SEVEN GENERATIONS

ENERGY

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

SEVEN GENERATIONS ENERGY LTD.

Condensed Consolidated Balance Sheets (*unaudited*)

(thousands of Canadian dollars)

As at	Notes	**March 31, 2016**	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	4	**570,935**	405,046
Accounts receivable		**70,263**	76,439
Risk management contracts	16	**118,796**	98,570
Deposits and prepaid expenses		**12,596**	12,418
		772,590	592,473
Risk management contracts	16	**54,791**	52,996
Oil and natural gas assets	5	**3,294,824**	3,109,503
Goodwill		**4,010**	4,010
		4,126,215	3,758,982
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**206,306**	187,883
Risk management contracts	16	**4,727**	18,320
		211,033	206,203
Risk management contracts	16	**1,416**	10,039
Senior notes	7	**1,451,528**	1,546,761
Deferred credits		**820**	850
Decommissioning liabilities	8	**84,928**	79,109
Deferred income taxes	9	**144,025**	129,370
		1,893,750	1,972,332
Equity			
Share capital	10	**2,079,723**	1,775,673
Contributed surplus		**65,126**	61,810
Retained earnings (Deficit)		**87,616**	(50,833)
		2,232,465	1,786,650
		4,126,215	3,758,982

Commitments and contingencies (Note 18)

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (*unaudited*)

(thousands of Canadian dollars, except per share amounts)

Three months ended March 31	Notes	**2016**	2015
Revenues			
Liquids and natural gas sales		**187,996**	108,540
Royalties		**(12,954)**	(15,181)
		175,042	93,359
Risk management contracts			
Realized gain	16	**36,250**	50,655
Unrealized gain (loss)	16	**44,237**	(41,092)
Other income		**5,018**	1,685
		260,547	104,607
Expenses			
Operating	13	**30,981**	21,454
Transportation		**39,852**	12,966
General and administrative	14	**7,985**	6,629
Depletion, depreciation and amortization	5	**89,358**	60,043
Stock based compensation	11	**4,846**	2,952
Finance expense	15	**27,348**	18,027
Foreign exchange loss (gain)		**(96,601)**	68,664
		103,769	190,735
Income (loss) before taxes		**156,778**	(86,128)
Income Taxes			
Current income tax expense	9	**86**	—
Deferred income tax expense (recovery)	9	**18,243**	(3,430)
		18,329	(3,430)
Net income (loss) and comprehensive income (loss)		**138,449**	(82,698)
Net income (loss) per share	12		
Basic		**0.53**	(0.34)
Diluted		**0.50**	(0.34)

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Consolidated Statements of Changes in Equity (*unaudited*)

(thousands of Canadian dollars)

	Notes	**Share capital**	**Contributed surplus**	**Retained earnings (deficit)**	**Total**
Balance at December 31, 2014		1,719,779	54,684	136,463	1,910,926
Net loss for the period		—	—	(82,698)	(82,698)
Stock based compensation	11	—	4,132	—	4,132
Exercise of stock options and performance warrants	10, 11	4,179	(890)	—	3,289
Balance at March 31, 2015		1,723,958	57,926	53,765	1,835,649
Balance at December 31, 2015		**1,775,673**	**61,810**	**(50,833)**	**1,786,650**
Net income for the period		**—**	**—**	**138,449**	**138,449**
Issue of common shares	10	**300,000**	**—**	**—**	**300,000**
Share issue costs (net of deferred tax)	10	**(9,698)**	**—**	**—**	**(9,698)**
Stock based compensation	11	**—**	**6,922**	**—**	**6,922**
Exercise of stock options and performance warrants	10, 11	**13,748**	**(3,606)**	**—**	**10,142**
Balance at March 31, 2016		**2,079,723**	**65,126**	**87,616**	**2,232,465**

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Consolidated Statements of Cash Flows (*unaudited*)

(thousands of Canadian dollars)

Three months ended March 31	Notes	**2016**	2015
Operating activities			
Net income (loss) for the period		**138,449**	(82,698)
Items not affecting cash:			
Deferred income tax expense (recovery)	9	**18,243**	(3,430)
Depletion, depreciation and amortization	5	**89,358**	60,043
Unrealized (gain) loss on risk management contracts	16	**(44,237)**	41,092
Stock based compensation	11	**4,846**	2,952
Non-cash finance expenses	15	**426**	54
Unrealized foreign exchange (gain) loss		**(96,400)**	68,906
Other		**(31)**	(30)
Changes in non-cash working capital	17	**33,861**	30,323
Cash provided by operating activities		**144,515**	117,212
Financing activities			
Issue of shares for cash	10	**300,000**	—
Share issue costs	10	**(13,285)**	—
Issue of shares on option exercises	10	**10,142**	3,289
Changes in non-cash working capital	17	**345**	—
Cash provided by financing activities		**297,202**	3,289
Investing activities			
Oil and natural gas asset additions	5	**(267,134)**	(368,400)
Changes in non-cash working capital	17	**(8,248)**	14,289
Cash used in investing activities		**(275,382)**	(354,111)
Unrealized foreign exchange (loss) gain on cash held in foreign currencies		**(446)**	6,971
Increase (decrease) in cash and cash equivalents		**165,889**	(226,639)
Cash and cash equivalents, beginning of period		**405,046**	848,136
Cash and cash equivalents, end of period		**570,935**	**621,497**

Supplementary disclosure of cash flow information (Note 17)

See accompanying notes to the condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements (*unaudited*)
As at and for the three months ended March 31, 2016 and 2015
(all tabular amounts in thousands of Canadian dollars, except share, per share and price information)

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 300, 140 – 8th Avenue S.W., Calgary, Alberta T2P 1B3. The Company's Class A common shares are publicly traded on the Toronto Stock Exchange under the symbol "VII".

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" using accounting policies consistent with Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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' audited financial statements for the year ended December 31, 2015. All financial information is reported in thousands of Canadian dollars, unless otherwise noted. References to "US$" are to United States dollars. The consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 of Seven Generations' audited consolidated financial statements for the year ended December 31, 2015. All accounting policies and methods of computation followed in the preparation of these consolidated financial statements are consistent with those of the previous consolidated financial year, except as noted in Note 3 "Changes in Accounting Policies" in these consolidated financial statements. There have been no changes to the use of estimates or judgments since December 31, 2015.

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

The consolidated financial statements were approved and authorized for issue by the Company's Board of Directors (the "Board") on May 3, 2016.

3. NEW ACCOUNTING POLICIES

Changes in accounting policies

There were no material new or amended accounting standards adopted during the three months ended March 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 on the Company's financial statements is currently being evaluated.

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 Company is currently evaluating the impact of the standard on the consolidated financial statements.

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.

4. CASH AND CASH EQUIVALENTS

As at	**2016**	2015
Cash	**495,910**	77,142
Short term investments, bearing interest at a weighted average rate of 0.6% (December 31, 2015 – 0.7%)	**75,025**	327,904
	570,935	405,046

5. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other	Total
Cost				
Balance at December 31, 2014	214,461	2,089,682	6,396	2,310,539
Additions	13,474	1,293,589	1,910	—
Dispositions	(5,407)	2,009	—	—
Non-cash capitalized costs[(1)]	—	37,703	—	6,000
Balance at December 31, 2015	222,528	3,422,983	8,306	3,653,817
Additions	**—**	**267,086**	**48**	**267,134**
Dispositions and transfers	**(11,034)**	**11,034**	**—**	**—**
Non-cash capitalized costs[(1)]	**—**	**7,545**	**—**	**7,545**
Balance at March 31, 2016	**211,494**	**3,708,648**	**8,354**	**3,928,496**
Accumulated depletion, depreciation and amortization				
Balance at December 31, 2014	—	258,987	1,792	260,779
Depletion, depreciation and amortization expense	—	282,022	1,513	283,535
Balance at December 31, 2015	—	541,009	3,305	544,314
Depletion, depreciation and amortization expense	**—**	**88,841**	**517**	**89,358**
Balance at March 31, 2016	**—**	**629,850**	**3,822**	**633,672**
Net book value				
Balance at December 31, 2015	222,528	2,881,974	5,001	3,109,503
Balance at March 31, 2016	**211,494**	**3,078,798**	**4,532**	**3,294,824**

(1) Non-cash capitalized costs include $5.4 million (December 31, 2015 - $25.3 million) of decommissioning obligation assets and $0.1 million non-cash interest and financing (December 31, 2015 - $0.4 million).

As at March 31, 2016, the calculation for depletion included an estimated $6.2 billion (December 31, 2015 - $6.4 billion) for future development capital associated with undeveloped estimated recoverable proved plus probable reserves and excluded $159.8 million (December 31, 2015 - $148.8 million) for the cost of undeveloped land for which no recoverable reserves have been assigned and for other capital projects not yet in use.

During the three months ended March 31, 2016, the Company capitalized $4.9 million (three months ended March 31, 2015 - $3.5 million) of general and administrative expenses based on direct salaries and benefits paid to development personnel specifically related to capital activities, including $2.1 million (three months ended March 31, 2015 - $1.2 million) related to stock based compensation.

During the three months ended March 31, 2016, the Company capitalized $3.6 million (three months ended March 31, 2015 - $0.3 million) of borrowing costs.

In 2016, the Company closed an asset swap arrangement in which 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 fair value of the assets approximated the cost and as such, no gain or loss was recorded for the three months ended March 31, 2016 (three months ended March 31, 2015 - $Nil).

At the end of each reporting period, the Company performs an asset impairment review to ensure that the carrying value of its oil and natural gas properties and associated goodwill is recoverable. At March 31, 2016 and 2015, the Company determined that based on fair value less cost to dispose, both its oil and natural gas assets and goodwill were not impaired.

6. BANK DEBT

At March 31, 2016, the Company has an $850.0 million revolving credit facility (December 31, 2015 – $850.0 million) with a syndicate of banks (the “credit facility”), expiring in May 2018. 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.

As of March 31, 2016, the Company had $37.2 million in letters of credit (December 31, 2015 - $38.2 million), of which $15.6 million (US$12.0 million) was issued in US dollars (December 31, 2015 - $16.6 million (US$12.0 million)).

At March 31, 2016, the available amount to draw on the credit facility was $812.8 million (December 31, 2015 - $811.8 million).

7. SENIOR NOTES

	March 31, 2016	December 31, 2015
Balance, beginning of period	**1,546,761**	813,880
Issuance of debt	**—**	515,052
Debt issue costs	**—**	(11,329)
Unrealized foreign exchange (gain) loss	**(95,309)**	228,802
Amortization of premium and debt issue costs	**76**	356
Balance, end of period	**1,451,528**	1,546,761

US$700.0 million of the senior notes bear interest at 8.25% per annum and mature in 2020. US$425.0 million of the senior notes bear interest at 6.75% per annum and mature in 2023. 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 March 31, 2016, the Company was in compliance with the covenants of the senior notes.

8. DECOMMISSIONING LIABILITIES

	March 31, 2016	December 31, 2015
Balance, beginning of period	**79,109**	52,163
Liabilities incurred	**1,751**	25,263
Changes in estimates	**108**	(1,089)
Changes in estimated discount rates	**3,538**	1,110
Decommissioning expenditures	**—**	1,662
Accretion	**422**	—
Balance, end of period	**84,928**	79,109

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 March 31, 2016 is approximately $142.3 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 2048 and 2050. At March 31, 2016, a risk free rate of 2.0 percent (December 31, 2015 – 2.2 percent) and an inflation rate of 2.0 percent (December 31, 2015 – 2.0 percent) were used to calculate the provision for decommissioning liabilities.

9. 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:

Three months ended March 31,	2016	2015
Income (loss) before taxes	**156,778**	(86,128)
Canadian statutory income tax rate	**27%**	25%
Expected income tax expense (recovery)	**42,330**	(21,532)
Add (deduct):		
Non-deductible stock based compensation	**1,308**	738
Non-taxable portion of foreign exchange capital (gains) losses	**(12,875)**	8,447
Change in previous unrecognized tax benefit	**(12,798)**	8,829
Other	**364**	88
Income tax expense (recovery)	**18,329**	(3,430)

For the three months ended March 31, 2016, $0.1 million of current income tax expense was recorded relating to foreign sourced income earned from the Company's subsidiary activity in the US. Total tax pools in Canada at March 31, 2016 were $2.6 billion (December 31, 2015 - $2.7 billion). Of this amount, $0.5 billion is available for deduction against taxable income for the current fiscal year. Non-capital losses begin expiring in 2034.

10. 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:

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class A Common Voting Shares				
Balance, beginning of period	**254,414**	**1,775,659**	244,716	1,716,050
Issued for cash (a)	**21,429**	**300,000**	—	—
Share issue costs, net of deferred tax	**—**	**(9,698)**	—	1,056
Issued on exercise of stock options and performance warrants	**1,956**	**10,142**	8,656	41,950
Transfer from contributed surplus on exercise of stock options	**—**	**3,606**	—	12,888
Conversion of Class B Common Non-Voting Shares (1)	**4**	**14**	1,042	3,715
Balance, end of period	**277,803**	**2,079,723**	254,414	1,775,659

(1) On conversion of Class B Non-Voting Shares into Class A Common Voting Shares, holders receive 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 21,428,600 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.

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class B Common Non-Voting Shares				
Balance, beginning of period	**2**	**14**	523	3,729
Issued on exercise of stock options	**—**	**—**	0	0
Issued on exercise of performance warrants	**—**	**—**	0	0
Transfer from contributed surplus on exercise of stock options and performance warrants	**—**	**—**	—	0
Conversion to Class A Common Voting Shares (1)	**(2)**	**(14)**	(521)	(3,715)
Balance, end of period	**—**	**—**	2	14

(1) On conversion of Class B Non-Voting Shares into Class A Common Voting Shares, holders receive two Class A Common Voting Shares for each Class B Non-Voting Share converted.

11. STOCK BASED COMPENSATION

Stock Options

The Company's stock option plan allows for the granting of options to directors, officers and employees 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:

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of period	**11,970**	**8.43**	12,385	6.71
Granted	**78**	**14.61**	2,340	13.19
Exercised	**(845)**	**5.20**	(2,428)	3.74
Forfeited (Adjustments)	**20**	**15.57**	(327)	12.58
Balance, end of period	**11,223**	**8.73**	11,970	8.43

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

	Options outstanding		**Options exercisable**	
Exercise price ($)	Number of options (000s)	Weighted average remaining life (years)	Number of options (000s)	Weighted average remaining life (years)
2.50 – 5.49	3,948	1.6	3,948	1.6
5.50 – 12.49	4,034	6.3	1,688	3.8
12.50 – 17.49	744	7.3	169	5.4
17.50 – 20.20	2,497	5.6	790	5.4
	11,223	4.6	6,595	2.8

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

Three months ended March 31,	**2016**	2015
Fair value of options granted ($/option)	**7.86**	8.82
Risk-free interest rate (%)	**0.74**	0.60
Expected life (years)	**5.7**	5.0
Expected forfeiture rate (%)	**10.2**	3.0
Expected volatility (%)	**48.0**	60.0
Expected dividend yield (%)	**—**	—

Performance Warrants

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

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of period	**18,493**	**6.14**	25,968	5.99
Granted	**—**	**—**	—	—
Exercised	**(1,111)**	**5.09**	(6,228)	5.27
Forfeited (Adjustments)	**178**	**17.50**	(1,247)	7.30
Balance, end of period	**17,560**	**6.23**	18,493	6.14

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

	Warrants outstanding		**Warrants exercisable**	
Weighted average exercise price ($)	Number of warrants (000s)	Weighted average remaining life (years)	Number of warrants (000s)	Weighted average remaining life (years)
3.75 - 5.25	7,203	1.7	6,289	1.6
5.26 - 5.85	2,081	3.7	904	3.7
5.86 - 12.50	7,205	2.1	5,748	1.8
12.50 - 17.50	1,071	5.2	205	5.2
	17,560	2.3	13,146	1.9

Share Units

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

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

	Three months ended March 31, 2016	Year ended December 31, 2015
	Number (000s)	Number (000s)
Balance, beginning of period	**427**	—
Granted	**—**	427
Exercised	**—**	—
Forfeited	**(14)**	—
Balance, end of period	**413**	427

Of the PRSUs outstanding at March 31, 2016, 146,000 are PSUs and 267,000 are RSUs.

The Deferred Share Unit Plan ("DSU") allows for granting of DSUs to directors of the Company. DSUs represent the right for the holder to receive Class A Common Voting Shares or, at the election of the holder and the Company, a cash payment equal to the fair market value of the Company's 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:

	Three months ended March 31, 2016	Year ended December 31, 2015
	Number (000s)	Number (000s)
Balance, beginning of period	**55**	—
Granted	**10**	55
Exercised	**—**	—
Forfeited	**—**	—
Balance, end of period	**65**	55

The fair value of DSUs for the three months ended March 31, 2016 was $18.95 per unit (year ended December 31, 2015 - $13.63) using a Nil% forfeiture rate.

12. PER SHARE AMOUNTS

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

Three months ended March 31,	2016	2015
(000s)		
Weighted average number of common shares – basic	263,195	245,877
Effect of outstanding stock options and performance warrants (1)	15,737	—
Weighted average number of common shares - diluted	278,932	245,877

(1) For the three months ended March 31, 2015, 7.3 million stock options and 17.3 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. Additional potentially dilutive instruments for the three months ended March 31, 2016 were Nil (three months ended March 31, 2015 – 2.5 million stock options and 1.1 million performance warrants).

13. OPERATING EXPENSES

Three months ended March 31,	2016	2015
Equipment rental, maintenance and other	9,709	7,743
Trucking and disposal	9,810	6,436
Chemicals and fuel	5,884	2,334
Staff and contractor costs	3,753	3,545
Other	1,825	1,396
Operating expenses	30,981	21,454

14. GENERAL AND ADMINISTRATIVE EXPENSES

Three months ended March 31,	2016	2015
Personnel	5,853	5,236
Professional fees	369	460
Rent	417	403
Information technology costs	764	582
Other office costs and travel	2,172	1,434
Gross General and administrative expenses	9,575	8,115
Capitalized salaries and benefits	(1,095)	(1,030)
Operating overhead recoveries	(495)	(456)
General and administrative expenses	7,985	6,629

15. FINANCE EXPENSE

Three months ended March 31,	2016	2015
Interest on senior notes	29,298	17,820
Revolving credit facility fees and other	1,222	503
Amortization of premium and debt issue costs	76	(235)
Accretion	422	289
Total finance costs	31,018	18,377
Capitalized borrowing costs (1)	(3,670)	(350)
Finance expense	27,348	18,027

(1) Non-cash interest was $0.1 million (three months ended March 31, 2015 - $Nil) (Note 7).

16. 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. The fair value of senior notes is approximately $1,436.9 million as at March 31, 2016 (December 31, 2015 - $1,354.0 million).

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 three months ended March 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.

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 to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets.The following is a summary of financial assets and financial liabilities that are subject to offset:

As a March 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	**122,693**	**(3,897)**	**118,796**
Long-term asset	**71,990**	**(17,199)**	**54,791**
Current liability	**(8,624)**	**3,897**	**(4,727)**
Long-term liability	**(18,615)**	**17,199**	**(1,416)**
Net position	**167,444**	**—**	**167,444**

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	102,343	(3,773)	98,570
Long-term asset	62,939	(9,943)	52,996
Current liability	(22,093)	3,773	(18,320)
Long-term liability	(19,982)	9,943	(10,039)
Net position	123,207	—	123,207

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

	March 31, 2016	December 31, 2015
Natural gas	**58,924**	58,087
Oil	**109,802**	93,478
Foreign exchange swap	**(1,282)**	(28,358)
Net position	**167,444**	123,207

Risk management contracts

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

Commodity	**Contract**	**Period**	**Notional**	**Average Price/ Unit** [1]
Natural gas [2]	Swap	Q2 2016	120,000 MMBtu/d	US$3.20
Natural gas [2]	Swap	Q3 2016	120,000 MMBtu/d	US$3.20
Natural gas [2]	Swap	Q4 2016	130,000 MMBtu/d	US$3.18
Natural gas [2]	Swap	Q1 2017	140,000 MMBtu/d	US$3.20
Natural gas [2]	Swap	Q2 2017	100,000 MMBtu/d	US$3.17
Natural gas [2]	Swap	Q3 2017	90,000 MMBtu/d	US$2.99
Natural gas [2]	Swap	Q4 2017	90,000 MMBtu/d	US$2.99
Natural gas [2]	Swap	Q1 2018	60,000 MMBtu/d	US$2.85
Natural gas [2]	Swap	Q2 2018	50,000 MMBtu/d	US$2.81
Natural gas [2]	Swap	Q3 2018	40,000 MMBtu/d	US$2.76
Natural gas [2]	Swap	Q4 2018	40,000 MMBtu/d	US$2.76
Oil [3]	Collar	Q2 2016	13,000 bbls/d	C$70.00 - $80.83
Oil [3]	Collar	Q3 2016	14,000 bbls/d	C$70.07 - $80.13
Oil [3]	Collar	Q4 2016	14,000 bbls/d	C$70.07 - $80.13
Oil [3]	Collar	Q1 2017	12,000 bbls/d	C$69.67 - $82.01
Oil [3]	Collar	Q2 2017	7,000 bbls/d	C$68.71 - $80.14
Oil [3]	Collar	Q3 2017	7,000 bbls/d	C$68.44 - $75.56
Oil [3]	Collar	Q4 2017	7,000 bbls/d	C$68.44 - $75.56
Oil [3]	Collar	Q1 2018	6,000 bbls/d	C$68.18 - $74.80
Oil [3]	Collar	Q2 2018	6,000 bbls/d	C$68.18 - $74.80
Oil [3]	Collar	Q3 2018	1,000 bbls/d	C$65.00 - $76.00

Commodity	Contract	Period	Notional	Average Price/ Unit (1)
Foreign exchange (4)	Swap	Q2 2016	US$34.9 million	C$1.2550
Foreign exchange (4)	Swap	Q3 2016	US$35.3 million	C$1.2550
Foreign exchange (4)	Swap	Q4 2016	US$38.0 million	C$1.2597
Foreign exchange (4)	Swap	Q1 2017	US$40.5 million	C$1.2572
Foreign exchange (4)	Swap	Q2 2017	US$28.9 million	C$1.2730
Foreign exchange (4)	Swap	Q3 2017	US$24.7 million	C$1.3215
Foreign exchange (4)	Swap	Q4 2017	US$24.7 million	C$1.3215
Foreign exchange (4)	Swap	Q1 2018	US$15.4 million	C$1.3586
Foreign exchange (4)	Swap	Q2 2018	US$12.8 million	C$1.3661
Foreign exchange (4)	Swap	Q3 2018	US$10.2 million	C$1.3786
Foreign exchange (4)	Swap	Q4 2018	US$10.2 million	C$1.3786
Oil (5)	Three way Collars	Q2 2017	2,000 bbls/d	C$55.00 - $70.83
Oil (5)	Three way Collars	Q3 2017	2,000 bbls/d	C$55.00 - $70.83
Oil (5)	Three way Collars	Q4 2017	2,000 bbls/d	C$55.00 - $70.83
Oil (5)	Three way Collars	Q1 2018	4,000 bbls/d	C$55.00 - $71.34
Oil (5)	Three way Collars	Q2 2018	4,000 bbls/d	C$55.00 - $71.34
Oil (5)	Three way Collars	Q3 2018	4,000 bbls/d	C$55.00 - $71.34
Oil (5)	Three way Collars	Q4 2018	4,000 bbls/d	C$55.00 - $71.34
Oil (5)	Three way Collars	Q1 2019	4,000 bbls/d	C$55.00 - $71.34

(1) For swap contracts, the average put and call price has been calculated for the above table.
(2) Chicago Citygate gas price.
(3) West Texas Intermediate oil price.
(4) US Dollar sales.
(5) For Three way Collars, the sold put price is $40.00.

During the three months ended March 31, 2016, the Company's risk management contracts resulted in realized gains of $36.3 million (three months ended March 31, 2015 – realized gains of $50.7 million) and unrealized gains of $44.2 million (three months ended March 31, 2015 – unrealized losses of $41.1 million).

The Company enters into physical delivery sales contracts to monetize production. 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 Company enters into physical delivery contracts at the terminus of the Alliance Pipeline in Chicago on a month-to-month spot and on a term contract basis. Pricing of the physical delivery contracts is variable based on published North American natural gas indices. As at March 31, 2016, the Company committed, on a term contract basis, to deliver into the Alliance Chicago Exchange an average of approximately 300,000 MMbtu/d of natural gas for calendar 2016, 113,500 MMbtu/d of natural gas for calendar 2017 and 40,000 MMbtu/d of natural gas for calendar 2018.

17. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital

Three months ended March 31,	**2016**	2015
Accounts receivable	6,176	(9,241)
Deposits and prepaid expenses	(178)	1,551
Accounts payable and accrued liabilities	19,960	52,302
	25,958	44,612
Relating to:		
Operating activities	**33,861**	30,323
Financing activities	**345**	—
Investing activities	**(8,248)**	14,289

Other cash flow information

Three months ended March 31,	**2016**	2015
Cash interest paid	**946**	517
Cash taxes paid	**86**	—

18. COMMITMENTS AND CONTINGENCIES

The following table lists the Company's estimated material contractual commitments at December 31, 2015:

	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Senior notes (1)	**1,461,038**	—	—	909,090	551,948
Interest on senior notes	**601,343**	112,257	336,771	102,639	49,676
Firm transportation and processing agreements (2)	**1,928,097**	159,513	745,578	542,180	480,826
Operating leases (3)	**12,192**	1,772	5,319	2,583	2,518
Deferred obligation and retention (4)	**2,728**	2,728			—
Estimated contractual obligations	**4,005,398**	276,270	1,087,668	1,556,492	1,084,968

(1) Balance represents US$1.13 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 the counterparty transportation company.
(3) The Company is committed under operating leases for office premises.
(4) In November 2014, the Board of Directors approved a retention bonus plan for management and employees in aggregate of $6.0 million, payable over the two-year period starting November 5, 2014. Of this amount, $2.7 million is payable in 2016.

The following table outlines the average volumes committed over the next five years under the Company's significant take or pay transportation agreements:

	2016	**2017**	**2018**	**2019**	**2020**	**Expiring**
Natural gas						
Alliance (MMcf/d)	338	455	493	500	500	October 31, 2022
TCPL (1)	—	—	54	107	107	June 30, 2026
Total (MMcf/d)	338	455	547	607	607	
Oil						
Pembina (bbls/d)	—	—	126	189	629	December 31, 2027
Condensate						
Pembina (bbls/d)	8,806	8,806	30,003	30,003	30,003	December 31, 2027
NGLs						
Pembina (bbls/d)	—	—	17,612	17,612	39,438	December 31, 2027

(1) The timing of the firm commitments held with TransCanada Pipeline is dependent upon the completion of TransCanada's Nova Gas Transmission Ltd. (NGTL) system expansion expected mid-2018.

CORPORATE INFORMATION

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President & COO

Christopher Law
CFO

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Senior Vice President

Merlyn Spence
Senior Vice President, Marketing

Charlotte Raggett
Vice President, Midstream Business Development

Susan Targett
Vice President, Land

Glen Nevokshonoff
Vice President, Development

Barry Hucik
Vice President, Drilling

Randall Hnatuik
Vice President, Business Development

Kevin Johnston
Vice President, Accounting & Controller

Directors

Kent Jespersen
Chairman

Pat Carlson
CEO

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Kevin Brown

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National Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Alberta Treasury Branches
Caisse Centrale Desjardins
Canadian Western Bank

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Independent Evaluators

McDaniel & Associates Consultants Ltd.

Stock Symbol

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Toronto Stock Exchange