligation assets and $3.6 million of stock-based compensation (year ended December 31, 2017 - $35.5 million and $6.1 million, respectively).

In the fourth quarter of 2017, Seven Generations sanctioned the development of the Nest 3 exploration area within the Kakwa River Project ("Nest 3"). With technical feasibility and commercial viability having been established through delineation drilling and other exploration activities, the $200.0 million carrying value of Nest 3 was transferred into the Company's developing and producing assets.

As at June 30, 2018, $503.6 million in oil and natural gas assets were not subject to depletion and depreciation as they were not ready for use in the manner intended by management (December 31, 2017 - $448.0 million).

At each reporting period, the Company reviews for indicators of impairment to ensure that the carrying value of its oil and natural gas properties are recoverable. As at June 30, 2018, there were no indicators of impairment.

7. RISK MANAGEMENT CONTRACTS

The Company periodically enters into risk management contracts to manage its commodity price and foreign currency risks. The following table summarizes the carrying value of Seven Generations' risk management contracts held, by contract type, as at June 30, 2018:

	June 30, 2018	December 31, 2017
Natural gas	**$ 59.4**	$ 70.2
Liquids	**(293.3)**	(50.5)
Foreign exchange	**(5.6)**	18.6
Net risk management contract asset (liability)	**$ (239.5)**	$ 38.3

The Company had the following risk management contracts in place as at June 30, 2018:

	C$ WTI Collars		C$ WTI Sold Puts		US$ WTI Collars		US$ WTI Sold Puts	
Term[(1)]	bbl/d	C$/bbl	bbl/d	C$/bbl	bbl/d	US$/bbl	bbl/d	US$/bbl
2018 remainder	30,500	$58.28 - $76.43	12,000	$40.83	4,000	$53.57 - $57.94	—	—
2019	23,500	$58.09 - $75.82	7,500	$41.00	5,000	$52.85 - $58.26	—	—
2020	8,500	$57.06 - $71.20	1,500	$40.00	10,000	$52.48 - $59.38	1,000	$40.00
2021	—	—	—	—	2,750	$52.80 - $60.33	500	$40.00

(1) Weighted average volumes and prices are presented.

	Chicago Citygate Swaps		Chicago Basis Swaps		AECO 7A Collars/Swaps		Henry Hub Swaps	
Term[(1)]	MMbtu/d	US$/MMbtu	MMbtu/d	US$/MMbtu	GJ/d	C$/GJ	MMbtu/d	US$/MMbtu
2018 remainder	145,000	$2.84	—	—	60,000	$2.44 - $2.85	60,000	$2.95
2019	107,500	$2.84	2,500	$(0.23)	60,000	$2.44 - $2.85	70,000	$2.92
2020	32,500	$2.74	40,000	$(0.23)	10,000	$2.13 - $2.13	52,500	$2.85
2021	—	—	15,000	$(0.23)	—	—	12,500	$2.79

(1) Weighted average volumes and prices are presented.

	FX Swaps		FX Collars	
Term[(1)]	US$MM	C$/US$	US$MM	C$/US$
2018 remainder	$117.7	$1.3057	$5.0	$1.2600 - $1.3135
2019	$161.9	$1.2885	$17.3	$1.2643 - $1.3120
2020	$91.9	$1.2700	$19.8	$1.2650 - $1.3118
2021	$29.7	$1.2710	$9.9	$1.2650 - $1.3118

(1) Weighted average figures are presented.

During the second quarter of 2018, the Company entered into a forward currency swap to manage known currency exposure and reduce borrowing costs on US dollar denominated credit facility draws. As at June 30, 2018, Seven Generations held a FX forward currency contract for USD$100 million at 1.30:1 (CAD:USD) with a current asset value of $1.8M. The forward currency contract has not been presented in the tables above.

8. BANK DEBT

As at June 30, 2018, Seven Generations had drawn US$100 million (C$131.7 million) (December 31, 2017 - nil) of its covenant-based senior secured credit facility of C$1.4 billion (the "Credit Facility").

The Credit Facility is secured by a floating charge over the Company's assets and contains certain covenants that limit the Company's ability to, among other things: incur additional indebtedness; create or permit liens to exist; and make certain dispositions and transfers of assets. The following two financial covenants are associated with the Credit Facility:

- Senior Secured Net Debt to Adjusted EBITDA Ratio - cannot exceed 2.50:1
- Adjusted EBITDA to Interest Expense Ratio - cannot be less than 2.50:1

For the purposes of the covenant calculation, Adjusted EBITDA is calculated as net income (loss) before interest, income taxes, depletion, depreciation and amortization, adjusted for certain non-cash, extraordinary and non-recurring items. Senior Secured Net Debt consists of amounts drawn under the Credit Facility less cash and cash equivalents. The balance of the outstanding unsecured senior notes are excluded under the definition.

As at June 30, 2018, the Company was in compliance with the covenants under the Credit Facility. The Senior Secured Net Debt to Adjusted EBITDA Ratio and Adjusted EBITDA to Interest Expense Ratio were (0.01):1 and 10.17:1, respectively.

Drawn amounts under the Credit Facility bear interest at a rate of LIBOR plus an applicable LIBOR margin which ranges depending on the Company's Senior Secured Net Debt to EBITDA ratio. During the three months ended June 30, 2018, amounts drawn under the Credit Facility bore an effective annual interest rate of 3.5%. The Credit Facility matures in 2021, but has been presented as a current liability on the consolidated balance sheet as Seven Generations anticipates that the Credit Facility draws will be repaid within 12 months.

During the three months ended June 30, 2018, the Company had drawn funds from the Credit Facility in U.S. dollars, as permitted under the terms of the credit agreement. In conjunction with the draw of US dollar denominated funds, the Company entered into a cross-currency swap to mitigate the exposure to foreign currency risk and reduce borrowing costs (Note 7).

The Company also has an unsecured demand letter of credit facility of up to C$45.0 million and US$25.0 million. As at June 30, 2018, C$64.1 in letters of credit were issued and outstanding under the facility (December 31, 2017 - C$76.4 million).

9. SENIOR NOTES

	June 30, 2018	December 31, 2017
US$425 million 6.75% senior notes, due May 1, 2023	**$ 559.5**	$ 533.2
US$450 million 6.875% senior notes, due June 30, 2023	**592.6**	564.5
US$700 million 5.375% senior notes, due September 30, 2025	**921.8**	878.2
	2,073.9	1,975.9
Less unamortized debt issue costs	**(24.1)**	(24.3)
Plus unamortized premium	**4.5**	4.8
Balance, end of period	**$ 2,054.3**	$ 1,956.4

(1) The US dollar senior notes were translated into Canadian dollars at the period end exchange rate of US$1=C$1.32 (December 31, 2017 – US$1=C$1.25).

The senior notes are carried at amortized cost, net of premiums and transaction costs, and are accreted to their principal balance at maturity using the effective interest rate method. As at June 30, 2018, the fair value of senior notes was $2,077.6 million (December 31, 2017 - $2,059.2 million).

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; transfer assets; and engage in amalgamations, mergers or consolidations.

The Company holds prepayment options on all of its senior notes which carry a weighted average cost of 105.3% of the debt principal as at June 30, 2018. The cost of the prepayment options declines each year until reaching par with two years remaining on the debt maturities. Prior to certain specified dates, the senior notes can only be redeemed in whole or in part based on certain other provisions. Refer to the Company's 2017 consolidated financial statements and Annual Information Form both dated March 13, 2018 for further details. The indentures under which the senior notes were issued are also available on SEDAR.

The Company is exposed to foreign exchange rate fluctuations on the principal and interest related to senior notes. As at June 30, 2018, a 10% increase to the value of the Canadian dollar relative to the US dollar would result in a gain of approximately $207.4 million (10% decline - loss of $207.4 million) to the amortized cost of the notes.

10. OTHER LONG-TERM LIABILITIES

	June 30, 2018	December 31, 2017
Decommissioning liabilities	**$ 209.5**	$ 194.2
Onerous leases and other	**3.2**	3.8
Other long-term liabilities	**$ 212.7**	$ 198.0

Decommissioning liabilities

	Six months ended June 30, 2018	Year ended December 31, 2017
Balance, beginning of period	**$ 194.2**	$ 160.7
Liabilities incurred	**14.1**	23.9
Change in estimates	**—**	5.4
Change in discount rates and other	**0.6**	0.4
Reclamation expenditures	**(1.6)**	—
Accretion (Note 16)	**2.2**	3.8
Balance, end of period	**$ 209.5**	$ 194.2

As at June 30, 2018, the total undiscounted, uninflated estimated cash flows required to settle the Company's decommissioning liabilities was approximately $221.4 million (December 31, 2017 – $205.8 million). These liabilities are anticipated to be incurred over the next 35 years with the majority of costs incurred between 2041 and 2053. As at June 30, 2018, the Company utilized a risk free rate of 2.2% (December 31, 2017 - 2.2%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%).

11. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common 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.

	Six months ended June 30, 2018		Year ended December 31, 2017	
	Number (millions)	Amount ($)	Number (millions)	Amount ($)
Balance, beginning of period	**354.7**	**$ 3,864.4**	350.3	$ 3,830.5
Exercise of stock options and performance warrants	**7.0**	**33.4**	4.4	25.0
Transfer from contributed surplus on exercise of equity compensation	**—**	**14.7**	—	8.9
Balance, end of period	**361.7**	**$ 3,912.5**	354.7	$ 3,864.4

12. PER SHARE AMOUNTS

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Weighted average number of common shares - basic	**358.4**	353.4	**356.7**	352.0
Dilutive effect of outstanding equity compensation units	**—**	11.7	**—**	12.8
Weighted average number of common shares - diluted	**358.4**	365.1	**356.7**	364.8

During the three and six months ended June 30, 2018, the weighted average number of shares outstanding excluded 6.3 million and 7.4 million units from the calculation, respectively, as the units were anti-dilutive during the periods.

13. LIQUIDS AND NATURAL GAS SALES

	Three months ended June 30,				Six months ended June 30,			
		2018		2017(1)		2018		2017(1)
Condensate	$	**549.8**	$	330.2	$	**1,052.3**	$	626.9
Natural gas		**197.8**		152.4		**403.1**		303.2
NGLs		**50.2**		39.5		**100.0**		81.3
Liquids and natural gas sales	$	**797.8**	$	522.1	$	**1,555.4**	$	1,011.4
Sales by country								
Canada	$	**624.9**	$	369.0	$	**1,204.8**	$	710.1
United States	$	**172.9**	$	153.1	$	**350.6**	$	301.3

(1) Starting in 2018, Seven Generations began presenting pentanes plus in the NGL mix as condensate sales (previously reported as NGL sales). 2017 liquids and natural gas sales have been adjusted to conform to this current period presentation (Note 2).

Liquids and natural gas sales primarily relates to the sale of production from the Company's Kakwa River Project. Seven Generations also purchases condensate and natural gas for resale on a monthly basis in order to optimize its transportation capacity and satisfy take or pay commitments.

During the six months ended June 30, 2018, the Company's liquids and natural gas included $182.9 million of condensate and natural gas sales relating to products that were purchased for sale (2017 - $17.3 million). The cost of the condensate and natural gas purchases during the first six months of 2018 was $137.6 million (2017 - $17.0 million) and has been presented as a separate expense on the consolidated statement of comprehensive income. During the six months ended June 30, 2018, the Company incurred $26.6 million in respect of transportation tolls relating to product purchased for resale (six months ended June 30, 2017 - nil) (Note 15).

The Company enters into physical delivery contracts on the Alliance Pipeline to Chicago, Illinois, the Natural Gas Pipeline Company of America LLC pipeline to the US Gulf Coast, the TransCanada Pipelines Limited pipeline to Dawn, Ontario and the Nova Gas Transmission Ltd. pipeline 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.

The following table summarizes the average daily volumes the Company has committed to deliver on a term contract basis as at June 30, 2018:

	Chicago Citygate Index MMBtu/d	US Gulf Coast Basis MMBtu/d	Dawn Hub Index MMBtu/d	AECO Index GJ/d
2018	**218,333**	**75,000**	**50,000**	**35,201**
2019	**20,000**	**20,833**	**—**	**20,046**

14. OPERATING EXPENSES

	Three months ended June 30,				Six months ended June 30,			
		2018		2017		2018		2017
Trucking and disposal	$	**38.1**	$	44.1	$	**77.3**	$	68.7
Equipment rental and maintenance		**35.4**		25.3		**65.5**		50.9
Chemicals and fuel		**11.3**		9.9		**20.9**		18.4
Staff and contractor costs		**12.8**		10.2		**24.1**		17.6
Property tax and other		**4.6**		4.4		**11.2**		7.1
Operating expenses	$	**102.2**	$	93.9	$	**199.0**	$	162.7

15. TRANSPORTATION, PROCESSING AND OTHER EXPENSES

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Pipeline tariffs	**$ 94.2**	$ 52.9	**$ 176.5**	$ 97.7
Processing	**25.5**	19.4	**55.5**	37.1
Trucking and other	**11.1**	16.1	**22.7**	27.9
Third party marketing income	**(0.5)**	(6.1)	**(0.5)**	(8.4)
Transportation, processing and other	**$ 130.3**	$ 82.3	**$ 254.2**	$ 154.3

Third party marketing income relates to Seven Generation's share of margins that were earned in respect of third party marketing arrangements that optimized the Company's transportation capacity primarily on the Alliance pipeline. During the fourth quarter of 2017, Seven Generations began optimizing its Alliance pipeline capacity without the use of a third party. The purchase and resale of liquids and natural gas in respect of the Company's in-house marketing activities on the Alliance pipeline have been presented separately on the income statement for the three and six months ended June 30, 2018 (Note 13). Any income earned from other third-party marketing arrangements as well as the comparative third-party marketing income earned in 2017 continue to be presented net within transportation, processing and other expenses.

16. FINANCE EXPENSE

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest on senior notes	**$ 31.4**	$ 37.3	**$ 61.9**	$ 77.9
Revolving credit facility fees and bank fees	**1.7**	1.5	**3.0**	2.9
Accretion of decommissioning obligations (Note 10)	**1.2**	0.3	**2.2**	0.7
Amortization of premiums and debt issuance costs	**0.5**	1.0	**0.8**	2.0
Finance costs	**34.8**	40.1	**67.9**	83.5
Capitalized borrowing costs	**(2.4)**	—	**(4.1)**	—
Finance expense	**$ 32.4**	$ 40.1	**$ 63.8**	$ 83.5

Capitalized borrowing costs during the three and six months ended June 30, 2018 relate to funds invested in respect of the construction of the Company's third wholly-owned gas processing plant in the Gold Creek area.

17. STOCK-BASED COMPENSATION

The Company's equity compensation arrangements allow for the granting of equity units to directors, officers, employees and service providers of the Company. The Company's current stock-based compensation plans consist of stock options, performance warrants, performance share units ("PSUs"), restricted share units ("RSUs") and deferred share units ("DSUs").

The following table summarizes the Company's outstanding equity compensation units as at June 30, 2018:

	June 30, 2018			December 31, 2017		
	Units (millions)	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)	Units (millions)	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Stock options	**12.1**	**$ 18.03**	**5.8**	12.4	$ 16.63	5.4
Performance warrants	**3.4**	**8.81**	**1.6**	8.3	6.91	1.3
PSUs and RSUs	**1.2**	**—**	**8.7**	1.1	—	8.7
DSUs	**0.2**	**—**	**—**	0.2	—	—
Units outstanding	**16.9**	**$ 12.18**	**4.3**	22.0	$ 12.00	4.0

During the six months ended June 30, 2018, there were 7.0 million equity compensation units exercised primarily relating to warrant and stock option grants issued in prior years. The Company also had 0.8 million equity compensation units forfeited during the first half of the year. The decline was partially offset by the issuance of 2.7 million equity compensation units consisting of 2.2 million stock options and 0.5 million PSUs and RSUs.

The Company estimates the fair value of stock options granted using the Black-Scholes pricing model. During the six months ended June 30, 2018, the weighted-average fair value of stock options and PSUs/RSUs granted was $5.38 and $15.60, respectively (six months ended June 30, 2017 - $7.65 and $24.75).

The following table summarizes the Company's exercisable equity compensation units:

	June 30, 2018				December 31, 2017			
	Units (millions)		Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)	Units (millions)		Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Stock options	**6.9**	**$**	**15.07**	**4.0**	7.6	$	11.75	3.4
Performance warrants	**3.2**		**8.33**	**1.6**	7.5		6.35	1.1
PSUs and RSUs	**0.3**		**—**	**7.3**	0.3		—	7.6
DSUs	**0.2**		**—**	**—**	0.2		—	—
Units exercisable	**10.7**	**$**	**5.77**	**1.4**	15.6	$	8.80	2.3

For additional information about the Company's stock-based compensation plans, refer to the audited consolidated financial statements for the year ended December 31, 2017 and the Company's Information Circular and Proxy Statement both dated March 13, 2018 which are available on SEDAR.

18. COMMITMENTS AND CONTINGENCIES

The following table lists the Company's estimated material contractual minimum commitments as at June 30, 2018:

		2018		2019		2020		2021		2022		Thereafter	Total
Senior notes[(1)]	$	—	$	—	$	—	$	—	$	—	$	2,073.9	**$ 2,073.9**
Interest on senior notes		64.0		128.1		128.1		128.1		128.1		169.2	**745.6**
Firm transportation and processing agreements		224.0		463.2		500.0		525.6		489.4		2,590.3	**4,792.5**
Office leases		2.2		3.7		3.3		3.2		3.3		2.6	**18.3**
Estimated contractual obligations	$	290.2	$	595.0	$	631.4	$	656.9	$	620.8	$	4,836.0	**$ 7,630.3**

(1) Balance represents the US$1.575 billion principal converted to Canadian dollars at the exchange rate of US$1=C$1.32 as at June 30, 2018.

Excluded from the table above are the short term revolving draws on the credit facility which have been presented as a current liability on Company's consolidated balance sheet (Note 8). The Company is involved in legal claims arising in the normal course of business. The final outcome of such claims cannot be predicted with certainty and management believes that it has appropriately assessed any impact to the consolidated financial statements.

19. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,				Six months ended June 30,			
		2018		2017		2018		2017
Accounts receivable	**$**	**(18.3)**	$	(67.7)	**$**	**(1.9)**	$	(63.2)
Deposits and prepaid expenses		**(13.5)**		(6.9)		**(9.0)**		(4.7)
Accounts payable and accrued liabilities		**32.0**		102.7		**164.9**		188.6
		0.2		28.1		**154.0**		120.7
Unrealized foreign exchange loss on non-cash working capital		**0.4**		—		**2.0**		—
	$	**0.6**	$	28.1	**$**	**156.0**	$	120.7
Relating to:								
Operating activities	**$**	**(8.8)**	$	(50.7)	**$**	**35.8**	$	12.7
Investing activities	**$**	**9.4**	$	78.8	**$**	**120.2**	$	108.0

CORPORATE INFORMATION

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COO

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Barry Hucik
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Kevin Johnston
Vice President, Accounting & Controller

Jordan Johnsen
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Brian Newmarch
Vice President, Capital Markets

Charlotte Raggett
Vice President, Midstream Business Development

Pam Ramotowski
Vice President, Human Resources

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Kent Jespersen
Chairman

Marty Proctor
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Auditors
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Legal Counsel
Stikeman Elliott LLP

Independent Evaluators
McDaniel & Associates Consultants Ltd.

Stock Symbol
VII
Toronto Stock Exchange