SEVEN GENERATIONS

ENERGY

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017

SEVEN GENERATIONS ENERGY LTD.

Condensed Interim Consolidated Balance Sheets (unaudited)

(millions of Canadian dollars)

As at	Notes	March 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	4	**$ 122.2**	$ 165.3
Accounts receivable	5	**286.3**	302.7
Risk management contracts	7	**23.4**	36.2
Deposits and prepaid expenses		**14.3**	18.8
		446.2	523.0
Risk management contracts	7	**44.0**	36.1
Oil and natural gas assets	6	**7,128.9**	6,733.0
Investment in associate		**1.2**	2.4
		7,620.3	7,294.5
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**510.2**	377.3
Risk management contracts	7	**62.9**	17.5
		573.1	394.8
Risk management contracts	7	**40.4**	16.5
Senior notes	9	**2,011.1**	1,956.4
Other long-term liabilities	10	**201.0**	198.0
Deferred income taxes		**309.8**	278.4
		3,135.4	2,844.1
Equity			
Share capital	11	**3,870.7**	3,864.4
Contributed surplus		**106.1**	100.6
Retained earnings		**508.1**	485.4
		4,484.9	4,450.4
		$ 7,620.3	$ 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)

Three months ended	Notes	March 31, 2018	March 31, 2017
Revenues			
Liquids and natural gas sales	13	**$ 752.4**	$ 489.4
Royalties expense		**(18.9)**	(16.8)
		733.5	472.6
Risk management contracts			
Realized loss	7	**(13.1)**	(7.2)
Unrealized gain (loss)	7	**(74.2)**	162.8
Other income		**2.3**	1.6
		648.5	629.8
Expenses			
Operating expenses	14	**96.8**	68.8
Transportation, processing and other	15	**119.2**	72.0
Product purchases	13	**82.9**	—
General and administrative		**10.9**	10.9
Depletion and depreciation	6	**192.1**	157.1
Stock-based compensation	17	**5.6**	6.0
Finance expense	16	**31.4**	43.3
Foreign exchange (gain) loss		**53.9**	(19.7)
(Gain) loss on associate		**1.1**	(0.3)
		593.9	338.1
Income before taxes		**54.6**	291.7
Income Taxes			
Current income tax expense		**0.5**	0.7
Deferred income tax expense		**31.4**	75.4
		31.9	76.1
Net income and comprehensive income		**$ 22.7**	$ 215.6
Net income per share			
Basic	12	**$ 0.06**	$ 0.61
Diluted	12	**$ 0.06**	$ 0.59

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	Notes	March 31, 2018	March 31, 2017
Operating activities			
Net income for the period		**22.7**	215.6
Items not affecting cash:			
Deferred income tax expense		**31.4**	75.4
Depletion and depreciation	6	**192.1**	157.1
Unrealized (gain) loss on risk management contracts	7	**74.2**	(162.8)
Stock-based compensation	17	**5.6**	6.0
Non-cash finance expenses and other	16	**1.4**	1.3
(Gain) loss on associate		**1.1**	(1.2)
Unrealized foreign exchange (gain) loss		**52.6**	(19.1)
Reclamation expenditures	10	**(1.6)**	—
Changes in non-cash working capital	19	**44.6**	63.4
Cash provided by operating activities		**424.1**	335.7
Financing activities			
Exercise of equity compensation units	11	**4.5**	6.9
Changes in non-cash working capital	19	**—**	—
Cash provided by financing activities		**4.5**	6.9
Investing activities			
Investments in oil and natural gas assets	6	**(582.6)**	(362.3)
Changes in non-cash working capital	19	**110.8**	29.2
Cash used in investing activities		**(471.8)**	(333.1)
Foreign exchange (gain) loss on cash in foreign currencies		**0.1**	(0.7)
Increase (decrease) in cash and cash equivalents		**(43.1)**	8.8
Cash and cash equivalents, beginning of period		**165.3**	630.8
Cash and cash equivalents, end of period		**122.2**	639.6

Supplementary disclosure of cash flow information (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)

Three months ended	Notes		March 31, 2018		March 31, 2017
Share capital					
Balance, beginning of period		$	**3,864.4**	$	3,830.5
Exercise of equity compensation units	17		**6.3**		9.7
Balance, end of period			**3,870.7**		3,840.2
Contributed surplus					
Balance, beginning of period			**100.6**		69.4
Stock-based compensation	17		**7.3**		8.6
Exercise of equity compensation units	17		**(1.8)**		(2.8)
Balance, end of period			**106.1**		75.2
Retained earnings (deficit)					
Balance, beginning of period			**485.4**		(77.1)
Net income for the period			**22.7**		215.6
Balance, end of period			**508.1**		138.5
Total shareholders equity, beginning of period		**$**	**4,450.4**	$	3,822.8
Total shareholders equity, end of period		**$**	**4,484.9**	$	4,053.9

See accompanying notes to the condensed interim consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.
Notes to the Condensed Interim Consolidated Financial Statements
As at and for the three months ended March 31, 2018 and 2017
(all tabular amounts in millions of Canadian dollars, except 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 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 May 2, 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). For the three months ended March 31, 2017, $26.5 million of pentanes plus sales was reclassified as condensate sales (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** was issued in May 2014 and 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 to reflect the transfer of goods and services for the amount it expects to receive 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, the 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. 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 on the Alliance Pipeline have been presented separately for the three months ended March 31, 2018. The comparative third-party marketing income earned in 2017 continue to be presented net within transportation, processing and other expenses (Note 15).

  These changes had no financial impact to the comparative period income statement and notes for the three months ended March 31, 2017. For the year ended December 31, 2017, Seven Generations reclassified $101.1 of product purchases in respect of condensate and natural gas acquired for resale.

- **IFRS 9 Financial Instruments** was issued in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces multiple rules 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 & receivables and other financial liabilities, respectively. The Company's senior notes are now classified at amortized cost (previously other financial liabilities). The changes in classification did not impact the measurement of the Company's financial instruments.

  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 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 standards will be adopted by Seven Generations on January 1, 2019:

- **IFRS 16 Leases** was issued in January 2016 and 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. The Company is currently in the process of evaluating the financial impact of IFRS 16 on the Company's consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

		March 31, 2018		December 31, 2017
Cash	**$**	**109.8**	$	164.5
Short-term investments(1)		**12.4**		0.8
Cash and cash equivalents	**$**	**122.2**	$	165.3

(1) As at March 31, 2018, the short-term investments earned interest at a weighted average rate of 1.68% (December 31, 2017 - 1.35%)

As at March 31, 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

	March 31, 2018	December 31, 2017
Oil and natural gas sales	**$ 230.2**	$ 243.2
GST, royalty recoveries and other	**41.4**	46.5
Joint venture billings	**14.7**	13.0
Accounts receivable	**$ 286.3**	$ 302.7

As at March 31, 2018, management believes collection risk on the outstanding accounts receivable balances was 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 March 31, 2018 (December 31, 2017 - nil).

6. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other assets	Total
Cost				
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	11.0	571.2	0.4	**582.6**
Non-cash capitalized costs(1)	1.2	4.5	—	**5.7**
Balance at March 31, 2018	343.4	8,697.6	39.0	**9,080.0**
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	—	—	0.3	**0.3**
Depletion and depreciation	—	191.5	0.6	**192.1**
Balance at March 31, 2018	4.5	1,938.1	8.5	**1,951.1**
Net book value				
Balance at December 31, 2017	$ 326.7	$ 6,375.3	$ 31.0	**$ 6,733.0**
Balance at March 31, 2018	$ 338.9	$ 6,759.5	$ 30.5	**$ 7,128.9**

(1) For the three months ended March 31, 2018, non-cash capitalized costs consisted of $4.0 million of decommissioning obligation assets and $1.7 million of stock-based compensation (three months ended March 31, 2017 - $15.9 million and $2.6 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 March 31, 2018, $492.7 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 March 31, 2018, there were no indicators of impairment.

7. RISK MANAGEMENT CONTRACTS

The Company periodically enters into risk management contracts to manage its commodity price, foreign currency and interest rate exposure. The Company had the following risk management contracts in place as at March 31, 2018:

	C$ WTI Collars		C$ WTI Sold Puts		US$ WTI Collars		Foreign Exchange	
Term[(1)]	bbl/d	C$/bbl	bbl/d	C$/bbl	bbl/d	US$/bbl	US $MM	US$/C$
2018 remainder	29,667	$58.87 - $76.54	12,000	$40.83	4,000	$53.57 - $57.94	$155.2	1.3101
2019	23,500	$58.09 - $75.82	7,500	$41.00	5,000	$52.85 - $58.26	$124.8	1.2907
2020	8,500	$57.06 - $71.20	1,500	$40.00	7,000	$52.04 - $58.80	$52.3	1.2614
2021	—	—	—	—	1,250	$51.95 - $59.39	$9.9	1.2500

(1) Table presented as weighted average volumes and prices.

	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	146,667	$2.84	—	—	60,000	$2.44 - $2.85	60,000	$2.95
2019	107,500	$2.84	—	—	60,000	$2.44 - $2.85	60,000	$2.95
2020	32,500	$2.74	20,000	$(0.22)	10,000	$2.13 - $2.13	42,500	$2.87
2021	—	—	20,000	(0.22)	—	—	7,500	$2.83

(1) Table presented as weighted average volumes and prices.

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

	March 31, 2018	December 31, 2017
Natural gas	**$ 89.2**	$ 70.2
Oil	**(129.1)**	(50.5)
Foreign exchange swap	**4.0**	18.6
Net position asset (liability)	**$ (35.9)**	$ 38.3

8. BANK DEBT

As at March 31, 2018, Seven Generations had an undrawn, covenant-based senior secured credit facility of $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 (excluding the balance of the unsecured senior notes), less cash and cash equivalents.

As at March 31, 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 (0.08):1 and 8.87:1, respectively.

The Company also has an unsecured demand letter of credit facility of $80.0 million. As at March 31, 2018, $62.6 in letters of credit were issued and outstanding under the facility (December 31, 2017 - $76.4 million).

9. SENIOR NOTES

		March 31, 2018		December 31, 2017
US$425 million 6.75% senior notes, due May 1, 2023		**548.0**		533.2
US$450 million 6.875% senior notes, due June 30, 2023		**580.2**		564.5
US$700 million 5.375% senior notes, due September 30, 2025	**$**	**902.2**	$	878.2
		2,030.8		1,975.9
Less unamortized debt issue costs		**(24.3)**		(24.3)
Plus unamortized premium		**4.6**		4.8
Balance, end of period	**$**	**2,011.1**	$	1,956.4

(1) The US dollar senior notes were translated into Canadian dollars at the period end exchange rate of US$1=C$1.29 (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 March 31, 2018, the fair value of senior notes was $2,034.4 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 an weighted average cost of 106.2% of the debt principal as at March 31, 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 also only be redeemed in whole or in part based on other certain 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 March 31, 2018, a 10% increase to the value of the Canadian dollar relative to the US dollar would result in a gain of approximately $203.1 million (10% decline - loss of $203.1 million) to the amortized cost of the notes.

10. OTHER LONG-TERM LIABILITIES

		March 31, 2018		December 31, 2017
Decommissioning liabilities	**$**	**197.6**	$	194.2
Onerous leases and other		**3.4**		3.8
Other long-term liabilities	**$**	**201.0**	$	198.0

Decommissioning liabilities

		Three months ended March 31, 2018		Year ended December 31, 2017
Balance, beginning of period	**$**	**194.2**	$	160.7
Liabilities incurred		**8.0**		23.9
Change in estimates		**(0.4)**		5.4
Change in discount rates and other		**(3.6)**		0.4
Reclamation expenditures		**(1.6)**		—
Accretion (Note 16)		**1.0**		3.8
Balance, end of period	**$**	**197.6**	$	194.2

As at March 31, 2018, the total undiscounted, uninflated estimated cash flows required to settle the Company's decommissioning liabilities was approximately $214.1 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 2052. As at March 31, 2018, the Company utilized a risk free rate of 2.3% (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.

	Three months ended March 31, 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	**0.9**		**4.5**	4.4		25.0
Transfer from contributed surplus on exercise of equity compensation	**—**		**1.8**	—		8.9
Balance, end of period	**355.6**	**$**	**3,870.7**	354.7	$	3,864.4

12. PER SHARE AMOUNTS

Three months ended	March 31, 2018	March 31, 2017
Weighted average number of common shares - basic	**354.9**	350.6
Dilutive effect of outstanding equity compensation units	**8.6**	12.5
Weighted average number of common shares - diluted	**363.5**	363.1

13. LIQUIDS AND NATURAL GAS SALES

Three months ended		March 31, 2018		March 31, 2017[1]
Condensate	**$**	**502.5**	$	296.5
Natural gas		**200.1**		150.8
NGLs		**49.8**		42.1
Liquids and natural gas sales	**$**	**752.4**	$	489.4
Sales by country				
Canada	**$**	**579.8**	$	341.1
United States	**$**	**172.6**	$	148.3

(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. From time to time, 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 three months ended March 31, 2018, the Company's liquids and natural gas sales included $104.1 million of condensate and natural gas sales relating to products that were purchased for resale. The cost of the condensate and natural gas purchases during the first quarter of 2018 was $82.9 million (2017 - nil) and has been presented as a separate expense on the income statement. During the three months ended March 31, 2018, the Company incurred $10.8 million in respect of transportation tolls relating to product purchases (three months ended March 31, 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 March 31, 2018:

	Chicago Citygate	US Gulf Coast	Dawn	AECO
	MMBtu/d	MMBtu/d	MMBtu/d	GJ/d
2018	**228,722**	**77,778**	**49,921**	**37,164**
2019	**20,000**	**—**	**—**	**19,808**

14. OPERATING EXPENSES

Three months ended	March 31, 2018	March 31, 2017
Trucking and disposal	**$ 39.2**	$ 25.6
Equipment rental and maintenance	**30.1**	24.6
Chemicals and fuel	**9.6**	8.5
Staff and contractor costs	**11.3**	7.4
Property tax and other	**6.6**	2.7
Operating expenses	**$ 96.8**	$ 68.8

15. TRANSPORTATION, PROCESSING AND OTHER EXPENSES

Three months ended	March 31, 2018	March 31, 2017
Pipeline tariffs	**$ 77.6**	$ 50.6
Processing	**30.0**	11.9
Trucking and other	**11.6**	11.8
Third party marketing income	**—**	(2.3)
Transportation, processing and other	**$ 119.2**	$ 72.0

Third party marketing income relate to Seven Generation's share of a margin that was earned in respect of third party marketing arrangements that optimized the Company's capacity on the Alliance Pipeline System. 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 months ended March 31, 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	March 31, 2018	March 31, 2017
Interest on senior notes	**$ 30.5**	$ 40.6
Revolving credit facility fees and bank fees	**1.3**	1.4
Accretion (Note 10)	**1.0**	0.3
Amortization of premiums and debt issuance costs	**0.3**	1.0
Finance costs	**33.1**	43.3
Capitalized borrowing costs	**(1.7)**	—
Finance expense	**$ 31.4**	$ 43.3

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:

	March 31, 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	**13.5**	**$ 16.79**	**5.9**	12.4	$ 16.63	5.4
Performance warrants	**7.9**	**6.92**	**1.0**	8.3	6.91	1.3
PSUs and RSUs	**1.5**	**—**	**8.7**	1.1	—	8.7
DSUs	**0.2**	**—**	**—**	0.2	—	—
Units outstanding	**23.1**	**$ 12.18**	**4.3**	22.0	$ 12.00	4.0

During the three months ended March 31, 2018, the Company issued 2.4 million equity compensation units primarily consisting of 2.0 million stock options and 0.4 million PSUs and RSUs.

The Company estimates the fair value of stock options granted using the Black-Scholes pricing model. During the three months ended March 31, 2018, the weighted-average fair value of stock options and PRSUs granted was $5.27 and $15.43, respectively (three months ended March 31, 2017 - $7.46 and nil).

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

	March 31, 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	**7.1**	**$ 12.34**	**3.3**	7.6	$ 11.75	3.4
Performance warrants	**7.2**	**6.37**	**0.9**	7.5	6.35	1.1
PSUs and RSUs	**0.3**	**—**	**6.9**	0.3	—	7.6
DSUs	**0.2**	**—**	**—**	0.2	—	—
Units exercisable	**14.8**	**$ 5.77**	**1.4**	15.6	$ 8.80	2.3

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

18. COMMITMENTS AND CONTINGENCIES

The following table lists the Company's estimated material contractual commitments as at March 31, 2018:

	2018	2019	2020	2021	2022	Thereafter	Total
Senior notes[(1)]	$ —	$ —	$ —	$ —	$ —	$ 2,030.8	**$ 2,030.8**
Interest on senior notes	94.0	125.4	125.4	125.4	125.4	165.7	**761.3**
Firm transportation and processing agreements	327.5	460.0	498.3	524.9	489.0	2,600.9	**4,900.6**
Office leases	3.2	3.5	3.2	3.2	3.3	2.6	**19.0**
Estimated contractual obligations	$ 424.7	$ 588.9	$ 626.9	$ 653.5	$ 617.7	$ 4,800.0	**$ 7,711.7**

(1) Balance represents the US$1.575 billion principal converted to Canadian dollars at the exchange rate of US$1=C$1.29 at period end.

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. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital

Three months ended	March 31, 2018	March 31, 2017
Accounts receivable	**$ 16.4**	$ 4.5
Deposits and prepaid expenses	**4.5**	2.2
Accounts payable and accrued liabilities	**132.9**	87.5
	153.8	94.2
Unrealized foreign exchange loss on non-cash working capital	**1.6**	(1.6)
	155.4	92.6
Relating to:		
Operating activities	**44.6**	63.4
Financing activities	**—**	—
Investing activities	**$ 110.8**	$ 29.2

CORPORATE INFORMATION

Management
Marty Proctor
President & CEO

Derek Aylesworth
CFO

Glen Nevokshonoff
COO

Kyle Brunner
Vice President & General Counsel

Chris Feltin
Vice President, Corporate Planning

Randall Hnatuik
Vice President, Business Development

Barry Hucik
Vice President, Drilling

Kevin Johnston
Vice President, Accounting & Controller

Jordan Johnsen
Vice President, Operations & Engineering

Brian Newmarch
Vice President, Capital Markets

Charlotte Raggett
Vice President, Midstream Business Development

Directors
Kent Jespersen
Chairman

Marty Proctor
President & CEO

Kevin Brown

Pat Carlson

Avik Dey

Harvey Doerr

Paul Hand

Dale Hohm

Bill McAdam

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Credit Suisse AG, Toronto Branch
Export Development Canada
JP Morgan Chase Bank, N.A., Toronto Branch
National Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Alberta Treasury Branches
Barclays Bank PLC
Fédération des Caisses Desjardins Du Québec
Wells Fargo Bank, N.A., Canadian Branch

Auditors
PricewaterhouseCoopers LLP

Legal Counsel
Stikeman Elliott LLP

Independent Evaluators
McDaniel & Associates Consultants Ltd.

Stock Symbol
VII
Toronto Stock Exchange