SEVEN GENERATIONS
ENERGY LTD

Condensed Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

SEVEN GENERATIONS ENERGY LTD.

Condensed Balance Sheets (unaudited)

(thousands of Canadian dollars)

As at	Notes	June 30, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents	4	**784,040**	848,136
Accounts receivable		**70,709**	64,417
Risk management contracts	14	**33,907**	138,122
Deposits and prepaid expenses		**11,999**	9,355
		900,655	1,060,030
Risk management contracts	14	**706**	997
Oil and natural gas assets	5	**2,654,397**	2,049,760
Goodwill		**4,010**	4,010
		3,559,768	3,114,797
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**190,794**	268,108
Risk management contracts	14	**605**	-
Current portion of deferred credits		**123**	123
		191,522	268,231
Risk management contracts	14	**4,901**	-
Senior notes	7	**1,395,485**	813,880
Deferred credits		**912**	973
Decommissioning liabilities	8	**56,577**	52,163
Deferred income taxes	15	**68,478**	68,624
		1,717,875	1,203,871
Equity			
Share capital	9	**1,752,108**	1,719,779
Contributed surplus		**57,970**	54,684
Retained earnings		**31,815**	136,463
		1,841,893	1,910,926
		3,559,768	3,114,797

Commitments and contingencies (Note 17)

See accompanying notes to the condensed interim financial statements.

SEVEN GENERATIONS ENERGY LTD.

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

(thousands of Canadian dollars, except per share amounts)

	Notes	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenues					
Oil and natural gas sales		**155,183**	120,749	**263,723**	219,486
Royalties		**(12,886)**	(9,434)	**(28,067)**	(14,820)
		142,297	111,315	**235,656**	204,666
Risk management contracts					
Realized gain (loss)	14	**41,683**	(6,873)	**92,338**	(12,278)
Unrealized loss	14	**(68,920)**	(1,960)	**(110,012)**	(15,397)
Interest and third party income		**1,744**	1,025	**3,429**	1,936
		116,804	103,507	**221,411**	178,927
Expenses					
Operating		**23,537**	9,659	**44,991**	21,050
Transportation		**9,893**	7,693	**22,859**	14,319
General and administrative	12	**5,136**	5,233	**11,765**	8,408
Depletion, depreciation and amortization	5	**67,117**	31,280	**127,160**	55,315
Stock based compensation	10	**3,613**	2,742	**6,565**	4,509
Finance expense	13	**25,290**	16,446	**43,317**	30,245
Foreign exchange loss (gain)		**2,430**	(23,364)	**71,094**	(10,946)
Gain on disposition of assets	5	**(2,602)**	(1,845)	**(2,602)**	(4,285)
		134,414	47,844	**325,149**	118,615
Income (loss) before taxes		**(17,610)**	55,663	**(103,738)**	60,312
Taxes					
Deferred income tax expense	15	**4,340**	11,737	**910**	15,222
Net income (loss) and comprehensive income (loss)		**(21,950)**	43,926	**(104,648)**	45,090
Net income (loss) per share	11				
Basic		**(0.09)**	0.23	**(0.42)**	0.24
Diluted		**(0.09)**	0.20	**(0.42)**	0.21

See accompanying notes to the condensed interim financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Statements of Changes in Equity (unaudited)
(thousands of Canadian dollars)

	Notes	**Share capital**	**Contributed surplus**	**Retained earnings (deficit)**	**Total**
Balance at December 31, 2013		790,064	45,626	(7,737)	827,953
Net income for the period		-	-	45,090	45,090
Stock based compensation	10	-	6,759	-	6,759
Exercise of stock options and performance warrants		13,012	(4,200)	-	8,812
Balance at June 30, 2014		803,076	48,185	37,353	888,614
Balance at December 31, 2014		1,719,779	54,684	136,463	1,910,926
Net loss for the period		-	-	(104,648)	(104,648)
Tax effect on share issue costs	15	1,056	-	-	1,056
Stock based compensation	10	-	9,295	-	9,295
Exercise of stock options and performance warrants	9, 10	31,273	(6,009)	-	25,264
Balance at June 30, 2015		**1,752,108**	**57,970**	**31,815**	**1,841,893**

See accompanying notes to the condensed interim financial statements.

SEVEN GENERATIONS ENERGY LTD.

Condensed Statements of Cash Flows (unaudited)

(thousands of Canadian dollars)

	Notes	Three months ended June 30, **2015**	Three months ended June 30, 2014	Six months ended June 30, **2015**	Six months ended June 30, 2014
Operating activities					
Net income (loss) for the period		**(21,950)**	43,926	**(104,648)**	45,090
Items not affecting cash:					
Deferred income tax expense	15	**4,340**	11,737	**910**	15,222
Depletion, depreciation and amortization		**67,117**	31,280	**127,160**	55,315
Unrealized loss on risk management contracts	14	**68,920**	1,960	**110,012**	15,397
Stock based compensation	10	**3,613**	2,742	**6,565**	4,509
Non-cash finance expenses	13	**344**	184	**398**	237
Gain on disposition of assets		**(2,602)**	(1,845)	**(2,602)**	(4,285)
Unrealized foreign exchange loss (gain)		**7,044**	(23,982)	**75,950**	(11,341)
Decommissioning expenditures		**-**	-	**-**	(206)
Other		**(31)**	(30)	**(61)**	(8)
Changes in non-cash working capital	16	**(35,893)**	(30,595)	**(5,570)**	(16,758)
Cash provided by operating activities		**90,902**	35,377	**208,114**	103,172
Financing activities					
Issue of shares on stock option and performance warrant exercises	9	**21,975**	8,812	**25,264**	8,812
Issue of senior notes	7	**515,052**	-	**515,052**	356,342
Debt issue costs	7	**(11,024)**	(26)	**(11,024)**	(9,840)
Changes in non-cash working capital	16	**325**	-	**325**	-
Cash provided by financing activities		**526,328**	8,786	**529,617**	355,314
Investing activities					
Oil and natural gas asset additions	5	**(354,310)**	(221,044)	**(722,710)**	(421,593)
Proceeds on disposition of property	5	**-**	1,920	**-**	9,420
Changes in non-cash working capital	16	**(95,356)**	(4,593)	**(81,067)**	(6,299)
Cash used in investing activities		**(449,666)**	(223,717)	**(803,777)**	(418,472)
Unrealized foreign exchange loss (gain) on cash held in foreign currencies		**(5,021)**	(3,303)	**1,950**	(874)
Increase (decrease) in cash and cash equivalents		**162,543**	(182,857)	**(64,096)**	39,140
Cash and cash equivalents, beginning of period		**621,497**	529,482	**848,136**	307,485
Cash and cash equivalents, end of period		**784,040**	346,625	**784,040**	346,625

Supplementary disclosure of cash flow information (Note 16)

See accompanying notes to the condensed interim financial statements.

SEVEN GENERATIONS ENERGY LTD.

Notes to the Condensed Interim Financial Statements (unaudited)
As at and for the three and six months ended June 30, 2015 and 2014
(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 financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These 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, 2014. All financial information is reported in thousands of Canadian dollars, unless otherwise noted. References to "US$" are to United States dollars. The 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 financial statements for the year ended December 31, 2014. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year. There have been no material changes to the use of estimates or judgments since December 31, 2014.

The financial statements were approved and authorized for issue by the Board of Directors on August 7, 2015.

3. NEW ACCOUNTING POLICIES

Future accounting policy changes

In February 2015, the IASB tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The impact of the standard on the Company's financial statements is currently being evaluated.

In May 2015, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Seven Generations on January 1, 2017 and the Company is currently evaluating the impact of the standard on the financial statements.

4. CASH AND CASH EQUIVALENTS

	June 30, 2015	December 31, 2014
Cash	**106,042**	1,448
Short term investments, bearing interest at a weighted average rate of 0.8% (December 31, 2014 – 0.8%) (1)	**677,998**	846,688
	784,040	848,136

(1) Includes term deposit balance of US$45.0 million ($56.2 million) (December 31, 2014 – US$66.0 million ($76.6 million)).

5. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	**Developed and producing**	**Other**	**Total**
Cost				
Balance at December 31, 2013	140,342	1,017,254	4,123	1,161,719
Additions	74,119	1,043,944	2,273	1,120,336
Dispositions	-	(5,134)	-	(5,134)
Non-cash capitalized costs (1)	-	33,618	-	33,618
Balance at December 31, 2014	214,461	2,089,682	6,396	2,310,539
Additions	11,554	710,345	811	722,710
Dispositions	(3,398)	-	-	(3,398)
Non-cash capitalized costs (1)	-	12,485	-	12,485
Balance at June 30, 2015	**222,617**	**2,812,512**	**7,207**	**3,042,336**
Accumulated depletion, depreciation and amortization				
Balance at December 31, 2013	-	100,600	732	101,332
Depletion, depreciation and amortization expense	-	158,387	1,060	159,447
Balance at December 31, 2014	-	258,987	1,792	260,779
Depletion, depreciation and amortization expense	-	126,495	665	127,160
Balance at June 30, 2015	**-**	**385,482**	**2,457**	**387,939**
Net book value				
Balance at December 31, 2014	214,461	1,830,695	4,604	2,049,760
Balance at June 30, 2015	**222,617**	**2,427,030**	**4,750**	**2,654,397**

(1) Non-cash capitalized costs include capitalized stock based compensation, decommissioning obligation assets, land swap additions and non-cash interest and financing.

As at June 30, 2015, the calculation for depletion included an estimated $8.2 billion (December 31, 2014 - $8.9 billion) for future development capital associated with undeveloped estimated recoverable proved plus probable reserves and excluded $149.2 million (December 31, 2014 - $144.7 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 and six months ended June 30, 2015, the Company capitalized $3.4 million and $6.1 million (three and six months ended June 30, 2014 – $2.4 million and $4.2 million) of compensation paid to development personnel directly related to capital activities, including $1.5 million and $2.7 million (three and six months ended June 30, 2014 – $1.1 million and $2.2 million) related to stock based compensation.

During the three and six months ended June 30, 2015, the Company capitalized $0.7 million and $1.0 million (three and six months ended June 30, 2014 - $Nil) of borrowing costs (Note 13).

During the three months ended June 30, 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 three and six months ended June 30, 2015.

6. BANK DEBT

At June 30, 2015, the Company had available a $650.0 million revolving credit facility (December 31, 2014 – $480.0 million) with a syndicate of banks (the "credit facility"), which has a three year term ending 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 rates 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. At June 30, 2015 and December 31, 2014, no amount was drawn on the credit facility.

7. SENIOR NOTES

	June 30, 2015	December 31, 2014
Balance, beginning of period	**813,880**	414,525
Issuance of debt	**515,052**	356,342
Debt issue costs	**(11,024)**	(9,840)
Unrealized foreign exchange loss	**77,997**	53,319
Amortization of premium and debt issue costs	**(420)**	(466)
Balance, end of period (1)	**1,395,485**	813,880

(1) Balance of debt, unamortized discount and premium at June 30, 2015 is US$1.1 billion ($1.4 billion) (December 31, 2014 – US$701.1 million ($814.3 million)).

In May 2013 and February 2014, under the same indenture, the Company issued senior unsecured notes of US$400.0 million and US$300.0 million (US$321.0 million with premium), respectively. These senior notes bear interest at 8.25% per annum and mature on May 15, 2020.

In April 2015**,** the Company issued US$425.0 million of additional senior notes that bear interest at 6.75% per annum and mature on May 1, 2023.

Subject to certain exceptions and qualifications, the senior unsecured notes have no maintenance 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 June 30, 2015, the Company was in compliance with the covenants on the senior notes.

8. DECOMMISSIONING LIABILITIES

	June 30, 2015	December 31, 2014
Balance, beginning of period	**52,163**	23,656
Liabilities incurred	**4,624**	20,873
Changes in estimates	**252**	2,367
Changes in estimated discount rates	**(1,132)**	4,311
Decommissioning expenditures	**-**	(206)
Accretion	**670**	1,162
Balance, end of period	**56,577**	52,163

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 June 30, 2015 is approximately $100.5 million (December 31, 2014 – $90.9 million) which is expected to be incurred over the next 35 years with the majority of costs incurred between 2036 and 2049. At June 30, 2015, a credit adjusted risk free rate of 2.4 percent (December 31, 2014 – 2.3 percent) and an inflation rate of 2.0 percent (December 31, 2014 – 2.0 percent) were used to calculate the provision for decommissioning liabilities.

9. 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 Preferred Shares or Special Voting Shares issued and outstanding.

The following table summarizes changes to the Company's common share capital:

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class A Common Voting Shares				
Balance, beginning of period	**244,716**	**1,716,050**	185,420	783,514
Issued on IPO (a)	**-**	**-**	51,750	931,500
Share issue costs, net of deferred tax (b)	**-**	**1,056**	-	(36,637)
Issued on exercise of stock options and performance warrants	**5,114**	**25,264**	110	275
Transfer from contributed surplus on exercise of stock options	**-**	**6,009**	-	130
Conversion of Class B Common Non-Voting Shares (1)	**1,028**	**3,660**	7,436	37,268
Balance, end of period	**250,858**	**1,752,039**	244,716	1,716,050

(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 November 5, 2014, the Company closed an initial public offering ("IPO") for gross proceeds of $931.5 million through the issuance of 51.8 million Class A Common Voting Shares including an over-allotment option exercised by the underwriters for gross proceeds of $121.5 million.

(b) For the three and six months ended June 30, 2015, the Company recorded a deferred tax recovery of $1.1 million for the tax effect on share issue costs related to changes in tax rates (Note 15).

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class B Common Non-Voting Shares				
Balance, beginning of period	**523**	**3,729**	966	6,550
Issued on exercise of stock options	**-**	**-**	1,770	9,765
Issued on exercise of performance warrants	**-**	**-**	1,505	15,858
Transfer from contributed surplus on exercise of stock options and performance warrants	**-**	**-**	-	8,824
Conversion to Class A Common Voting Shares (1)	**(514)**	**(3,660)**	(3,718)	(37,268)
Balance, end of period	**9**	**69**	523	3,729

(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.

10. STOCK BASED COMPENSATION

The Company's stock option plan was amended and restated on August 27, 2014 (the "New Plan"). The stock options under the New Plan are exercisable for Class A Common Voting Shares. The stock options will vest over a period of three years, or as otherwise set out by the Board in the applicable grant agreement, and have a maximum term of ten years. The maximum number of Class A Common Voting Shares issuable under the New Plan and other share based compensation arrangements (excluding the performance warrants) must not exceed 10% of the aggregate of the number of outstanding Class A Common Voting Shares plus two times the number of outstanding Class B Common Non-Voting Shares.

Prior to the Company's IPO closing on November 5, 2014, Seven Generations had issued stock options to its directors, officers, and employees to acquire up to 12.4 million Class A Common Voting Shares. These stock options ("Pre-IPO stock options") were granted under the stock option plan provided for in the Amended and Restated Shareholder Agreement ("USA") effective while Seven Generations was a private company. The Pre-IPO stock options are exercisable for Class A Common Voting Shares. After the November 5, 2015 closing of the IPO, no additional Pre-IPO stock options may be granted.

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

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of period	**12,385**	**6.71**	13,426	3.49
Granted	**362**	**17.85**	2,927	17.11
Exercised	**(767)**	**3.31**	(3,650)	2.75
Forfeited	**(35)**	**10.70**	(318)	5.81
Balance, end of period	**11,945**	**7.27**	12,385	6.71

A summary of stock options outstanding and exercisable into Class A Common Voting Shares at June 30, 2015 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	5,144	2.1	5,144	2.1
5.50 – 12.49	3,579	4.6	2,315	4.5
12.50 – 17.49	615	6.6	150	5.7
17.50 – 20.20	2,607	6.3	630	5.9
	11,945	4.0	8,239	3.2

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Fair value of options granted ($/option)	**9.48**	7.96	**9.09**	7.67
Risk-free interest rate (%)	**1.02**	1.44	**0.93**	1.40
Expected life (years)	**5.0**	4.0	**5.0**	3.9
Expected forfeiture rate (%)	**3.0**	3.0	**3.0**	3.0
Expected volatility (%) [(1)]	**60.0**	60.0	**60.0**	60.0
Expected dividend yield (%)	**-**	-	**-**	-

(1) Expected volatility is based on the historical share price volatility from a peer group of listed companies.

Performance Warrants

Prior to the Company's IPO closing on November 5, 2014, Seven Generations had issued performance warrants to its directors, officers, and employees to acquire up to 26.0 million Class A Common Non-Voting Shares. These performance warrants were granted pursuant to the USA effective while Seven Generations was a private company. The performance warrants are exercisable for Class A Common Voting Shares. Except for the performance warrants that were granted in 2008 and 2009, the terms of which were extended to 2017, the performance warrants have a seven-year term from the date of grant and vest over a period of five years. After the November 5, 2015 closing of the IPO, no additional performance warrants may be granted. The following table sets forth a reconciliation of performance warrants exercisable into Class A Common Voting Shares:

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of period	**25,968**	**5.99**	28,825	5.39
Granted	**-**	**-**	1,350	17.38
Exercised	**(4,347)**	**5.22**	(3,011)	5.27
Forfeited	**(331)**	**7.01**	(1,196)	6.31
Balance, end of period	**21,290**	**6.13**	25,968	5.99

A summary of performance warrants outstanding and exercisable into Class A Common Voting Shares at June 30, 2015 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	8,541	2.1	7,591	1.9
5.26 - 5.85	3,262	4.3	1,395	4.3
5.86 - 12.50	8,326	2.7	6,372	2.3
12.50 - 17.50	1,161	5.9	232	5.9
	21,290	2.9	15,590	2.4

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Fair value of warrants granted ($/warrant)	**-**	8.97	**-**	8.87
Risk-free interest rate (%)	**-**	1.44	**-**	1.43
Expected life (years)	**-**	5.0	**-**	5.0
Expected forfeiture rate (%)	**-**	3.0	**-**	3.0
Expected volatility (%) (1)	**-**	60.0	**-**	60.0
Expected dividend yield (%)	**-**	-	**-**	-

(1) Expected volatility is based on the historical share price volatility from a peer group of listed companies.

Compensation Plans

On August 27, 2014, the Board of Directors (the "Board") adopted a Performance and Restricted Share Unit ("PRSU") Plan and a Deferred Share Unit ("DSU") Plan. At June 30, 2015, no units had been issued under either of these plans.

11. PER SHARE AMOUNTS

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
(000s)				
Weighted average number of common shares – basic	**248,456**	188,810	**247,174**	188,086
Effect of outstanding stock options and performance warrants (1)	**21,943**	26,150	**23,164**	25,622
Weighted average number of common shares - diluted	**270,399**	214,960	**270,338**	213,708

(1) For the three and six months ended June 30, 2015, 7.1 and 7.3 million stock options and 14.8 and 15.9 million performance warrants have been excluded from the diluted earnings per share calculation since these are anti-dilutive as the Company is in a net loss position. Additional potentially dilutive instruments would include 2.6 million stock options and 1.1 million performance warrants (June 30, 2014 – 2.4 million anti-dilutive stock options and 1.4 million anti-dilutive performance warrants).

12. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Personnel	**4,619**	4,369	**9,855**	6,419
Professional fees	**438**	719	**898**	1,478
Rent	**397**	273	**800**	547
Other office costs	**1,558**	1,015	**3,574**	1,885
Gross expenses	**7,012**	6,376	**15,127**	10,329
Capitalized salaries and benefits	**(1,524)**	(955)	**(2,554)**	(1,488)
Operating overhead recoveries	**(352)**	(188)	**(808)**	(433)
General and administrative expenses	**5,136**	5,233	**11,765**	8,408

13. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Interest on senior notes	**23,465**	15,698	**41,285**	29,036
Revolving credit facility fees and other	**2,145**	564	**2,648**	972
Amortization of premium and debt issue costs	**(25)**	(212)	**(260)**	(364)
Accretion	**381**	396	**670**	601
Total finance costs	**25,966**	16,446	**44,343**	30,245
Capitalized borrowing costs	**(676)**	-	**(1,026)**	-
Finance expense	**25,290**	16,446	**43,317**	30,245

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

Financial instrument classification and measurement

The Company's financial instruments include cash and cash equivalents, accounts receivable, 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 sheet include cash and cash equivalents, risk management contracts and the credit facility. The credit facility has a floating rate of interest and therefore the carrying value approximates the fair value. 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 $1,458.5 million as at June 30, 2015 (December 31, 2014 – $782.0 million).

The Company reviewed the terms of the senior notes and determined 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.

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.

Risk management contracts, the credit facility and fair value disclosure for the senior notes are classified as Level 2 measurements. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices. The fair value of risk management contracts are derived using third-party valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates for the Company's risk management contracts. Management's assumptions rely on external observable market data including interest rate yield curves. The observable inputs may be adjusted using certain methods, which include extrapolation to the end of the term of the contract. Seven Generations does not have any fair value measurements classified as Level 3. There were no transfers within the hierarchy in the six months ended June 30, 2015. The carrying value of the Company's accounts receivable, 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 at June 30, 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	43,992	(10,085)	33,907
Long-term asset	12,456	(11,750)	706
Current liability	(10,690)	10,085	(605)
Long-term liability	(16,651)	11,750	(4,901)
Net position	29,107	-	29,107

As at December 31, 2014	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	138,122	-	138,122
Long-term asset	997	-	997
Net position	139,119	-	139,119

Risk management contracts

The Company had the following risk management contracts in place at June 30, 2015:

Commodity	**Period**	**Notional**	**Average Price/Unit** (1)
Natural gas (2)	**Q3 2015**	63,500 GJ/d	CDN$3.75
Natural gas (2)	**Q4 2015**	73,500 GJ/d	CDN$3.75
Natural gas (2)	**Q1 2016**	17,500 GJ/d	CDN$3.79
Natural gas (3)	**Q1 2016**	80,000 MMBtu/d	USD$3.22
Natural gas (3)	**Q2 2016**	80,000 MMBtu/d	USD$3.22
Natural gas (3)	**Q3 2016**	80,000 MMBtu/d	USD$3.22
Natural gas (3)	**Q4 2016**	80,000 MMBtu/d	USD$3.22
Natural gas (3)	**Q1 2017**	70,000 MMBtu/d	USD$3.28
Natural gas (3)	**Q2 2017**	30,000 MMBtu/d	USD$3.26
Oil	**Q3 2015**	7,600 bbls/d	CDN$101.20
Oil	**Q4 2015**	7,100 bbls/d	CDN$78.95 - $87.35
Oil	**Q1 2016**	12,000 bbls/d	CDN$70.00 - $80.89
Oil	**Q2 2016**	12,000 bbls/d	CDN$70.00 - $80.89
Oil	**Q3 2016**	12,000 bbls/d	CDN$70.00 - $80.89
Oil	**Q4 2016**	12,000 bbls/d	CDN$70.00 - $80.89
Oil	**Q1 2017**	9,000 bbls/d	CDN$70.00 - $84.05
Oil	**Q2 2017**	3,000 bbls/d	CDN$70.00 - $85.78
Foreign exchange swap (4)	**Q1 2016**	US$23.4 million	CDN$1.24
Foreign exchange swap (4)	**Q2 2016**	US$23.4 million	CDN$1.24
Foreign exchange swap (4)	**Q3 2016**	US$23.7 million	CDN$1.24
Foreign exchange swap (4)	**Q4 2016**	US$23.7 million	CDN$1.24
Foreign exchange swap (4)	**Q1 2017**	US$20.8 million	CDN$1.23
Foreign exchange swap (4)	**Q2 2017**	US$8.9 million	CDN$1.23

(5) For collar contracts, the minimum price has been used in calculating the average for the above table.
(6) AECO gas price.
(7) Chicago Citygate gas price.
(8) US Dollar sales.

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

	June 30, 2015	December 31, 2014
Risk management contracts		
Natural gas	**16,627**	29,548
Oil	**13,777**	109,571
Foreign exchange swap	**(1,297)**	-
Net position	**29,107**	139,119

During the three and six months ended June 30, 2015, the Company's risk management contracts resulted in a realized gain of $41.6 million and $92.3 million (three and six months ended June 30, 2014 – realized loss $6.9 million and $12.3 million) and an unrealized loss of $68.9 million and $110.0 million (three and six months ended June 30, 2014 – unrealized loss of $2.0 million and $15.4 million).

15. DEFERRED INCOME TAXES

The provision for deferred 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 June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Income (loss) before taxes	**(17,610)**	55,663	**(103,738)**	60,312
Canadian statutory income tax rate	**26%**	25%	**26%**	25%
Expected income tax expense (recovery)	**(4,578)**	13,916	**(26,972)**	15,078
Add (deduct):				
Non-deductible stock based compensation	**939**	686	**1,707**	1,127
Non-deductible portion of foreign exchange losses (gains)	**503**	(2,926)	**9,289**	(953)
Valuation allowance	**1,484**	-	**11,019**	-
Change in tax rates and other	**5,992**	62	**5,867**	(30)
Deferred income tax expense (recovery)	**4,340**	11,737	**910**	15,222

For the three and six months ended June 30, 2015, the Company recorded a deferred tax recovery of $1.1 million for the tax effect on share issue costs related to changes in tax rates, presented in Class A Common Shares (Note 9 (b)).

At June 30, 2015, the Company has no current income tax expense given its total tax pools of $2.5 billion ($1.7 billion at December 31, 2014). Of this amount, $0.5 billion is available for deduction against taxable income for the current fiscal year.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Accounts receivable	**2,949**	(629)	**(6,292)**	(15,746)
Deposits and prepaid expenses	**(4,195)**	(1,701)	**(2,644)**	(1,752)
Accounts payable and accrued liabilities	**(132,170)**	(32,858)	**(77,376)**	(5,559)
	(130,924)	(35,188)	**(86,312)**	(23,057)
Relating to:				
Operating activities	**(35,893)**	(30,595)	**(5,570)**	(16,758)
Financing activities	**325**	-	**325**	-
Investing activities	**(95,356)**	(4,593)	**(81,067)**	(6,299)

Other cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Cash interest paid	**35,536**	32,975	**36,053**	33,317
Cash taxes paid	**-**	-	**-**	-

17. COMMITMENTS AND CONTINGENCIES

The following table lists the Company's estimated material contractual commitments at June 30, 2015:

	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Senior notes [(1)]	**1,405,125**	-	-	-	1,405,125
Interest on senior notes	**637,705**	48,009	215,922	215,922	157,852
Firm transportation and processing agreements [(2)]	**1,852,737**	23,363	662,731	516,543	650,100
Operating leases [(3)]	**14,016**	1,216	4,595	3,104	5,101
Deferred obligation and retention [(4, 5)]	**21,000**	20,500	500	-	-
Estimated contractual obligations	**3,930,583**	93,088	883,748	735,569	2,218,178

(1) Balance represents US$1.1 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.
(5) With the closing of the IPO on November 5, 2014, certain terms and conditions pursuant to the USA were satisfied and $36.0 million was recognized as a liability. The settlement of the liability is payable in cash in 2015 as approved by the Board.

The Canada Revenue Agency is currently conducting an audit of certain historic tax pools generated before oil and gas operations commenced in 2008. Without these tax pools, deferred income tax liability could increase by approximately $25.3 million. While the final outcome of the audit cannot be predicted with certainty, Seven Generations believes its positions as filed are supportable under applicable law and the Company has not recognized a provision in its financial statements for any potential reassessments.

18. SUBSEQUENT EVENT

On August 7, 2015, the Company reached a long-term transportation agreement for 107 million cubic feet per day of firm transportation receipt service to Alberta's AECO trading hub on TransCanada's Nova Gas Transmission Ltd. (NGTL) system. This agreement is for a term of eight years and is expected to commence in mid-2018, subject to NGTL's system expansion. The total tolls over the term of this agreement could accumulate up to $70 million.

CORPORATE INFORMATION

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Christopher Law
CFO

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Executive Vice President

Steve Haysom
Senior Vice President

Merlyn Spence
Senior Vice President, Marketing

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
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National Bank of Canada

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Independent Evaluators

McDaniel & Associates Consultants Ltd.

Stock Symbol

VII
Toronto Stock Exchange