SEVEN GENERATIONS

ENERGY

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Independent auditor's report

To the Shareholders of Seven Generations Energy Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Seven Generations Energy Ltd. and its subsidiaries (together, the "Company") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Calvin Blain Jacober.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Calgary, Alberta
February 27, 2019

SEVEN GENERATIONS ENERGY LTD.

Consolidated Balance Sheets

(millions of Canadian dollars)

As at	Notes	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	6	**$ 78.1**	$ 165.3
Accounts receivable	7	**237.3**	302.7
Risk management contracts	10	**83.9**	36.2
Deposits and prepaid expenses		**24.0**	18.8
		423.3	523.0
Risk management contracts	10	**44.1**	36.1
Oil and natural gas assets	8	**7,652.1**	6,733.0
Investment in associate	9	**—**	2.4
		8,119.5	7,294.5
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**393.5**	377.3
Risk management contracts	10	**16.9**	17.5
		410.4	394.8
Risk management contracts	10	**23.7**	16.5
Senior notes	12	**2,129.8**	1,956.4
Other long-term liabilities	13	**194.2**	198.0
Deferred income taxes	14	**511.8**	278.4
		3,269.9	2,844.1
Equity			
Share capital	15	**3,813.8**	3,864.4
Contributed surplus		**110.5**	100.6
Retained earnings		**925.3**	485.4
		4,849.6	4,450.4
		$ 8,119.5	$ 7,294.5

Commitments and contingencies (Note 23)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

signed "Dale Hohm"
Dale Hohm
Director

signed "Mark Monroe"
Mark Monroe
Director

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars, except per share amounts)

For the year ended	Notes	December 31, 2018	December 31, 2017
Revenues			
Liquids and natural gas sales	3,18	**$ 3,314.3**	$ 2,308.4
Royalties expense		**(99.2)**	(62.1)
		3,215.1	2,246.3
Risk management contracts			
Realized gain (loss)	3,10	**(98.2)**	15.7
Unrealized gain	3,10	**49.1**	186.7
Other income		**3.9**	5.9
		3,169.9	2,454.6
Expenses			
Operating expenses	19	**408.3**	357.8
Transportation, processing and other	20	**537.0**	371.4
Product purchases	3,18	**332.7**	101.1
Depletion and depreciation	8	**846.9**	730.2
General and administrative		**56.2**	46.0
Stock-based compensation	22	**19.9**	28.5
Finance expense	21	**127.3**	193.2
Foreign exchange (gain) loss		**166.3**	(129.6)
Loss on associate	9	**2.4**	21.0
		2,497.0	1,719.6
Income before taxes		**672.9**	735.0
Income Taxes			
Current income tax expense (recovery)	14	**(0.4)**	2.9
Deferred income tax expense	14	**233.4**	169.6
		233.0	172.5
Net income and comprehensive income		**$ 439.9**	$ 562.5
Net income per share			
Basic	16	**$ 1.23**	$ 1.59
Diluted	16	**$ 1.21**	$ 1.54

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Cash Flows

(millions of Canadian dollars)

For the year ended	Notes	December 31, 2018	December 31, 2017
Operating activities			
Net income and comprehensive income		**$ 439.9**	$ 562.5
Items not affecting cash:			
Deferred income tax expense	14	**233.4**	169.6
Depletion and depreciation	8	**846.9**	730.2
Unrealized gain on risk management contracts	3,10	**(49.1)**	(186.7)
Foreign exchange (gain) loss	12	**169.6**	(134.9)
Stock-based compensation	22	**19.9**	28.5
Non-cash finance expenses and other		**12.1**	2.4
Loss on associate	9	**2.4**	19.5
Premium on redemption of senior notes	12	**—**	37.2
Prepaid processing fees on third-party facilities	8	**—**	(21.0)
Reclamation expenditures	13	**(2.9)**	—
Changes in non-cash working capital	25	**124.1**	(53.0)
Cash provided by operating activities		**1,796.3**	1,154.3
Financing activities			
Draws on credit facility	11	**220.4**	—
Repayment of credit facility draws	11	**(224.6)**	—
Purchase of common shares	15	**(104.2)**	—
Exercise of equity compensation units	15	**36.8**	25.0
Redemption of US$700 million 8.25% senior notes	12	**—**	(912.7)
Issuance of US$700 million 5.375% senior notes	12	**—**	859.7
Changes in non-cash working capital	25	**6.0**	—
Cash used in financing activities		**(65.6)**	(28.0)
Investing activities			
Investments in oil and natural gas assets	8	**(1,765.7)**	(1,651.4)
Changes in non-cash working capital	25	**(52.6)**	61.9
Cash used in investing activities		**(1,818.3)**	(1,589.5)
Foreign exchange gain (loss) on cash held in foreign currencies		**0.4**	(2.3)
Decrease in cash and cash equivalents		**(87.2)**	(465.5)
Cash and cash equivalents, beginning of year		**165.3**	630.8
Cash and cash equivalents, end of year		**$ 78.1**	$ 165.3

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)

For the year ended	Notes	December 31, 2018	December 31, 2017
Share capital			
Balance, beginning of year		**$ 3,864.4**	$ 3,830.5
Exercise of equity compensation units	22	**54.4**	33.9
Purchase of common shares	15	**(105.0)**	—
Balance, end of year		**3,813.8**	3,864.4
Contributed surplus			
Balance, beginning of year		**100.6**	69.4
Stock-based compensation	22	**26.7**	40.1
Exercise of equity compensation units	22	**(17.6)**	(8.9)
Purchase of common shares	15	**0.8**	—
Balance, end of year		**110.5**	100.6
Retained earnings (deficit)			
Balance, beginning of year		**485.4**	(77.1)
Net income and comprehensive income		**439.9**	562.5
Balance, end of year		**$ 925.3**	$ 485.4
Total shareholders equity, beginning of year		**$ 4,450.4**	$ 3,822.8
Total shareholders equity, end of year		**$ 4,849.6**	$ 4,450.4

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.
Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2018 and 2017
(all tabular amounts in millions of Canadian dollars, except share and price information)

	Financial Statement Note	Page
1	Nature of business	9
2	Basis of preparation	9
3	Significant accounting policies	10
4	Significant accounting judgments, estimates and assumptions	13
5	Future accounting pronouncements	14
6	Cash and cash equivalents	14
7	Accounts receivable	15
8	Oil and natural gas assets	15
9	Investment in associate	16
10	Risk management contracts	16
11	Credit facility	17
12	Senior notes	18
13	Other long-term liabilities	19
14	Income taxes	19
15	Share capital	20
16	Per share amounts	20
17	Capital Management	20
18	Liquids and natural gas sales	22
19	Operating expenses	22
20	Transportation, processing and other expenses	23
21	Finance expense	23
22	Stock-based compensation	23
23	Commitments and contingencies	25
24	Related party transactions	26
25	Changes in non-cash working capital	26

1. NATURE OF BUSINESS

Seven Generations Energy Ltd. ("Seven Generations" or the "Company") was 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 liquids-rich natural gas from its Kakwa River Project in northwest Alberta, 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 consolidated financial statements were approved and authorized by the Company's Board of Directors on February 27, 2019.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. They have been prepared on a historical cost basis, except for certain financial instruments which are measured at their estimated fair value. 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. The Company's functional currency is Canadian dollars and all amounts are reported in Canadian dollars unless noted otherwise. References to "US$" are to United States dollars.

These consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2017, other than for the retrospective adoption of IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers on January 1, 2018. These new accounting standards are discussed in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

Oil and natural gas assets

Oil and natural gas assets are measured at historical cost less accumulated depletion, depreciation and impairment. The Company begins capitalizing oil and natural gas exploration costs after the right to explore has been obtained, including land acquisition costs, geological and geophysical activities, drilling expenditures and costs incurred for the completion and testing of exploration wells. The Company capitalizes all subsequent investments attributable to the development of its oil and natural gas assets if the expenditures are considered a betterment and provide a future benefit beyond one year. Capitalized costs primarily consist of pad construction, drilling, completion activities, well equipment, major facilities, gathering system infrastructure and pipelines. Borrowing costs attributable to long-term development projects are also capitalized.

Capitalized costs are classified as exploration and evaluation ("E&E") assets if technical feasibility and commercial viability have not yet been established. Technical feasibility and commercial viability are deemed to have been achieved when proved reserves are determined to exist and the Company has sanctioned the projects for commercial development. Capitalized costs are classified as property, plant and equipment ("PP&E") if they are attributable to the development of oil and natural gas reserves after technical feasibility and commercial viability have been established. When technical feasibility and commercial viability of E&E assets have been established, the E&E assets are tested for impairment and reclassified to PP&E.

The majority of the Company's PP&E is depleted using the unit-of-production method based on estimated recoverable proved plus probable reserves. Natural gas reserves and production are converted to barrels of oil equivalent based upon the relative energy content (6:1). The depletion base consists of the historical net book value of capitalized costs, plus the estimated future costs required to develop the Company's estimated recoverable proved plus probable reserves, and excludes the cost of assets not yet available for use in the manner intended by management. Significant components, primarily consisting of natural gas processing facilities, are depreciated separately on a straight-line basis over their estimated 40 year useful lives. Corporate and other costs are depreciated over their estimated useful lives using the declining-balance method.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, risk management contracts, investments in associates, accounts payable, accrued liabilities, credit facilities and the senior notes.

All financial instruments are initially recognized at fair value on the consolidated balance sheet, with the exception of the senior notes and credit facilities which are initially recognized at amortized cost. The fair value measurement of the Company's financial instruments are classified 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 at the reporting date.
- Level 2 - Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed in the marketplace but are not readily observable in an actively traded market.
- Level 3 - Valuation inputs that are not based on observable market data.

Effective January 1, 2018, Seven Generations retrospectively adopted IFRS 9 - Financial Instruments which replaced IAS 39 Financial Instruments: Recognition and Measurement. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces multiple principles in IAS 39. The Company's cash and cash equivalents and risk management contracts previously classified as held for trading are now classified at fair value through profit and loss. Accounts receivable and accounts payable are now classified at amortized cost (previously classified as receivables and other financial liabilities, respectively). The Company's senior notes are now classified at amortized cost (previously classified as other financial liabilities). The changes in classification did not impact the measurement of the Company's financial instruments in 2018.

The following table summarizes the Company's financial instrument measurement and fair value hierarchy under IFRS 9:

Financial Instrument	Measurement hierarchy	IFRS 9 Classification & measurement
Cash and cash equivalents	Level 1	**Fair value through profit and loss**
Accounts receivable	Level 3	**Amortized cost**
Risk management contracts	Level 2	**Fair value through profit and loss**
Investment in associates	Level 3	**Equity method or fair value through profit and loss**
Accounts payable and accrued liabilities	Level 3	**Amortized cost**
Credit facility	Level 2	**Amortized cost**
Senior notes	Level 2	**Amortized cost**

Realized gains and losses from the settlement of financial instruments as well as unrealized gains/losses from the remeasurement of financial instruments are recognized in net income as incurred. Transaction costs related to fair value through profit or loss financial instruments are immediately recognized in earnings. Transaction costs related to financial liabilities measured at amortized cost are initially netted with the fair value of the financial instrument and are amortized to net income over the life of the instrument.

The Company accounts for investments in associates using the equity method of accounting if Seven Generations is considered to have significant influence. Significant influence is generally regarded as the ability to participate in the financial and operational decisions of the associate without having control or joint-control over the associate. Under the equity method of accounting, the carrying value of investment are increased or decreased for Seven Generations' share of equity contributions and withdrawals, as well as the Company's share of income and losses, respectively. In the event of a loss of significant influence, the Company remeasures its retained interest at fair market value with any gain or loss recognized in net income. The investment is then remeasured at fair market value at each subsequent reporting period.

IFRS 9 provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and the number of days past due in order to estimate bad debt expenses. The Company assesses the lifetime expected credit loss related to its sales receivables and joint venture receivables and re-assesses the provision each reporting period. When measuring the expected credit loss, the Company considers a variety of factors including: evidence of the debtor's financial condition, the term of the receivable and any changes in economic conditions. 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.

Cash and cash equivalents consist of cash on hand and other short-term highly liquid investments with a maturity of three months or less and are presented as a current asset on the balance sheet. All financial instruments are presented as a current asset or liability on the balance sheet if they are expected to be settled within one year.

Impairment

Seven Generations reviews its oil and natural gas assets for indicators of impairment at each reporting period. For the purposes of the review, the Company’s PP&E and E&E assets are grouped into cash-generating units ("CGUs") which are defined as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows of other groups of assets. PP&E and E&E assets that are in the same CGU are aggregated together. If impairment indicators exist, the CGU is tested for impairment and a loss is recognized to the extent that the carrying amount of the CGU exceeds its estimated recoverable amount.

The recoverable amount of the CGU is determined as the greater of its fair value less costs to sell ("FVLCTS") and value in use ("VIU"). FVLCTS is estimated based on the amount recoverable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable parties, less the cost of disposal. In assessing VIU, the estimated future cash flows of the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, risks specific to the asset and overhead costs associated with operating the CGU. The recoverable amounts of the Company’s CGUs are generally estimated primarily using discounted cash flows from the Company’s proved plus probable reserves (Level 3 valuation).

The Company also assesses if there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is objective evidence that one or more events have had a negative impact on the estimated future cash flows of the financial asset. All impairment losses are recognized in the consolidated statement of comprehensive income.

The carrying value of the Company's investments in associates is also reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the investment is tested for impairment and a loss is recognized if the carrying amount of the investment exceeds its estimated recoverable amount.

Revenue

Revenue primarily relates to the sale of liquids and natural gas in Canada and the United States from the Company's Kakwa River Project. Seven Generations also purchases condensate and natural gas for resale in order to take advantage of its transportation and processing arrangements. Revenues from liquids and natural gas sales are presented net of third-party royalty interests on the income statement. The product is determined based on the physical product at the time of sale with liquids extracted from sold gas presented as NGLs and pentanes plus extracted from the NGL mix presented as condensate. Also included in revenues are realized and unrealized gains and losses from the Company's risk management contracts that are remeasured at fair market value at each reporting period (see financial instruments accounting policy and Note 10). The Company also earns interest income primarily on its cash and cash equivalent balances held.

Effective January 1, 2018, Seven Generations retrospectively adopted IFRS 15 Revenue from Contracts with Customers which replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 provides a single, five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue for the amount it expects to receive from the sale of goods and services when control is transferred to the purchaser. The adoption of IFRS 15 did not have a material impact on the Company's revenue recognition policy in the 2018 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 typically occurs at the point of sale when title of the product is given. The amount of revenue recognized is based on the agreed upon transaction volume and price.

During the year ended December 31, 2017, resales of condensate and natural gas were presented net of the cost of purchases within liquids and natural gas sales on the income statement. Following the adoption of IFRS 15 on January 1, 2018, Seven Generations began presenting these 2017 purchases of condensate and natural gas separately.

In 2017, Seven Generations received a share of margins earned in respect of third party marketing arrangements that utilized Seven Generations' transportation capacity primarily on the Alliance pipeline. This third party marketing income was presented net within transportation, processing and other expenses. Starting in the fourth quarter of 2017, Seven Generations began taking advantage of 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 have been presented separately for the year ended December 31, 2018 and 2017. Third-party marketing income continues to be presented net within transportation, processing and other expenses (Note 20).

For the year ended December 31, 2017, Seven Generations reclassified $101.1 million of product purchases in respect of condensate and natural gas acquired for resale (Note 18).

Starting in 2018, the Company began presenting pentanes plus in the natural gas liquids ("NGLs") mix as condensate sales compared to the previous presentation as NGL sales. During the year ended December 31, 2017, $122.5 million of pentanes plus sales was reclassified from NGL to condensate sales (Note 18).

Provisions

Provisions are liabilities that are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that Seven Generations will be required to settle the obligation. Seven Generations' provisions primarily consist of decommissioning obligations associated with the dismantling, decommissioning and site disturbance remediation activities for its oil and natural gas assets. Decommissioning obligations are measured at the present value of the expected cash outflow using a risk-free discount rate. The liabilities are accreted upwards towards their estimated settlement value over the expected life of the assets in order to reflect the passage of time. Actual expenditures incurred to settle the obligations reduce the provision.

Income taxes

Income taxes consist of current and deferred taxes that are recognized in the statements of comprehensive income, except when it relates to share capital, in which case, the taxes are recognized directly in equity.

Current income tax expense (recovery) is the expected cash tax payable or receivable on the taxable income during the year, using tax rates that have been enacted or substantively enacted. Deferred tax is recognized on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their corresponding tax values. Deferred income tax is determined on an undiscounted basis using tax rates that have been enacted or substantively enacted and that are expected to apply in future years when the temporary differences reverse. A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will arise with which the available carry-forward tax deductions can be utilized to shelter the taxable profits from tax.

Stock-based compensation

The Company's stock-based compensation expense relates to stock options, performance warrants, performance share units ("PSUs"), restricted share units ("RSUs") and deferred share units ("DSUs") granted to employees, officers, service providers and directors of Seven Generations. All outstanding performance warrants were issued prior to the Company's initial public offering in 2014. Awards are measured at fair value on the date of grant and are expensed over their vesting periods under the terms of the compensation arrangements. Upon exercise, certain stock-based compensation plans allow the holder of an award to receive cash or common shares at the Company's discretion. All of Seven Generations' plans are currently accounted for as equity-settled share-based compensation arrangements.

The fair value of stock options and performance warrants are primarily determined using the Black-Scholes option pricing model. The fair value of DSUs, PSUs and RSUs are primarily based on the Company's share price on the date of grant. The primary

non market-based vesting condition for the Company's stock-based compensation plans, other than DSUs, is continuous employment. An estimated forfeiture rate is applied to the valuation of all equity units over the vesting period and is subsequently adjusted to reflect the actual number of equity awards that ultimately vest. DSUs are fully expensed at the date of grant because they vest immediately.

PSUs may be granted with certain market-based vesting conditions that are determined by the Company's Board of Directors. If the Company satisfies these market conditions, a pre-determined adjustment factor is applied to the vested PSUs at the end of the performance period, which, to date, has generally been based on the Company's relative share price performance compared to a selected peer group. The fair value of the PSUs at the date of grant is adjusted to reflect the probability of possible market outcomes. If the actual market adjustment factor is higher or lower than estimated, the expense attributable to the original fair value estimate of the PSU grant is not adjusted.

When equity compensation units are exercised or released, the consideration received, together with the expense previously recognized in contributed surplus, is recorded as an increase to share capital.

Cancellation of common shares

Seven Generations de-recognizes the weighted-average carrying value of share capital attributable to the Company's publicly traded common shares purchased for cancellation under a normal course issuer bid. The fair value of common shares purchased in excess of the net book value is recognized as contributed surplus. The fair value of common shares purchased below the net book value reduces contributed surplus to the extent that it was created as a result of the Company's share purchases, with any remaining excess recognized as a reduction to retained earnings.

Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates during the year. The corresponding realized and unrealized gains and losses from foreign currency translations are recognized in the consolidated statements of comprehensive income.

Jointly operated assets

Seven Generations' oil and natural gas activities include jointly operated oil and natural gas assets and liabilities. These consolidated financial statements include only the Company’s share of these jointly operated assets and liabilities and a proportionate share of the related revenue and expenses.

Per share information

Basic per share information is calculated using the weighted average number of common shares outstanding during the year. Diluted per share information is calculated using the basic weighted average number of common shares outstanding during the year, adjusted for the number of shares which could have had a dilutive effect on net income during the year had in-the-money equity compensation units been exercised.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of these financial statements requires estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Oil and natural gas assets are grouped into CGUs based on their ability to generate largely independent cash flows. The determination of the Company's CGUs is subject to judgment. Seven Generations' oil and natural gas assets are currently held in one CGU. The Company also applies judgment when determining the classification of its oil and natural gas assets as either PP&E or E&E assets. Judgment is required in assessing technical feasibility and commercial viability as it involves determining the existence of proven reserves and the probability of the Company developing the assets.

The Company applies judgment in determining when the transfer of risks and rewards of ownership from the sale of condensate, natural gas and NGLs occurs. Revenues are generally recognized upon the transfer of title to customers.

The determination of the Company’s income tax and royalty liabilities requires interpretation of complex laws and regulations and are subject to measurement uncertainty. All tax filings are subject to audit and potential reassessment. The recoverability of loss carryforwards, investment tax credits and royalty incentives carry uncertainty. The Company records deferred income tax assets and liabilities using income tax rates that are enacted or substantively enacted at the balance sheet date, which are subject to change.

Estimates and assumptions

Amounts recorded for depletion of oil and natural gas assets rely on estimates and assumptions regarding proved and probable reserves and future development costs. The estimated future cash flows from recoverable reserves are relied upon for determining if the Company's oil and natural gas assets have become impaired. The Company's reserve report includes significant estimates for the quantity of oil and natural gas volumes, recovery factors, production rates, future commodity prices, discount rates, and future royalty, operating and capital costs. The Company's reserve estimates have been determined in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook. However, these estimates and assumptions are all subject to measurement uncertainty.

The Company's provision for decommissioning liabilities is based on estimates and assumptions regarding the interpretation of current legal requirements, future costs to settle the provisions and the expected timing of remediations.

The Company's stock-based compensation expense is subject to measurement uncertainty as a result of estimates and assumptions related to forfeiture rates, expected life, market based vesting conditions and underlying volatility of the price of the Company's common shares.

The estimated fair value of financial instruments is subject to measurement uncertainty. The fair value of financial instruments without an observable actively traded market is estimated using the Company's assessment of available market inputs and other assumptions. These estimates may vary from the actual prices that will be achieved upon settlement of the financial instruments.

5. FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 16 Leases will replace IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease for annual periods beginning on or after January 1, 2019. For lessees applying IFRS 16, a single recognition and measurement model will apply with required recognition of assets and liabilities for most leases, including subleases. The standard is required to be adopted retrospectively or using a modified retrospective approach.

The Company plans to adopt IFRS 16 using the modified retrospective approach (simplified method). Seven Generations anticipates utilizing the practical expedient exemptions available to scope-out low-value and short-term lease arrangements. The Company will also not recognize contractual arrangements that previously had not met the definition of a lease under IFRIC 4 at the inception of the contract.

As at December 31, 2018, Seven Generations anticipates that its long-term minimum commitments with respect to corporate office lease arrangements of approximately $10.5 million will require initial recognition of a right of use asset and corresponding lease liability on the balance sheet following the adoption of IFRS 16. The right of use asset will be amortized to net income over the term of the contract. The lease payments will reduce the lease liability and will be reflected as a financing activity in the statement of cash flows. Under existing IFRS standards, the Company's non-cancellable office lease arrangements are reflected as general and administrative expenses as incurred. The Company's non-cancellable short-term and low-value lease commitments will continue to be recognized in net income as incurred.

Seven Generations continues to assess the impact of the new leasing standard on the Company's consolidated financial statements and the conclusions and elections above are subject to change prior to the implementation of the new standard in 2019.

6. CASH AND CASH EQUIVALENTS

As at	December 31, 2018	December 31, 2017
Cash[1]	**$ 78.1**	$ 164.5
Short-term investments	**—**	0.8
Cash and cash equivalents	**$ 78.1**	$ 165.3

(1) As at December 31, 2018, cash investments earned interest at a weighted average annual rate of 2.29% (December 31, 2017 - 1.35%).

As at December 31, 2018, the credit risk associated with the Company's cash balances was considered low as the balances were held with three large Canadian chartered banks (December 31, 2017 - two).

7. ACCOUNTS RECEIVABLE

As at	December 31, 2018	December 31, 2017
Liquids and natural gas sales	**$ 203.2**	$ 243.2
Royalty recoveries	**28.4**	22.1
GST and other	**2.2**	24.4
Joint venture billings	**3.5**	13.0
Accounts receivable	**$ 237.3**	$ 302.7

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

8. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other assets	Total
Investments in oil and natural gas assets				
Balance at December 31, 2016	$ 511.6	$ 6,252.3	$ 14.1	**$ 6,778.0**
Additions[1]	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[2]	—	41.3	—	**41.3**
Balance at December 31, 2017	331.2	8,121.9	38.6	**8,491.7**
Additions[1]	17.9	1,744.1	3.7	**1,765.7**
Non-cash capitalized costs[2]	1.5	(0.1)	(0.2)	**1.2**
Balance at December 31, 2018	350.6	9,865.9	42.1	**10,258.6**
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	—	—	0.9	**0.9**
Depletion and depreciation	1.3	843.3	2.3	**846.9**
Balance at December 31, 2018	$ 5.8	$ 2,589.9	$ 10.8	**$ 2,606.5**
Net book value				
Balance at December 31, 2017	$ 326.7	$ 6,375.3	$ 31.0	**$ 6,733.0**
Balance at December 31, 2018	$ 344.8	$ 7,276.0	$ 31.3	**$ 7,652.1**

(1) Seven Generations capitalized general and administrative expenses of $3.3 million during the year ended December 31, 2018 (December 31, 2017 - $6.2 million). Also included in capital expenditures are capitalized financing and interest charges of $12.0 million (December 31, 2017 - $1.9 million).

(2) For the year ended December 31, 2018, non-cash capitalized costs consisted of $6.8 million of stock-based compensation partially offset by a $5.6 million reduction in decommissioning obligation assets (Note 13) (year ended December 31, 2017 - $11.6 million and $29.7 million, respectively).

As at December 31, 2018, $344.8 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).

In the fourth quarter of 2018, Seven Generations identified indicators of impairment as a result of declines in the forecasted commodity prices utilized in the 2018 reserve report, compared to the prior year, and a market capitalization deficiency relative to the book value of the Company's shareholder equity. Seven Generations performed an impairment test on the Kakwa River Project primarily using after-tax discounted future cash flows of proved and probable reserves.

Discounted after-tax cash flows in the impairment test utilized a two percent inflation rate and a discount rate of 10%. The following table summarizes the price forecast used in the Company's discounted cash flow estimates:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Thereafter
WTI (US$/bbl)	58.58	64.60	68.20	71.00	72.81	74.59	76.42	78.40	79.98	81.59	**+2% per year**
Henry Hub (US$/MMBtu)	3.00	3.13	3.33	3.51	3.62	3.70	3.77	3.85	3.92	4.01	**+2% per year**
US$ to C$	0.757	0.782	0.797	0.803	0.807	0.808	0.808	0.808	0.808	0.808	**0.808**

As at December 31, 2018, the recoverable value of the Kakwa River Project exceeded its carrying value and no impairment was identified.

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 developed and producing assets.

9. INVESTMENT IN ASSOCIATE

In 2016, Seven Generations invested $25.8 million for a 34.0% equity interest in Steelhead LNG Limited Partnership ("Steelhead LNG"), a Vancouver based energy company focused on the development of LNG projects in British Columbia. Concurrent with the investment, the Company entered into a development arrangement with Steelhead LNG, whereby the Company agreed to contribute $3.0 million in cash upfront plus a commitment to invest up to an additional $9.0 million to participate in the pre-development of transportation alternatives to the west coast of British Columbia. Seven Generations also agreed to provide an interest bearing $5.4 million guarantee for a portion of Steelhead LNG's credit facility used to fund its operations.

In 2017, Seven Generations identified indicators of impairment for its investment in Steelhead LNG primarily due to the value of consideration received by Steelhead LNG in exchange for equity units that were issued to third parties by Steelhead during the fourth quarter of 2017. The Company tested the asset for impairment and determined that its investment in Steelhead LNG may not be fully recoverable. During the year ended December 31, 2017 the Company recognized a loss on associate of $21.0 million primarily relating to an impairment loss on the investment. The recoverable value of the investment was primarily based on equity prices for shares issued by Steelhead during recent equity financing rounds.

As at December 31, 2018, the Company no longer accounts for Steelhead LNG as an equity investment as Seven Generations held a 12.8% equity interest in Steelhead LNG following subsequent equity issuances by Steelhead LNG to third parties during the year. The asset was fully impaired as at December 31, 2018. During the first quarter of 2019, Seven Generations was released from its guarantee under the Credit Facility and the Company's equity interest in Steelhead was reduced to 1.3%.

10. RISK MANAGEMENT CONTRACTS

Seven Generations periodically enters into risk management contracts to manage the Company's exposure to commodity price and foreign currency risks. The following table summarizes the carrying value of Seven Generations' outstanding risk management contracts as at December 31, 2018:

As at	December 31, 2018	December 31, 2017
Natural gas	**$ 45.4**	$ 70.2
Oil	**75.1**	(50.5)
Foreign exchange	**(33.1)**	18.6
Net risk management contract asset (liability)	**$ 87.4**	$ 38.3

The Company's risk management contracts are subject to master netting agreements that create the legal right to settle on a net basis. The following is a summary of financial instruments that are subject to offsetting:

	December 31, 2018			December 31, 2017		
As at	Asset	Liability	Net	Asset	Liability	Net
Balance sheet classification						
Current asset	**$ 84.3**	**$ (0.4)**	**$ 83.9**	$ 44.1	$ (7.9)	$ 36.2
Long-term asset	**46.9**	**(2.8)**	**44.1**	37.5	(1.4)	36.1
Current liability	**—**	**(16.9)**	**(16.9)**	3.3	(20.8)	(17.5)
Long-term liability	**—**	**(23.7)**	**(23.7)**	3.4	(19.9)	(16.5)
Net position	**$ 131.2**	**$ (43.8)**	**$ 87.4**	$ 88.3	$ (50.0)	$ 38.3

Seven Generations believes that the credit risk associated with the Company's risk management contract assets is low given that the instruments were all held with large Canadian and US financial institutions. The Company's risk management contracts consisted of the following as at December 31, 2018:

	C$ WTI Collars		C$ WTI Sold Puts		US$ WTI Collars		US$ WTI Sold Puts	
Term(1)	**bbl/d**	**C$/bbl**	**bbl/d**	**C$/bbl**	**bbl/d**	**US$/bbl**	**bbl/d**	**US$/bbl**
2019	23,500	$58.09 - $75.93	7,500	$41.00	7,250	$56.00 - $63.28	1,250	$40.00
2020	8,500	$57.06 - $71.50	1,500	$40.00	11,750	$53.11 - $60.67	3,750	$40.00
2021	—	—	—	—	4,000	$53.49 - $62.65	1,750	$40.00

(1) Weighted average volumes and prices are presented.

	Chicago Citygate Swaps		Chicago Basis Swaps		AECO 7A Collars/Swaps		NYMEX Henry Hub Swaps	
Term(1)	**MMbtu/d**	**US$/MMbtu**	**MMbtu/d**	**US$/ MMbtu**	**GJ/d**	**C$/GJ**	**MMbtu/d**	**US$/MMbtu**
2019	107,500	$2.84	2,500	$(0.23)	60,000	$2.44 - $2.85	90,000	$2.89 - $3.02
2020	32,500	$2.74	52,500	$(0.22)	10,000	$2.13 - $2.13	62,500	$2.79 - $2.87
2021	—	—	40,000	$(0.19)	—	—	22,500	$2.66 - $2.89

(1) Weighted average volumes and prices are presented.

	FX Swaps/Collars	
Term(1)	**US$MM**	**C$/US$**
2019	$236.2	$1.2888 - $1.2953
2020	$181.0	$1.2803 - $1.2893
2021	$104.0	$1.2871 - $1.2983

(1) Weighted average figures are presented.

Swap instruments fix a single forward price that Seven Generations will receive for the underlying contract. Collar instruments create a range by setting a fixed floor and ceiling contract price. If the actual market value exceeds the ceiling or falls below the floor, Seven Generations receives the fixed ceiling price or fixed floor price, respectively. If actual market prices fall within the collar range, Seven Generations will receive the actual market price. Sold put instruments lower the fixed floor price on a collar if the market price settles below the sold put level.

The following table illustrates the impact of changes in commodity prices and foreign exchange rates on Seven Generations' net income before tax, based on the derivative contracts in place as at December 31, 2018:

As at December 31, 2018		**Gain (Loss)**
10% increase in oil prices	**$**	**(87.5)**
10% decrease in oil prices		**87.8**
10% increase in gas prices		**(43.1)**
10% decrease in gas prices		**43.0**
10% increase in US$ to C$ exchange rate		**(68.9)**
10% decrease in US$ to C$ exchange rate	**$**	**68.2**

11. CREDIT FACILITY

As at December 31, 2018, Seven Generations held an undrawn senior secured credit facility of $1.4 billion (the "Credit Facility"). The Credit Facility was a covenant-based structure expiring in 2023. The Credit Facility has an accordion feature that provides the Company with the ability to access an incremental $300 million of secured debt, subject to certain conditions.

During the year ended December 31, 2018, US$170.0 million in non-cumulative amounts drawn under the Credit Facility were fully repaid by the end of the year. Borrowings under the Credit Facility bear interest at a market-based rate plus an applicable margin which ranges depending on the Company's Senior Secured Net Debt to EBITDA ratio. During the year, amounts drawn under the Credit Facility bore an effective annual interest rate of 3.8%.

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 3.00:1
- 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 before interest, income taxes, depletion, depreciation and amortization, adjusted for certain non-cash, extraordinary or non-recurring items such as unrealized gains and losses on financial instruments. Senior Secured Net Debt consists of amounts drawn under the Credit Facility less cash and cash equivalents. The balance of the outstanding unsecured senior notes and any capital leases are excluded under the definition.

As at December 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 (0.04):1 and 13.53:1, respectively.

The Company has an unsecured demand letter of credit facility of up to C$45.0 million and an additional US$25.0 million. As at December 31, 2018, C$39.4 million and US$18.8 million in letters of credit were issued and outstanding under the facility (December 31, 2017 - C$60.4 million and US$33.6 million). As at December 31, 2017, Seven Generations had C$42.1 million in letters of credit issued and outstanding under the Credit Facility, which expired during the first quarter of 2018.

12. SENIOR NOTES

As at		December 31, 2018		December 31, 2017
US$425 million 6.75% senior notes, due May 1, 2023	**$**	**579.8**	$	533.2
US$450 million 6.875% senior notes, due June 30, 2023		**613.9**		564.5
US$700 million 5.375% senior notes, due September 30, 2025		**955.0**		878.2
Senior notes principal		**2,148.7**		1,975.9
Less unamortized debt issue costs		**(23.3)**		(24.3)
Plus unamortized premium		**4.4**		4.8
Balance, end of year	**$**	**2,129.8**	$	1,956.4

(1) The US dollar senior notes were translated into Canadian dollars at the year end exchange rate of US$1=C$1.3642 (December 31, 2017 – US$1=C$1.25).

The Company's 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 December 31, 2018, the fair value of senior notes was C$2,054.1 million (December 31, 2017 - C$2,059.2 million).

The following table summarizes the changes in the value of Seven Generations' senior notes during the year:

For the year ended		December 31, 2018		December 31, 2017
Balance, beginning of year	**$**	**1,956.4**	$	2,111.9
Impact of foreign exchange (gains) losses on senior notes and other		**173.4**		(139.6)
Redemption of US$700 million 8.25% senior notes		**—**		(875.6)
Issuance of US$700 million 5.375% senior notes		**—**		859.7
Balance, end of year	**$**	**2,129.8**	$	1,956.4

The Company has the option to redeem the senior notes at the following specified redemption prices:

	US$700 5.375% million senior notes(1)	US$425 6.75% million senior notes(2)	US$450 6.875% million senior notes(3)
2018	**105.4%**	**105.1%**	**105.2%**
2019	**105.4%**	**103.4%**	**103.4%**
2020	**104.0%**	**101.7%**	**101.7%**
2021	**102.7%**	**100.0%**	**100.0%**
2022	**101.3%**	**100.0%**	**100.0%**
2023	**100.0%**	**100.0%**	**100.0%**
2024 or thereafter	**100.0%**	**—**	**—**

(1) The change in redemption price for the US$700 million 5.375% senior notes takes effect on September 30th of each year. Prior to September 30th, 2020, the Company may only redeem up to 35% of the 5.375% Notes at a redemption price of 105.375% using the proceeds of one or more equity offerings, or can fully redeem the notes at a redemption price of 104.031% plus the present value of interest that would otherwise be payable from the applicable redemption date through September 30th, 2020.

(2) The change in redemption price for the US$425 million 6.75% senior notes takes effect on May 1st of each year.

(3) The change in redemption price for the US$450 million 6.875% senior notes takes effect on June 30th of each year.

During the fourth quarter of 2017, Seven Generations completed refinancing transactions, repurchasing and redeeming all of the Company's outstanding US$700 million 8.25% senior unsecured notes due in 2020 (the "8.25% Notes") and completing a new offering of US$700 million 5.375% senior unsecured notes due in 2025. The refinancing transactions extended the Company's

debt maturities and reduced the Company's combined effective interest rate on all of its senior unsecured notes to 6.2% (6.3% including amortization of deferred borrowing costs). As part of the refinancing, the Company recognized financing expenses of C$37.1 million in respect of the tender and call premiums on the 8.25% Notes.

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 indentures are available on SEDAR for further details.

Seven Generations is exposed to foreign exchange rate fluctuations on the principal and interest related to the Company's senior notes. As at December 31, 2018, a 10% increase to the value of the Canadian dollar relative to the US dollar would result in a gain of approximately $214.9 million (10% decline - loss of $214.9 million).

13. OTHER LONG-TERM LIABILITIES

As at		December 31, 2018		December 31, 2017
Decommissioning liabilities	**$**	**190.2**	$	194.2
Onerous leases and other		**4.0**		3.8
Other long-term liabilities	**$**	**194.2**	$	198.0

Decommissioning liabilities

For the year ended		December 31, 2018		December 31, 2017
Balance, beginning of year	**$**	**194.2**	$	160.7
Liabilities incurred		**23.9**		23.9
Change in estimates		**(29.3)**		5.4
Change in discount rates and other		**(0.2)**		0.4
Reclamation expenditures		**(2.9)**		—
Accretion (Note 21)		**4.5**		3.8
Balance, end of year	**$**	**190.2**	$	194.2

During the year ended December 31, 2018, the Company recognized $23.9 million in decommissioning obligations as a result of ongoing developments at the Kakwa River Project. The Company also recognized a $29.3 million change in estimate on existing decommissioning obligations with respect to dismantling costs associated with its major facilities. As at December 31, 2018, the total undiscounted, uninflated estimated cash flows required to settle the Company's decommissioning liabilities was approximately $201.3 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 after 2040. As at December 31, 2018, the Company utilized a risk free rate of 2.2% (December 31, 2017 - 2.2%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%).

14. INCOME TAXES

The following table reconciles the Company's expected income tax expense calculated at the Canadian statutory rate of 27% (2017 - 27%) for the years ended December 31, 2018 and 2017:

For the year ended		December 31, 2018		December 31, 2017
Net income before income taxes	**$**	**672.9**	$	735.0
Statutory income tax rate		**27%**		27%
Expected income tax expense		**181.7**		198.5
Adjustments related to the following:				
Non-deductible portion of foreign exchange (gain) loss		**23.3**		(18.9)
Change in unrecognized deferred tax asset		**20.9**		(13.3)
Stock-based compensation		**5.9**		8.2
Change in tax rates and other		**1.2**		(2.0)
Income tax expense	**$**	**233.0**	$	172.5

As at December 31, 2018, the Company had $5.6 billion worth of tax pools available for future deduction, including $0.6 billion available for immediate deduction against taxable income (December 31, 2017 - $5.5 billion and $0.9 billion, respectively). Tax pools comprised of non-capital losses begin to expire after 2035.

Changes in the deferred tax balances during the year ended December 31, 2018 were as follows:

As at	December 31, 2016	Movement	December 31, 2017	Movement	December 31, 2018
Property, plant and equipment	$ 335.3	$ 129.8	$ 465.1	$ 145.0	**$ 610.1**
Risk management contracts	(40.3)	50.6	10.3	10.2	**20.5**
Non-capital losses	(124.7)	2.8	(121.9)	68.2	**(53.7)**
Decommissioning liabilities	(43.4)	(9.0)	(52.4)	1.0	**(51.4)**
Financing costs	(15.8)	(5.1)	(20.9)	10.1	**(10.8)**
Unrealized foreign exchange losses	(37.9)	17.9	(20.0)	(22.7)	**(42.7)**
Other	(2.9)	(4.1)	(7.0)	0.7	**(6.3)**
	70.3	182.9	253.2	212.5	**465.7**
Unrecognized deferred tax asset	38.5	(13.3)	25.2	20.9	**46.1**
Deferred income tax liability	$ 108.8	$ 169.6	$ 278.4	$ 233.4	**$ 511.8**

As at December 31, 2018, Seven Generations had an unrecognized deferred tax asset of $46.1 million consisting of $42.7 million in foreign exchange capital losses and $3.4 million in Steelhead investment losses. During the years ended December 31, 2018 and 2017, all changes in the Company's deferred income tax liability were reflected in net income.

15. 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.

	December 31, 2018		December 31, 2017	
For the year ended	Number (millions)	Amount ($)	Number (millions)	Amount ($)
Balance, beginning of year	**354.7**	**$ 3,864.4**	350.3	$ 3,830.5
Purchase of common shares	**(9.7)**	**(105.0)**	—	—
Exercise of stock options and performance warrants	**7.6**	**36.8**	4.4	25.0
Transfer from contributed surplus on exercise of equity compensation	**—**	**17.6**	—	8.9
Balance, end of year	**352.6**	**$ 3,813.8**	354.7	$ 3,864.4

During the fourth quarter of 2018, Seven Generations received approval from the Toronto Stock Exchange to purchase the Company's outstanding common shares through a normal course issuer bid ("NCIB"). Under the NCIB, the Company is allowed to purchase up to 18,115,666 common shares until November 4, 2019.

All stock purchased under the NCIB is acquired at prevailing market prices and is subsequently cancelled. During the year ended December 31, 2018, the Company purchased 9.7 million shares for cancellation at an average price of $10.72 per common share before transaction costs. The net book value of the common shares purchased in excess of amounts paid for the shares was recognized as an increase to contributed surplus.

16. PER SHARE AMOUNTS

For the year ended	December 31, 2018	December 31, 2017
Weighted average number of common shares - basic	**358.6**	353.3
Dilutive effect of outstanding equity compensation units	**5.3**	11.1
Weighted average number of common shares - diluted	**363.9**	364.4

17. CAPITAL MANAGEMENT

Seven Generations' objective for managing capital is to maintain a strong balance sheet and available funding in order to provide financial flexibility to fund sustaining capital, future development growth and return of capital to shareholders. Near-term development activities and any common share purchases are anticipated to be funded by the Company's adjusted funds flow, cash on hand, potential divestitures or draws under the Credit Facility (Note 11).

The Company manages its liquidity risk through its capital structure, cash flow forecasting and available credit. As at December 31, 2018, the Company had $78.1 million of cash (Note 6) and its undrawn Credit Facility of up to $1.4 billion (Note 11). Management believes it has sufficient funding to meet the Company's foreseeable liquidity requirements.

Seven Generations strives for a proportion of debt and equity which appropriately balances the level of risk being incurred by its capital investments with the Company's weighted average cost of capital. The Company's business plan targets a trailing 12 month ratio of net debt to adjusted funds flow of less than 2.0. The ratio was 1.3 for the year ended December 31, 2018 (December 31, 2017 - 1.5).

The following tables summarize the Company's net debt and adjusted funds flow as at December 31, 2018:

As at		December 31, 2018		December 31, 2017
Senior notes principal (Note 12)	**$**	**2,148.7**	$	1,975.9
Current assets		**(423.3)**		(523.0)
Current liabilities		**410.4**		394.8
		2,135.8		1,847.7
Current portion of risk management assets (Note 10)		**83.9**		36.2
Current portion of risk management liabilities (Note 10)		**(16.9)**		(17.5)
Net debt		**2,202.8**		1,866.4
Market capitalization[(1)]		**3,928.9**		6,306.6
Total capitalization	**$**	**6,131.7**	$	8,173.0

(1) Market capitalization was determined as the total common shares outstanding multiplied by the closing share price of $11.14 as at December 31, 2018 (closing share price of $17.78 at December 31, 2017).

For the year ended		December 31, 2018		December 31, 2017
Cash provided by operating activities	**$**	**1,796.3**	$	1,154.3
Reclamation expenditures (Note 13)		**2.9**		—
Prepaid processing fees on third-party facilities (Note 8)		**(0.9)**		21.0
Changes in non-cash working capital and other		**(124.1)**		53.0
Adjusted funds flow	**$**	**1,674.2**	$	1,228.3

Net debt is an important measure used by Management to assess the Company's liquidity by incorporating long-term debt and working capital balances. Total capitalization is used also by Seven Generation's to analyze balance sheet strength and liquidity.

The Company utilizes adjusted funds flow as a measure of operational performance and cash flow generating capability. Adjusted funds flow impacts the level and extent of funding for investment in capital projects, returning capital to shareholders and repaying debt. By excluding changes in non-cash working capital and other adjustments from cash flows, the adjusted funds flow measure provides a meaningful metric for Management by establishing a clear link between the Company's cash flows and operating netbacks from the Kakwa River Project.

Net debt and adjusted funds flow are not standardized measures and may not be comparable with the calculation of similar measures by other companies.

18. LIQUIDS AND NATURAL GAS SALES

For the year ended	December 31, 2018	December 31, 2017[(1)]
Sales by product		
Condensate	**$ 2,200.2**	$ 1,458.7
Natural gas	**916.3**	631.3
NGLs	**197.8**	218.4
Liquids and natural gas sales	**$ 3,314.3**	$ 2,308.4
Sales by country		
Canada	**$ 2,541.8**	$ 1,678.0
United States	**$ 772.5**	$ 630.4
Sales by activity		
Production from the Kakwa River Project	**$ 2,907.7**	$ 2,199.7
Resale of purchased product	**$ 406.6**	$ 108.7

(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 3).

Seven Generations' resale of purchased product, less the cost of product purchases and applicable transportation tolls, reflects the net profit margin in respect of the Company's marketing activities. The cost of the condensate and natural gas purchased for resale during the year ended December 31, 2018 was $209.4 million and $123.3 million respectively, and has been presented as a separate expense on the consolidated statement of comprehensive income (2017 - $90.1 million and $11.0 million). Included in transportation, processing and other expenses is $46.0 million of transportation tolls incurred in respect of product purchased for resale (year ended December 30, 2017 - $5.6 million) (Note 20).

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 December 31, 2018:

Average daily sales volume commitments	2019
Chicago Citygate Index (MMBtu/d) - Alliance	**74,628**
Chicago Citygate Basis (MMBtu/d) - Alliance	**10,000**
Chicago Citygate Fixed (MMBtu/d) - Alliance	**5,229**
US Gulf Coast Basis (MMBtu/d) - NGPL	**44,167**
US Gulf Coast Index (MMBtu/d) - NGPL	**10,000**
Dawn Hub Index (MMBtu/d) - TCPL	**35,883**
Ventura Index (GJ/d) - NGTL	**20,006**

19. OPERATING EXPENSES

For the year ended	December 31, 2018	December 31, 2017
Water trucking and disposal	**$ 159.3**	$ 159.9
Equipment rental and maintenance	**129.0**	98.5
Staff and contractor costs	**51.4**	39.4
Chemicals and fuel	**43.4**	38.8
Property tax and other	**25.2**	21.2
Operating expenses	**$ 408.3**	$ 357.8

20. TRANSPORTATION, PROCESSING AND OTHER EXPENSES

For the year ended		December 31, 2018		December 31, 2017
Pipeline tariffs	**$**	**371.9**	$	263.9
Processing		**100.2**		80.7
Trucking and other		**65.7**		49.8
Third party marketing income		**(0.8)**		(23.0)
Transportation, processing and other	**$**	**537.0**	$	371.4

Third party marketing income relates to Seven Generations' share of margins that are earned in respect of third party marketing arrangements utilizing the Company's various transportation capacities, primarily on the Alliance pipeline.

During the fourth quarter of 2017, Seven Generations began taking advantage of 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 year ended December 31, 2018 and 2017 (Note 18). Any income earned from other third-party marketing arrangements as well as the comparative third-party marketing income earned in 2017 is presented net within transportation, processing and other expenses.

During the year ended December 31, 2018, the Company incurred $46.0 million in respect of transportation tolls relating to product purchased for resale (year ended December 30, 2017 - $5.6 million).

21. FINANCE EXPENSE

For the year ended		December 31, 2018		December 31, 2017
Interest on senior notes	**$**	**126.0**	$	149.3
Revolving credit facility fees and bank fees		**6.6**		5.4
Accretion of decommissioning obligations (Note 13)		**4.5**		3.8
Amortization of premiums and debt issuance costs		**2.2**		(0.6)
Premium on redemption of senior notes		**—**		37.2
Finance costs		**139.3**		195.1
Capitalized borrowing costs		**(12.0)**		(1.9)
Finance expense	**$**	**127.3**	$	193.2

Capitalized borrowing costs in 2017 and 2018 relate to borrowed funds invested in respect of the construction of the Company's third wholly-owned gas processing plant in the Gold Creek area. The facility became ready for use in the manner intended by management during the fourth quarter of 2018, at which time, the Company discontinued the capitalization of financing and interest costs.

22. STOCK-BASED COMPENSATION

The following table summarizes the Company's outstanding equity compensation units as at December 31, 2018 and 2017:

	December 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	**11.4**	**$**	**18.16**	**5.4**	12.4	$	16.63	5.4
Performance warrants	**3.1**		**8.92**	**1.1**	8.3		6.91	1.3
PSUs and RSUs	**1.1**		**—**	**3.2**	1.1		—	3.8
DSUs	**0.3**		**—**	**—**	0.2		—	—
Units outstanding	**15.9**	**$**	**14.69**	**4.6**	22.0	$	12.00	4.0

(a) Stock Options

For the year ended	December 31, 2018	December 31, 2017
Balance, beginning of year	**12.4**	11.2
Granted	**2.3**	2.6
Exercised	**(2.2)**	(1.2)
Forfeited and expired	**(1.1)**	(0.2)
Balance, end of year	**11.4**	12.4

The Company's stock option grants are generally fully exercisable for common shares after three years and expire ten years after the grant date. The fair value of stock option grants are estimated using the Black-Scholes pricing model. The following weighted-average assumptions were used during the year ended December 31, 2018 and 2017:

For the year ended	December 31, 2018	December 31, 2017
Fair value of options granted ($)	**5.4**	7.5
Risk-free interest rate (%)	**2.1**	1.1
Expected life (years)	**5.0**	5.0
Expected forfeiture rate (%)	**5.0**	5.0
Expected volatility (%)	**35.0**	33.0
Expected dividend yield (%)	**—**	—

The following table summarizes the stock options outstanding and exercisable as at December 31, 2018:

	Outstanding		Exercisable	
Exercise Price ($)	Number of Options (Millions)	Weighted Average Remaining Life (Years)	Number of Options (Millions)	Weighted Average Remaining Life (Years)
5.50 - 11.00	**1.8**	**1.0**	1.8	0.9
11.01 - 15.50	**3.0**	**7.5**	1.2	5.1
15.51 - 18.00	**2.5**	**3.7**	2.1	2.7
18.01 - 25.50	**2.2**	**6.6**	0.7	6.4
25.51 - 31.00	**1.9**	**7.0**	1.3	7.0
	11.4	**5.4**	7.1	3.8

(b) Performance warrants

For the year ended	December 31, 2018	December 31, 2017
Balance, beginning of year	**8.3**	11.4
Exercised	**(5.0)**	(3.1)
Forfeited and expired	**(0.2)**	—
Balance, end of year	**3.1**	8.3

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

The following table summarizes the performance warrants outstanding and exercisable as at December 31, 2018:

	Outstanding		Exercisable	
Exercise Price ($)	Number of Warrants (Millions)	Weighted Average Remaining Life (Years)	Number of Warrants (Millions)	Weighted Average Remaining Life (Years)
5.50 - 5.75	**1.4**	**0.8**	1.4	0.8
5.76 - 9.50	**0.9**	**0.8**	0.9	0.8
9.51 - 17.50	**0.8**	**1.9**	0.7	1.8
	3.1	**1.1**	3.0	1.0

(c) Performance share units and restricted share units

For the year ended	December 31, 2018	December 31, 2017
Balance, beginning of year	**1.1**	0.6
Granted	**0.5**	0.6
Exercised	**(0.4)**	(0.1)
Forfeited	**(0.1)**	—
Balance, end of year	**1.1**	1.1

PSUs and RSUs represent the right for the holder to receive common voting shares or, at the election of holder and the Company, a cash payment equal to the fair market value of the common shares calculated at the date of such payment. PSUs and RSUs granted to date generally vest annually over a three year period.

The weighted average fair value of PSUs and RSUs granted during the year ended December 31, 2018 was $15.49. The Company utilized a market adjustment factor of 1.0 for the valuation of the PSUs, which assumes that the Company will be within the 50th percentile of its relative peer group, based on total shareholder return at their respective vesting dates (Note 4). During the year ended December 31, 2018, actual market adjustment factors on vested units ranged from 0.69 - 1.80 (December 31, 2017 - 1.69 - 2.00).

(d) Deferred share units

DSUs represent the right for the holder to receive common shares, or, at the election of the holder and the Company, a cash payment equal to fair market value of the common share calculated at the date of such payment. DSUs granted under the DSU Plan vest immediately upon grant. As at December 31, 2018, there were 0.3 million DSUs outstanding (December 31, 2017 - 0.2 million).

23. COMMITMENTS AND CONTINGENCIES

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

	2019	2020	2021	2022	2023	Thereafter	Total
Firm transportation and processing agreements	$ 477.8	$ 510.5	$ 535.2	$ 498.8	$ 306.9	$ 2,358.6	**$ 4,687.8**
Senior notes[(1)]	—	—	—	—	1,193.7	955.0	**2,148.7**
Interest on senior notes	132.7	132.7	132.7	132.7	85.5	89.8	**706.1**
Office leases	4.6	4.3	3.5	3.6	2.1	—	**18.1**
Other purchase commitments	5.9	—	—	—	—	—	**5.9**
Estimated contractual obligations	$ 621.0	$ 647.5	$ 671.4	$ 635.1	$1,588.2	$ 3,403.4	**$ 7,566.6**

(1) Balance represents the US$1.575 billion principal converted to Canadian dollars at the exchange rate of US$1=C$1.3642 as at December 31, 2018.

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.

The Company is currently undergoing income tax and royalty audits in the normal course of business which could result in material negative adjustments. While the final outcome of such audits cannot be predicted with certainty, Seven Generations does not currently anticipate that these audits will have a material impact on the Company's consolidated financial position or results of operations.

24. RELATED PARTY TRANSACTIONS

Seven Generations' related parties primarily consisted of the Company's directors and officers. Amounts paid to directors and officers for the year ended December 31, 2018 were as follows:

For the year ended		December 31, 2018		December 31, 2017
Stock-based compensation	**$**	**11.6**	$	18.7
Salaries, benefits and other short-term compensation		**6.2**		9.6
Termination and retirement benefits[(1)]		**1.2**		—
	$	**19.0**	$	28.3

(1) During the year, Seven Generations' acquired the personal Grande Prairie residence of a former executive under terms of a retirement agreement. The house was acquired from the employee at its historical cost of $2.2 million and had been appraised at a fair market value of $1.4 million. Under the terms of the agreement, the executive was entitled to recover the original purchase price paid for the house plus renovation costs. Included in the table above is $0.8 million relating to the amount paid in excess of fair market value.

Steelhead LNG is considered a related party due to common directorships and certain significant shareholders (Note 9), including Azimuth Capital Management who has a majority ownership in Steelhead LNG and has professional ties with four of Seven Generations directors. All related party transactions have been measured at the exchange value.

25. CHANGES IN NON-CASH WORKING CAPITAL

For the year ended		December 31, 2018		December 31, 2017
Accounts receivable	**$**	**65.4**	$	(120.9)
Deposits and prepaid expenses		**(5.2)**		(0.8)
Accounts payable and accrued liabilities		**16.2**		132.8
		76.4		11.1
Unrealized foreign exchange gain (loss) in non-cash working capital		**1.1**		(2.7)
Changes in current portion of prepaid processing fees		**—**		0.5
	$	**77.5**	$	8.9
Relating to:				
Operating activities	**$**	**124.1**	$	(53.0)
Financing activities	**$**	**6.0**	$	—
Investing activities	**$**	**(52.6)**	$	61.9
Other cash flow information:				
Cash interest paid	**$**	**132.1**	$	189.2
Cash taxes paid	**$**	**1.1**	$	2.9

CORPORATE INFORMATION

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CFO

David Holt
COO

Kyle Brunner
Vice President, General Counsel & Corporate Secretary

Chris Feltin
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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

Pam Ramotowski
Vice President, Human Resources

Directors
Mark Monroe
Chairman

Marty Proctor
President & CEO

Kevin Brown

Avik Dey

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ATB Financial
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Auditors
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Legal Counsel
Stikeman Elliott LLP

Independent Evaluators
McDaniel & Associates Consultants Ltd.

Stock Symbol
VII
Toronto Stock Exchange