SEVEN GENERATIONS

ENERGY

Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

March 8, 2016

Independent Auditor's Report

To the Shareholders of Seven Generations Energy Ltd.

We have audited the accompanying consolidated financial statements of Seven Generation Energy Ltd. and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2015 and the consolidated statement of income (loss) and comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Seven Generations Energy Ltd. and its subsidiary as at December 31, 2015 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matters

The financial statements of Seven Generations Energy Ltd. for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 10, 2015.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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

SEVEN GENERATIONS ENERGY LTD.

Consolidated Balance Sheets
(thousands of Canadian dollars)

As at December 31	Notes	**2015**	2014
Assets			
Current assets			
Cash and cash equivalents	6	**405,046**	848,136
Accounts receivable		**76,439**	64,417
Risk management contracts	19	**98,570**	138,122
Deposits and prepaid expenses		**12,418**	9,355
		592,473	1,060,030
Risk management contracts	19	**52,996**	997
Oil and natural gas assets	7	**3,109,503**	2,049,760
Goodwill		**4,010**	4,010
		3,758,982	3,114,797
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	**187,883**	268,231
Risk management contracts	19	**18,320**	—
		206,203	268,231
Risk management contracts	19	**10,039**	—
Senior notes	10	**1,546,761**	813,880
Deferred credits		**850**	973
Decommissioning liabilities	11	**79,109**	52,163
Deferred income taxes	12	**129,370**	68,624
		1,972,332	1,203,871
Equity			
Share capital	13	**1,775,673**	1,719,779
Contributed surplus		**61,810**	54,684
Retained earnings (Deficit)		**(50,833)**	136,463
		1,786,650	1,910,926
		3,758,982	3,114,797

Commitments and contingencies (Note 22)
Subsequent event (Note 24)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

signed "Dale Hohm" *signed "Kent Jespersen"*

Dale Hohm Kent Jespersen

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(thousands of Canadian dollars, except per share amounts)

Year ended December 31	Notes	**2015**	2014
Revenues			
Liquids and natural gas sales		**591,924**	534,833
Royalties		**(57,898)**	(51,890)
		534,026	482,943
Risk management contracts			
Realized gain	19	**150,580**	9,737
Unrealized gain (loss)	19	**(15,911)**	141,765
Other income		**8,014**	4,987
		676,709	639,432
Expenses			
Operating	16	**101,188**	54,261
Transportation		**60,336**	34,833
General and administrative	17	**24,343**	20,258
Depletion, depreciation and amortization	7	**283,535**	159,447
Stock based compensation	14	**13,987**	11,950
Finance expense	18	**102,011**	63,641
Foreign exchange loss		**219,301**	47,673
Liquidity event expense	23	**—**	35,947
Gain on disposition of assets	7	**(2,602)**	(4,286)
		802,099	423,724
Income (loss) before taxes		**(125,390)**	215,708
Taxes			
Current income tax expense	12	**104**	—
Deferred income tax expense	12	**61,802**	71,508
		61,906	71,508
Net income (loss) and comprehensive income (loss)		**(187,296)**	144,200
Net income (loss) per share	15		
Basic		**(0.75)**	0.73
Diluted		**(0.75)**	0.64

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

	Notes	**Share capital**	**Contributed surplus**	**Retained earnings (deficit)**	**Total**
Balance at December 31, 2013		790,064	45,626	(7,737)	827,953
Net income for the period		—	—	144,200	144,200
Issue of common shares	13	931,500	—	—	931,500
Share issue costs (net of deferred tax)	13	(36,637)	—	—	(36,637)
Stock based compensation	14	—	18,012	—	18,012
Exercise of stock options and performance warrants	13, 14	34,852	(8,954)	—	25,898
Balance at December 31, 2014		1,719,779	54,684	136,463	1,910,926
Net loss for the period		—	—	(187,296)	(187,296)
Tax rate change on share issue costs	13	1,056	—	—	1,056
Stock based compensation	14	—	20,014	—	20,014
Exercise of stock options and performance warrants	13, 14	54,838	(12,888)	—	41,950
Balance at December 31, 2015		**1,775,673**	**61,810**	**(50,833)**	**1,786,650**

See accompanying notes to the consolidated financial statements.

SEVEN GENERATIONS ENERGY LTD.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)

Year ended December 31	Notes	**2015**	2014
Operating activities			
Net income (loss) for the period		**(187,296)**	144,200
Items not affecting cash:			
Deferred income tax expense	12	**61,802**	71,508
Depletion, depreciation and amortization	7	**283,535**	159,447
Unrealized (gain) loss on risk management contracts	19	**15,911**	(141,765)
Stock based compensation	14	**13,987**	11,950
Non-cash finance expenses	18	**1,626**	691
Gain on disposition of assets	7	**(2,602)**	(4,286)
Unrealized foreign exchange loss		**227,769**	50,311
Decommissioning expenditures	11	**—**	(206)
Other		**(123)**	(70)
Changes in non-cash working capital	21	**(34,492)**	10,129
Cash provided by operating activities		**380,117**	301,909
Financing activities			
Issue of shares for cash	13	**—**	931,500
Issue of shares on option exercises	13	**41,950**	25,898
Share issue costs	13	**—**	(48,849)
Issue of debt	10	**515,052**	356,342
Debt issue costs	10	**(11,329)**	(9,840)
Cash provided by financing activities		**545,673**	1,255,051
Investing activities			
Oil and natural gas asset additions	7	**(1,308,973)**	(1,120,336)
Proceeds on disposition of property	7	**—**	9,420
Changes in non-cash working capital	21	**(61,001)**	91,512
Cash used in investing activities		**(1,369,974)**	(1,019,404)
Unrealized foreign exchange gain on cash held in foreign currencies		**1,094**	3,095
Increase (decrease) in cash and cash equivalents		**(443,090)**	540,651
Cash and cash equivalents, beginning of year		**848,136**	307,485
Cash and cash equivalents, end of year		**405,046**	**848,136**

Supplementary disclosure of cash flow information (Note 21)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2015 and 2014
(all tabular amounts in thousands of Canadian dollars, except share, per share and price information)

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1. NATURE OF BUSINESS

Seven Generations Energy Ltd. (“Seven Generations” or the “Company”) is incorporated under the *Canada Business Corporations Act* and commenced operations in 2008. Seven Generations is a Canadian company focused on the exploration, development and production of oil and natural gas properties in western Canada. Seven Generations’ principal place of business is located at 300, 140 – 8th Avenue S.W., Calgary, Alberta T2P 1B3. The Company’s Class A common shares are publicly traded on the Toronto Stock Exchange under the symbol “VII”.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value as explained in Note 18. The consolidated financial statements are presented in Canadian dollars, which is Seven Generations’ functional currency.

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

The preparation of the consolidated financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5.

The consolidated financial statements were approved and authorized for issue by the Board of Directors (the "Board") on March 8, 2016.

Certain comparative figures from prior periods have been reclassified to conform to the current year's presentation. The current portion of deferred credits has been disclosed with Accounts Payable and Accrued Liabilities in Note 9.

3. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

(a) Oil and natural gas assets
Oil and natural gas properties are carried at cost, less accumulated depletion and depreciation and accumulated impairment losses, if any.

Oil and natural gas properties represent all costs directly attributable to development of oil and natural gas reserves after technical feasibility and commercial viability have been established. These include lease acquisitions, geological and geophysical costs, drilling and completion costs, production equipment, pipelines and gathering equipment, processing facilities and associated turnarounds, other directly attributable costs, borrowing costs of qualifying assets and estimates of decommissioning liabilities.

Depletion of intangible oil and natural gas assets is calculated using the unit-of-production method based on estimated recoverable reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of oil based upon the relative energy content (6:1). The depletion base includes capitalized costs, plus future costs to be incurred in developing estimated recoverable proved and probable reserves and excludes the cost of assets not yet available for use. Tangible oil and natural gas assets, including natural gas plants, are depreciated on a straight-line basis over their estimated useful lives.

(b) Exploration and evaluation assets
Exploration and evaluation ("E&E") assets are those investments for an area or project for which technical feasibility and commercial viability have not yet been determined. The Company capitalizes all E&E costs after the right to explore has been obtained related to exploration properties, including geological and geophysical costs, land acquisition costs and costs for drilling, completion and testing of exploration wells. When technical feasibility and commercial viability is established, the associated E&E assets are tested for impairment at the lower of cost and the estimated recoverable amount is transferred to property, plant and equipment. Any costs in excess of the estimated recoverable amount are charged to expense.

E&E assets are not amortized.

Farm-in and farm-out arrangements for E&E properties are accounted for at cost. No gain or loss is recognized on the disposition of a working interest through a farm-out arrangement.

(c) Other fixed assets
Other fixed assets include office furniture and fixtures, computer equipment and field vehicles. They are carried at cost and depreciated over their estimated useful lives at annual rates ranging from 20 percent to 100 percent.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs, other than for financial instruments at fair value through profit and loss, are added to or deducted from the fair value of the financial instrument on recognition. Transaction costs for financial instruments at fair value through profit and loss are recognized immediately in net income (loss).

Measurement in subsequent periods is dependent upon whether the financial instrument has been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables or other financial liabilities. The classification depends on the nature and purposes of the financial instrument and is determined at the time of initial recognition.

Financial instruments designated as fair value through profit and loss are subsequently measured at fair value with changes to those fair values recognized immediately in net income (loss). Available for sale financial assets are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Amounts recognized in other comprehensive income (loss) for available for sale financial assets are transferred to net income (loss) when realized through disposal or impairment. Held to maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method less any impairment.

An embedded derivative is a component of a contract that modifies the cash flows of the contract. These hybrid contracts are considered to consist of a host contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative unless the economic characteristics and risks of the embedded derivative are closely related to the host contract. The Company has no material embedded derivatives.

Impairment

(a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net income (loss). An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The impairment reversal is recognized in net income (loss).

(b) Non-financial assets

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill, an impairment test is completed each year, or when indicators of impairment exist. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves.

For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a prorata basis.

An impairment loss in respect of goodwill is not reversed. In respect of oil and natural gas assets, impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates that were used to determine the recoverable amount when the impairment was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, depreciation and amortization, if no impairment loss had been recognized.

Provisions

(a) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows where the effect of the time value of money is material.

(b) Decommissioning liabilities

The Company records a liability for obligations associated with the decommissioning of its oil and natural gas assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. Actual costs incurred upon settlement of the obligations are charged against the liability.

Income taxes

Income tax comprises current and deferred taxes. Income tax is recognized in net income (loss), except when it relates to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the related tax expense or recovery is also recognized in other comprehensive income (loss) or equity, respectively.

Current income tax expense is the expected cash tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all temporary differences, except for temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting net income (loss). Deferred income tax is determined on a non-discounted basis using tax rates that have been enacted or substantively enacted at the reporting date and that are expected to apply in the periods that the temporary differences reverse. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock based compensation

Compensation cost attributable to stock options, performance warrants, deferred share units ("DSUs") and performance and restricted share units ("PRSUs") granted to employees, officers, and directors of Seven Generations is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase in contributed surplus. Fair value is determined using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of stock options, performance warrants and PRSUs that vest, whereas DSUs vest immediately. The performance share units ("PSUs") are granted with certain market conditions, specified at the grant date as determined by the Company's Board of Directors. If the Company satisfies the market conditions, a pre-determined adjustment factor is applied to PSUs eligible to vest at the end of the performance period, based upon the relative share price performance of the Company compared to a peer group over the performance period. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor. If the actual final adjustment factor is higher than estimated at grant, additional expense is recognized on vesting for the incremental fair value.

Upon the exercise of the stock options, performance warrants, DSUs, PSUs and RSUs, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company's DSU and PRSU plans allow the holder of an DSU or PRSU to receive a cash payment or its equivalent in fully-paid common shares, at the Company's discretion, equal to the fair market value of the Company's Class A common shares calculated at the date of such payment. The Company does not intend to make cash payments under the DSU or PRSU plans and, as such, the PRSUs are accounted for within equity.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets and liabilities assumed, including contingent liabilities, are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is recognized as goodwill. Goodwill is subsequently carried at cost less accumulated impairment losses, if any. Any deficiency of the cost of acquisition below the fair value of the net identifiable assets acquired is credited to net income (loss) in the period of acquisition. Associated transaction costs are expensed when incurred.

Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate in effect when the asset was acquired or the liability was incurred. Revenues and expenses are translated at average exchange rates for the period. Translation gains and losses are recognized in the statement of net income (loss) and comprehensive income (loss) in the period in which they are incurred and are reported on a net basis.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity of 90 days or less.

Revenue recognition

Revenue from the sale of oil and natural gas is recognized when risk and rewards of ownership are transferred from the Company to its customers.

Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use. A qualifying asset is an asset that requires a period of one year or greater to complete or prepare for its intended use. All other borrowing costs are recognized in net income (loss) using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Jointly operated assets

The Company's oil and natural gas activities may involve jointly operated assets. The consolidated financial statements of the Company include the Company's share of these jointly operated assets and a proportionate share of the related revenue and costs.

Per share information

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. For diluted per share information, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net income (loss). Diluted per share information is calculated using the treasury stock method which assumes that proceeds received from the exercise of in-the-money stock options plus the unamortized stock based compensation expense would be used to buy back common shares at the average market price for the period.

4. NEW ACCOUNTING POLICIES

Changes in accounting policies

There were no material new or amended accounting standards adopted during the year ended December 31, 2015.

Future accounting policy changes

In February 2014, the IASB issued IFRS 9 "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The impact of the standard on the Company's financial statements is currently being evaluated.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. In July 2015, the IASB issued an amendment to IFRS 15, deferring the effective date by one year. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard is required to be adopted either retrospectively or using a modified transition approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the consolidated financial statements.

In January 2016, the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases" for annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 "Revenue from Contracts with Customers" is also applied. Under IFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Company is currently evaluating the impact of the standard on the consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and management's judgment regarding other factors that are considered to be relevant and reasonable in the circumstances. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes.

IFRS requires that the Company's oil and natural gas properties be aggregated into CGUs, based on their ability to generate largely independent cash flows, which are used to assess the properties for impairment. The determination of the Company's CGUs is subject to management's judgment. The Company's assets are currently held in one CGU.

The Company applies judgment in determining the transfer of risks and rewards of ownership from the Company to its customers. Oil and natural gas revenues are recognized in accordance with this transfer, which typically occurs upon title of asset transfer, at which point cash consideration is receivable, or as products are taken in kind as consideration and the Company has no continuing involvement with the goods or services provided.

The Company assesses revenue agreements using specific criteria to determine whether it is acting as an agent or principal. The Company recognizes revenue on a gross basis when the Company is acting in a principal capacity and on a net basis when the Company is acting in an agent capacity. The Company has concluded it acts in an agent capacity for all revenue transactions whereby third party party oil and natural gas volumes are purchased and sold, whereby the Company recognizes the net revenues and net losses in other income separately from oil and natural gas revenues.

The determination of the Company's income tax and royalty liabilities requires interpretation of complex laws and regulations. As such, income taxes and royalties are subject to measurement uncertainty. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. In addition, the recoverability of loss carryforwards and investment tax credits is uncertain. The Company records deferred income tax assets and liabilities using income tax rates substantively enacted at the balance sheet date.

(b) Estimates and assumptions

The amounts recorded for depletion and depreciation of oil and natural gas properties are based on estimated recoverable reserves and future costs. The level of estimated recoverable reserves and associated future cash flows are also key determinants in assessing whether the carrying values of the Company's oil and natural gas assets and goodwill have been impaired. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty. Reserve estimates are determined in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook. The determination of reserve estimates involves the exercise of judgment and the use of estimates for oil and natural gas volumes in place, recovery factors, production rates, future commodity prices and future royalty, operating and capital costs.

The Company's provisions for decommissioning liabilities are based on judgments regarding interpretation of current legal and constructive requirements and estimates of future costs and expected timing for remediation. Actual costs may differ from estimated costs because of changes in laws and regulations, reserves, market conditions, discovery and analysis of site conditions and changes in technology.

The Company uses the Black-Scholes model to estimate the fair value of stock options and performance warrants granted. This requires assumptions regarding interest rates, dividend rates, the underlying volatility of the shares and the expected life and forfeitures of the stock options and performance warrants.

The estimated fair values of financial instruments, by their very nature, are subject to measurement uncertainty. Fair value of financial instruments, where active market quotes are not available, are 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.

6. CASH AND CASH EQUIVALENTS

As at December 31	2015	2014
Cash	**77,142**	1,448
Short term investments, bearing interest at a weighted average rate of 0.7% (December 31, 2014 – 0.8%) (1)	**327,904**	846,688
	405,046	848,136

(1) Includes $Nil US term deposit balance as at December 31, 2015 (2014 - US$66.0 million ($76.6 million)).

7. OIL AND NATURAL GAS ASSETS

	Exploration and evaluation	Developed and producing	Other	Total
Cost				
Balance at December 31, 2013	140,342	1,017,254	4,123	1,161,719
Additions	74,119	1,043,944	2,273	1,120,336
Dispositions	—	(5,134)	—	(5,134)
Non-cash capitalized costs(1)	—	33,618	—	33,618
Balance at December 31, 2014	214,461	2,089,682	6,396	2,310,539
Additions	**13,474**	**1,293,589**	**1,910**	**1,308,973**
Dispositions and transfers	**(5,407)**	**2,009**	**—**	**(3,398)**
Non-cash capitalized costs(1)	**—**	**37,703**	**—**	**37,703**
Balance at December 31, 2015	**222,528**	**3,422,983**	**8,306**	**3,653,817**
Accumulated depletion, depreciation and amortization				
Balance at December 31, 2013	—	100,600	732	101,332
Depletion, depreciation and amortization expense	—	158,387	1,060	159,447
Balance at December 31, 2014	—	258,987	1,792	260,779
Depletion, depreciation and amortization expense	**—**	**282,022**	**1,513**	**283,535**
Balance at December 31, 2015	**—**	**541,009**	**3,305**	**544,314**
Net book value				
Balance at December 31, 2014	214,461	1,830,695	4,604	2,049,760
Balance at December 31, 2015	**222,528**	**2,881,974**	**5,001**	**3,109,503**

(1) Non-cash capitalized costs include $25.3 million (2014 - $27.6 million) of decommissioning obligation assets, land swap additions and $0.4 million non-cash interest and financing (2014 - $Nil) (Note 18).

As at December 31, 2015, the calculation for depletion included an estimated $6.4 billion (2014 - $8.9 billion) for future development capital associated with undeveloped estimated recoverable proved plus probable reserves and excluded $148.8 million (2014 - $144.7 million) for the cost of undeveloped land for which no recoverable reserves have been assigned and for other capital projects not yet in use.

During the year ended December 31, 2015, the Company capitalized $15.8 million (2014 - $9.8 million) of general and administrative expenses based on actual direct salaries and benefits paid to development personnel specifically related to capital activities, including $6.0 million (2014 - $6.1 million) related to stock based compensation.

During the year ended December 31, 2015, the Company capitalized $4.4 million (2014 - $0.5 million) of borrowing costs.

In 2015, the Company closed asset swap arrangements in which non-producing assets were acquired and non-producing assets were disposed of. For purposes of determining the gain on disposition, the estimated fair market value was based on the fair value of the assets received. The Company recorded a gain of $2.6 million for the year ended December 31, 2015 (2014 - $4.3 million).

At the end of each reporting period, the Company performs an asset impairment review to ensure that the carrying value of its oil and natural gas properties and associated goodwill is recoverable. At December 31, 2015 and 2014, the Company determined that based on fair value less cost to dispose, both its oil and natural gas assets and goodwill were not impaired. The Company used a discount rate of 10% on cash flows from proved plus probable reserves. The estimated cash flows were consistent with the estimates of the Company's independent reserves evaluator.

The impairment review was carried out at December 31, 2015 using the following commodity prices estimated by the independent reserves evaluator:

	WTI Crude Oil (US$/bbl)	U.S. Henry Hub Natural Gas Price (US$/MMBtu)	Edmonton Natural Gasolines C5+ (C$/bbl)	Foreign exchange (US$/C$)
2016	45.00	2.50	60.60	0.73
2017	53.60	2.95	70.50	0.75
2018	62.40	3.40	77.00	0.80
2019	69.00	3.70	85.10	0.80
2020	73.10	3.90	87.50	0.83
2021 - 2025	84.52	4.52	101.30	0.83

8. BANK DEBT

At December 31, 2015, the Company had available an $850.0 million revolving credit facility (2014 – $480.0 million) with a syndicate of banks (the "credit facility"), expiring in May 2018. The credit facility is subject to a redetermination of the borrowing base semi-annually and is secured by a floating charge over the Company's assets. The credit facility bears interest rates based on a pricing grid that increases or decreases based on the ratio of indebtedness to earnings before interest, taxes, depreciation, depletion and amortization. The credit facility also includes standby fees on balances not drawn. At December 31, 2015 and 2014, no amount was drawn on the credit facility.

As of December 31, 2015, the Company had $38.2 million in letters of credit (2014 - $Nil), of which $16.6 million (US $12.0 million) was issued in US dollars.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31	**2015**	2014
Trade	**37,206**	18,849
Accrued liabilities	**150,554**	249,259
Deferred credits	**123**	123
	187,883	268,231

10. SENIOR NOTES

	2015	2014
Balance, beginning of year	**813,880**	414,525
Issuance of debt	**515,052**	356,342
Debt issue costs	**(11,329)**	(9,840)
Unrealized foreign exchange loss	**228,802**	53,319
Amortization of premium and debt issue costs	**356**	(466)
Balance, end of year (1)	**1,546,761**	813,880

(1) Balance of principal less debt issue costs at December 31, 2015 is US$1,116.7 million ($1,547.9 million) (December 31, 2014 – US$701.1 million ($814.3 million)).

On May 10, 2013, the Company closed a private placement of US$400.0 million of senior unsecured notes. The notes bear interest at 8.25% per annum (calculated using a 360-day year) payable on May 15 and November 15 of each year, commencing on November 15, 2013. The notes will mature May 15, 2020. After May 15 of each of the following years, the notes are redeemable at the Company's option, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount of the notes): 2016 at 106.188%, 2017 at 104.125%, 2018 at 102.063% and 2019 at 100%. At any time prior to May 15, 2016, the Company may redeem up to US$140.0 million principal amount of the notes at a redemption price equal to 108.250% of the principal amount of the notes redeemed with the net proceeds of an equity offering by the Company. In addition, at any time prior to May 15, 2016, the Company may redeem all or a part of the notes at a redemption price equal to 100% of the aggregate principal amount plus an applicable premium that will be the greater of: (a) 1.0% of the principal amount; and (b) an amount equal to the excess of the present value at such redemption date of the redemption price at May 15, 2016 (106.188%) plus all accrued interest due through May 15, 2016 over the principal amount of the notes. The Company reviewed the terms of the senior notes to determine if the prepayment options were embedded derivatives. While the prepayment options meet the definition of an embedded derivative, the Company determined the fair value of the prepayment options was not material and an embedded derivative has not been recorded.

On February 5, 2014, the Company closed a private placement of US$300.0 million of senior unsecured notes issued under a supplemental indenture to the indenture governing the terms of the US$400.0 million of senior unsecured notes issued on May 10, 2013. The February 2014 notes were issued at 107% of par, resulting in gross proceeds to the Company of US$321.0 million. The terms for this second placement are the same as above.

On April 30, 2015, the Company issued US$425.0 million of additional senior unsecured notes that bear interest at 6.75% per annum (calculated using a 360-day year) payable on October 31 and April 30 of each year, commencing on October 31, 2015. The notes will mature on May 1, 2023. On or after May 1, 2018, the notes are redeemable at the Company's option, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount of the notes): 2018 at 105.063%, 2019 at 103.375%, 2020 at 101.688% and 2021 and thereafter at 100%. In addition, at any time prior to May 1, 2018, the Company may redeem all or a part of the notes at a redemption price equal to 100% of the aggregate principal amount plus an applicable premium that will be the greater of: (a) 1.0% of the principal amount; and (b) an amount equal to the excess of the present value at such redemption date of the redemption price at May 1, 2018 (105.063%) plus all accrued interest due through May 1, 2018 over the principal amount of the note. The Company reviewed the terms of the senior notes to determine if the prepayment options were embedded derivatives. While the prepayment options meet the definition of an embedded derivative, the Company determined the fair value of the prepayment options was not material and an embedded derivative has not been recorded.

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 payments and distributions; incur additional indebtedness; issue disqualified or preferred stock; create or permit liens to exist; make certain dispositions; transfers of assets; and engage in amalgamations, mergers or consolidations. At December 31, 2015 and 2014, the Company was in compliance with the covenants on the senior notes.

The notes are carried at amortized cost, net of transaction costs. The notes accrete up to the principal balance on maturity using the effective interest rate method and an effective interest rate of 7.0%, 7.3% and 8.6% for each respective 2015, 2014 and 2013 issuances. Canadian dollar to US dollar exchange rates at the time of the 2015 issuance of US$425.0 million, 2014 issuance of US$300.0 million and the 2013 issuance of $400.0 million were 0.825, 0.901 and 0.940, respectively.

11. DECOMMISSIONING LIABILITIES

	2015	2014
Balance, beginning of year	**52,163**	23,656
Liabilities incurred	**25,263**	20,873
Changes in estimates	**(1,089)**	2,367
Changes in estimated discount rates	**1,110**	4,311
Decommissioning expenditures	**—**	(206)
Accretion	**1,662**	1,162
Balance, end of year	**79,109**	52,163

The total future decommissioning liability was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the decommissioning liabilities at December 31, 2015 is approximately $139.1 million (2014 – $90.9 million) which is expected to be incurred over the next 35 years with the majority of costs incurred between 2040 and 2050. At December 31, 2015, a risk free rate of 2.0 percent (2014 – 2.3 percent) and an inflation rate of 2.2 percent (2014 – 2.0 percent) were used to calculate the provision for decommissioning liabilities.

12. INCOME TAXES

The provision for income tax expense is different from the amount computed by applying the combined Canadian federal and provincial income tax rate to income (loss) before income taxes. The reasons for the differences are as follows:

Year ended December 31	**2015**	2014
Income (loss) before taxes	**(125,390)**	215,708
Canadian statutory income tax rate	**26%**	25%
Expected income tax expense (recovery)	**(32,601)**	53,927
Add (deduct):		
Non-deductible stock based compensation	**3,637**	2,987
Non-taxable portion of foreign exchange capital losses	**29,192**	6,308
Provision for uncertain tax position - IceFyre	**22,579**	—
Unrecognized deferred tax asset	**31,629**	8,210
Change in tax rates and other	**7,470**	76
Income tax expense	**61,906**	71,508

During the year ended December 31, 2015, the Canada Revenue Agency ("CRA") challenged tax losses utilized by the Company which were derived from the Company's predecessor entity, IceFyre Semiconductor Corporation. As a result of the ongoing CRA audit, the Company has applied a provision of $22.6 million against the tax pools.

The Company also recorded a tax recovery of $1.1 million for the rate change effect on share issue costs, presented in Class A Common Shares (Note 13 (b)).

For the year ended December 31, 2015, $0.1 million of current income tax expense was recorded for estimated Illinois state and US federal taxes payable by Seven Generations US. There were no current income taxes for Seven Generations in Canada given its total tax pools of $2.7 billion (2014 - $1.7 billion). Of this amount, $0.7 billion is available for deduction against taxable income for the current fiscal year. Non-capital losses begin expiring in 2034.

Changes in the components of the deferred tax liability are as follows:

	January 1, 2015	Movement	**December 31, 2015**
Property, plant and equipment	79,147	113,843	**192,990**
Mark-to-market financial instruments	34,780	(1,514)	**33,266**
Investment tax credits	(9,127)	9,127	**—**
Non-capital losses	(4,668)	(58,441)	**(63,109)**
Decommissioning liabilities	(13,041)	(8,318)	**(21,359)**
Financing costs	(12,453)	1,559	**(10,894)**
Unrealized foreign exchange capital losses	(8,895)	(31,148)	**(40,043)**
Other	(5,329)	4,009	**(1,320)**
	60,414	29,117	**89,531**
Unrecognized deferred tax asset	8,210	31,629	**39,839**
	68,624	60,746	**129,370**

The gross temporary difference for the unrealized foreign exchange capital losses not being recognized was $147.8 million (2014 - $32.8 million).

	January 1, 2014	Movement	December 31, 2014
Property, plant and equipment	35,957	43,190	79,147
Mark-to-market financial instruments	(661)	35,441	34,780
Investment tax credits	(9,127)	—	(9,127)
Non-capital losses	(4,668)	—	(4,668)
Decommissioning liabilities	(5,914)	(7,127)	(13,041)
Financing costs	(3,758)	(8,695)	(12,453)
Unrealized foreign exchange losses	(2,191)	(6,704)	(8,895)
Other	(310)	(5,019)	(5,329)
	9,328	51,086	60,414
Unrecognized deferred tax asset	—	8,210	8,210
	9,328	59,296	68,624

The changes in the deferred tax liability were allocated to:

Year ended December 31	2015	2014
Income statement	**61,802**	71,508
Share capital	**(1,056)**	(12,212)
	60,746	59,296

13. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Class A Common Voting Shares, Class B Common Non-Voting Shares, Preferred A, B, C and D Shares and Special Voting Shares. At December 31, 2015, there are no Preferred Shares or Special Voting Shares issued and outstanding.

On May 29, 2014, shareholders approved a resolution to amend the Company's Articles of Incorporation to allow holders of Class B Common Shares to convert into Class A Common Shares on a 1 for 1 basis.

On September 8, 2014, the Company amended its Articles of Incorporation to divide the issued and outstanding Class A Common Voting Shares on a two-for-one basis. As a result of this division of the Class A Common Voting Shares, Class B Common Non-Voting Shares may now be converted, at the option of the holder of Class B Common Non-Voting Shares or the Company, on the basis of one Class B Common Non-Voting Share for two Class A Common Voting Shares (on a post-division basis). In December 2014, the Company amended the terms of the stock options and performances warrants, issued prior to the completion of the initial public offering ("IPO"), such that upon exercise, the holders of these instruments will receive two Class A Common Voting Shares (rather than Class B Non-Voting Shares) to reflect the two-for-one stock split. The share split has been reflected on a retroactive basis for the Class A Common Voting Shares, stock options, performance warrants and per share information.

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class A Common Voting Shares				
Balance, beginning of year	**244,716**	**1,716,050**	185,420	783,514
Issued on IPO (a)	**—**	—	51,750	931,500
Share issue costs, net of deferred tax (b)	**—**	1,056	—	(36,637)
Issued on exercise of stock options and performance warrants	**8,656**	41,950	110	275
Transfer from contributed surplus on exercise of stock options	**—**	12,888	—	130
Conversion of Class B Common Non-Voting Shares [(1)]	**1,042**	3,715	7,436	37,268
Balance, end of year	**254,414**	**1,775,659**	244,716	1,716,050

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

(a) On November 5, 2014, the Company closed an initial public offering ("IPO") for gross proceeds of $931.5 million through the issuance of 51.8 million Class A Common Voting Shares. Share issue costs related to the IPO and equity financing were $51.4 million, including the underwriters' commission for 5% of the gross proceeds . Of this amount, the Company expensed $2.5 million (Note 17) in the income statement with the remainder charged against share capital. The Company also recognized a deferred income tax benefit of $12.2 million related to the share issue costs (Note 12).

(b) For the year ended December 31, 2015, the Company recorded a deferred tax recovery of $1.1 million for the rate change effect on share issue costs (Note 12).

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number (000s)	**Amount ($)**	Number (000s)	Amount ($)
Class B Common Non-Voting Shares				
Balance, beginning of year	**523**	**3,729**	966	6,550
Issued on exercise of stock options	**—**	**—**	1,770	9,765
Issued on exercise of performance warrants	**—**	**—**	1,505	15,858
Transfer from contributed surplus on exercise of stock options and performance warrants	**—**	**—**	—	8,824
Conversion to Class A Common Voting Shares [(1)]	**(521)**	**(3,715)**	(3,718)	(37,268)
Balance, end of year	**2**	**14**	523	3,729

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

14. STOCK BASED COMPENSATION

Stock Options

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

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

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of year	**12,385**	**6.71**	13,426	3.49
Granted	**2,340**	**13.19**	2,927	17.11
Exercised	**(2,428)**	**3.74**	(3,650)	2.75
Forfeited	**(327)**	**12.58**	(318)	5.81
Balance, end of year	**11,970**	**8.43**	12,385	6.71

A summary of stock options outstanding and exercisable into Class A Common Voting Shares at December 31, 2015 is as follows:

	Options outstanding		**Options exercisable**	
Exercise price ($)	Number of options (000s)	Weighted average remaining life (years)	Number of options (000s)	Weighted average remaining life (years)
2.50 – 5.49	4,257	1.9	4,257	1.9
5.50 – 12.49	4,485	6.3	2,122	4.0
12.50 – 17.49	747	7.1	153	5.2
17.50 – 20.20	2,481	5.8	762	5.5
	11,970	4.7	7,294	3.0

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

Year ended December 31	**2015**	2014
Fair value of options granted ($/option)	**6.67**	7.81
Risk-free interest rate (%)	**0.79**	1.40
Expected life (years)	**5.0**	3.9
Expected forfeiture rate (%)	**4.0**	3.0
Expected volatility (%)	**60.0**	60.0
Expected dividend yield (%)	**—**	—

Performance Warrants

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

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number (000s)	**Exercise price ($)**	Number (000s)	Exercise price ($)
Balance, beginning of year	**25,968**	**5.99**	28,825	5.39
Granted	**—**	**—**	1,350	17.38
Exercised	**(6,228)**	**5.27**	(3,011)	5.27
Forfeited	**(1,247)**	**7.30**	(1,196)	6.31
Balance, end of year	**18,493**	**6.14**	25,968	5.99

A summary of performance warrants outstanding and exercisable into Class A Common Voting Shares at December 31, 2015 is as follows:

	Warrants outstanding		**Warrants exercisable**	
Weighted average exercise price ($)	Number of warrants (000s)	Weighted average remaining life (years)	Number of warrants (000s)	Weighted average remaining life (years)
3.75 - 5.25	7,907	1.9	6,988	1.8
5.26 - 5.85	2,139	4.0	1,001	3.9
5.86 - 12.50	7,410	2.4	5,969	2.1
12.50 - 17.50	1,037	5.4	216	5.4
	18,493	2.5	14,174	2.1

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

Year ended December 31	**2015**	2014
Fair value of warrants granted ($/warrant)	**—**	8.87
Risk-free interest rate (%)	**—**	1.40
Expected life (years)	**—**	4.9
Expected forfeiture rate (%)	**—**	3.0
Expected volatility (%)	**—**	60.0
Expected dividend yield (%)	**—**	—

Share Units

On August 27, 2014, the Board adopted a Performance and Restricted Share Unit (“PRSU”) Plan and a Deferred Share Unit Plan ("DSU").

The PRSU Plan allows for granting of Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"), to officers and employees of the Company. RSUs and PSUs represent the right for the holder to receive Class A Common Voting Shares or, at the election of the holder and the Company, a cash payment equal to the fair market value of the Company's common shares calculated at the date of such payment. The vesting of PSUs are conditional on the satisfaction of certain performance criteria as determined by the Company's Board of Directors. If the Company satisfies the performance criteria, PSUs become eligible to vest and a pre-determined multiplier is applied to eligible PSUs. RSUs and PSUs granted to date under the PRSU Plan generally vest annually over a three year period.

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

Year ended December 31	**2015**	2014
Balance, beginning of year	**—**	—
Granted	**426,546**	—
Exercised	**—**	—
Forfeited	**—**	—
Balance, end of year	**426,546**	—

Of the 426,546 units outstanding on December 31, 2015 under the PRSU Plan, 154,698 are PSUs and 271,848 are RSUs. The fair value of RSUs for the year ended December 31, 2015 was $12.11 per unit using a forfeiture rate of 5%.

The DSU Plan allows for granting of DSUs to directors of the Company. DSUs represent the right for the holder to receive Class A Common Voting Shares or, at the election of the holder and the Company, a cash payment equal to the fair market value of the Company's common shares calculated at the date of such payment. DSUs granted under the DSU plan generally vest immediately upon grant.

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

Year ended December 31	**2015**	2014
Balance, beginning of year	**—**	—
Granted	**55,176**	—
Exercised	**—**	—
Forfeited	**—**	—
Balance, end of year	**55,176**	—

The fair value of DSUs for the year ended December 31, 2015 was $13.63 per unit.

15. PER SHARE AMOUNTS

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

Year ended December 31	**2015**	2014
(000s)		
Weighted average number of common shares – basic	**249,549**	198,742
Effect of outstanding stock options and performance warrants (1)	**—**	25,975
Weighted average number of common shares - diluted	**249,549**	224,717

(1) For the year ended December 31, 2015, 6.7 million stock options and 13.9 million performance warrants have been excluded from the diluted earnings per share calculation since these are anti-dilutive as the Company is in a net loss position. Additional potentially dilutive instruments would include 0.1 million DSUs (2014 – 2.4 million anti-dilutive stock options and 1.2 million anti-dilutive performance warrants).

16. OPERATING EXPENSES

Year ended December 31	**2015**	2014
Equipment rental, maintenance and other	**31,413**	20,584
Trucking and disposal	**30,510**	15,339
Chemicals and fuel	**15,008**	3,438
Staff and contractor costs	**15,981**	9,474
Other	**8,276**	5,426
Operating expenses	**101,188**	54,261

17. GENERAL AND ADMINISTRATIVE EXPENSES

Year ended December 31	**2015**	2014
Personnel	**18,844**	12,912
Professional fees	**1,780**	2,636
Rent	**1,584**	1,210
Information technology costs	**2,347**	1,310
Other office costs and travel	**5,161**	3,403
IPO expenses	**—**	2,506
Gross expenses	**29,716**	23,977
Capitalized salaries and benefits	**(3,619)**	(2,661)
Operating overhead recoveries	**(1,754)**	(1,058)
General and administrative expenses	**24,343**	20,258

18. FINANCE EXPENSE

Year ended December 31	**2015**	2014
Interest on senior notes	**98,887**	61,303
Revolving credit facility fees and other	**5,512**	2,142
Amortization of premium and debt issue costs	**356**	(466)
Accretion	**1,662**	1,162
Total finance costs	**106,417**	64,141
Capitalized borrowing costs [(1)]	**(4,406)**	(500)
Finance expense	**102,011**	63,641

(1) Non-cash interest was $0.4 million (2014 - $Nil) (Note 7).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

Financial instrument classification and measurement

The Company's financial instruments include cash and cash equivalents, accounts receivable, deposits, risk management contracts, accounts payable and accrued liabilities, the credit facility and senior notes.

The Company's financial instruments that are carried at fair value on the balance sheets include cash and cash equivalents and risk management contracts. The senior notes are carried at amortized cost, net of transaction costs and accrete to the principal balance on maturity using the effective interest rate method.

Seven Generations classifies the fair value of these instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed in the marketplace.
- Level 3 - Valuations in this level are those inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are classified as Level 1 measurements. Risk management contracts and fair value disclosure for the senior notes are classified as Level 2 measurements. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. Seven Generations does not have any fair value measurements classified as Level 3. There were no transfers within the hierarchy in the years ended December 31, 2015 and 2014. The carrying value of the Company's accounts receivable, deposits, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The classification, carrying values and fair values of the Company's financial instruments are as follows:

	2015		2014	
As at December 31	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Fair Value Through Profit and Loss				
Cash and cash equivalents	**405,046**	**405,046**	848,136	848,136
Risk management contracts	**151,566**	**151,566**	139,119	139,119
Loans and Receivables				
Accounts receivable	**76,439**	**76,439**	64,417	64,417
Deposits	**8,933**	**8,933**	5,034	5,034
Financial Liabilities				
Fair Value Through Profit and Loss				
Risk management contracts	**28,359**	**28,359**	—	—
Other Financial Liabilities				
Accounts payable and accrued liabilities	**187,760**	**187,760**	268,108	268,108
Senior notes	**1,546,761**	**1,353,953**	813,880	782,000

Financial assets and financial liabilities subject to offsetting

The Company's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities on the Company's balance sheets.

The following is a summary of financial assets and financial liabilities that are subject to offset:

As at December 31, 2015	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial assets (liabilities) offset in balance sheet	Net amounts of recognized financial assets (liabilities) recognized in balance sheet
Risk management contracts			
Current asset	**102,343**	**(3,773)**	**98,570**
Long-term asset	**62,939**	**(9,943)**	**52,996**
Current liability	**(22,093)**	**3,773**	**(18,320)**
Long-term liability	**(19,982)**	**9,943**	**(10,039)**
Net position	**123,207**	**—**	**123,207**

As at December 31, 2014	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial assets (liabilities) offset in balance sheet	Net amounts of recognized financial assets (liabilities) recognized in balance sheet
Risk management contracts			
Current asset	138,122	—	138,122
Long-term asset	997	—	997
Net position	139,119	—	139,119

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from oil and natural marketers and joint venture partners and hedging assets. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

Substantially all of the Company's accounts receivable are with oil and natural gas marketers and joint venture partners under normal industry sale and payment terms and are subject to normal industry credit risk. Receivables from oil and natural gas marketers are normally collected on or about the 25th day of the following month. The Company mitigates concentration risk by limiting the sales of its production to customers, and reviews sales regularly. Production is sold to marketers and customers with investment grade credit ratings, if available in the area of production. The Company historically has not experienced any collection issues with its oil and natural gas marketers. As at December 31, 2015, the Company's most significant marketer accounted for $20.2 million (2014 - $21.1 million) of total receivables and 47% of total revenues (2014 - 50%). Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital investments. The receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and disagreements with partners. As the operator of properties, the Company has the ability to withhold production from joint interest partners in the event of non-payment. As at December 31, 2015, receivables outstanding for more than 90 days totalled less than $0.5 million (2014 - $0.1 million). The Company believes all of the accounts receivable will be collected. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

All the Company's cash and cash equivalents are held with Canadian chartered banks and government owned financial institutions and as such, the Company is exposed to credit risk on any default by the institutions of amounts in excess of the minimum guaranteed amount. The Company considers the risk of default by these financial institutions to be remote. As at December 31, 2015, the Company does not invest any cash in complex investment vehicles with higher risk such as asset backed commercial paper. All of the Company's risk management contracts are with Schedule 1 Canadian chartered banks or high credit-quality financial institutions.

Market Risk

Market risk is the risk that changes in market prices including commodity prices, interest rates and foreign exchange risks will affect the Company's income (loss) or the value of financial instruments. The objective of market risk management is to reduce exposures to acceptable limits while optimizing returns.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company uses derivative financial instruments to manage its exposure to fluctuations in commodity prices. The Company considers these transactions to be effective economic hedges; however, the Company's contracts do not qualify as effective hedges for accounting purposes.

Risk management contracts

The Company had the following risk management contracts in place at December 31, 2015:

Commodity	Period	Notional	Average Price/Unit [1]
Natural gas [2]	Q1 2016	120,000 MMBtu/d	US$3.20
Natural gas [2]	Q2 2016	120,000 MMBtu/d	US$3.20
Natural gas [2]	Q3 2016	120,000 MMBtu/d	US$3.20
Natural gas [2]	Q4 2016	130,000 MMBtu/d	US$3.18
Natural gas [2]	Q1 2017	140,000 MMBtu/d	US$3.20
Natural gas [2]	Q2 2017	100,000 MMBtu/d	US$3.17
Natural gas [2]	Q3 2017	90,000 MMBtu/d	US$2.99
Natural gas [2]	Q4 2017	90,000 MMBtu/d	US$2.99
Natural gas [2]	Q1 2018	60,000 MMBtu/d	US$2.85
Natural gas [2]	Q2 2018	50,000 MMBtu/d	US$2.81
Natural gas [2]	Q3 2018	40,000 MMBtu/d	US$2.76
Natural gas [2]	Q4 2018	40,000 MMBtu/d	US$2.76
Oil [3]	Q1 2016	12,000 bbls/d	C$70.00 - $80.89
Oil [3]	Q2 2016	13,000 bbls/d	C$70.00 - $80.83
Oil [3]	Q3 2016	14,000 bbls/d	C$70.07 - $80.13
Oil [3]	Q4 2016	14,000 bbls/d	C$70.07 - $80.13
Oil [3]	Q1 2017	12,000 bbls/d	C$69.67 - $82.01
Oil [3]	Q2 2017	7,000 bbls/d	C$68.71 - $80.14
Oil [3]	Q3 2017	7,000 bbls/d	C$68.44 - $75.56
Oil [3]	Q4 2017	7,000 bbls/d	C$68.44 - $75.56
Oil [3]	Q1 2018	6,000 bbls/d	C$68.18 - $74.80
Oil [3]	Q2 2018	6,000 bbls/d	C$68.18 - $74.80
Oil [3]	Q3 2018	1,000 bbls/d	C$65.00 - $76.00
Foreign exchange swap [4]	Q1 2016	US$34.9 million	C$1.2550
Foreign exchange swap [4]	Q2 2016	US$34.9 million	C$1.2550
Foreign exchange swap [4]	Q3 2016	US$35.3 million	C$1.2550
Foreign exchange swap [4]	Q4 2016	US$38.0 million	C$1.2597
Foreign exchange swap [4]	Q1 2017	US$40.5 million	C$1.2572
Foreign exchange swap [4]	Q2 2017	US$28.9 million	C$1.2730
Foreign exchange swap [4]	Q3 2017	US$24.7 million	C$1.3215
Foreign exchange swap [4]	Q4 2017	US$24.7 million	C$1.3215
Foreign exchange swap [4]	Q1 2018	US$15.4 million	C$1.3586
Foreign exchange swap [4]	Q2 2018	US$12.8 million	C$1.3661
Foreign exchange swap [4]	Q3 2018	US$10.2 million	C$1.3786
Foreign exchange swap [4]	Q4 2018	US$10.2 million	C$1.3786

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

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

As at December 31,	**2015**	2014
Natural gas	**58,087**	29,548
Oil	**93,478**	109,571
Foreign exchange swap	**(28,358)**	—
Net position	**123,207**	139,119

During the year ended December 31, 2015, the Company's risk management contracts resulted in realized gains of $150.6 million (year ended December 31, 2014 – realized gains of $9.7 million) and unrealized losses of $15.9 million (year ended December 31, 2014 – unrealized gains of $141.8 million).

The following table demonstrates the impact of changes in commodity pricing on income before tax, based on risk management contracts in place at December 31, 2015:

	Gain (Loss)
10% increase in US$ Chicago Citygate/MMbtu	(33,620)
10% decrease in US$ Chicago Citygate/MMbtu	33,620
10% increase in US$ WTI/bbl	(68,583)
10% decrease in US$ WTI/bbl	80,485

(b) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The senior notes payable bear interest at a fixed rate. The Company's credit facility bears a floating rate of interest and, accordingly, the Company is exposed to interest rate fluctuations to the extent that any advances remaining outstanding under the facility. During the year ended December 31, 2015, no amounts were drawn on the credit facility.

(c) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

Prices for oil are determined in global markets and generally denominated in US dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply. The exchange rate effect cannot be quantified but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by the Company for its liquids and natural gas sales.

The Company manages foreign currency exchange risk by entering into a variety of risk management contracts (see Risk management contracts section above). The Company enters into US dollar swaps to crystallize the Canadian dollar value of the oil or natural gas price risk management contract entered into.

The Company is exposed to foreign exchange rate fluctuations on the principal and interest related to the senior notes payable, as well as on cash and cash equivalent balances held in US dollars. Foreign currency risk associated with interest payments is partially offset by marketing arrangements for the sale of the Company's natural gas and natural gas liquids, excluding condensate, which are denominated in US dollars.

The following table demonstrates the impact of changes in the Canadian to US dollar exchange rate on income before tax, based on US denominated balances outstanding (including the foreign exchange risk management contracts) at December 31, 2015:

	Gain (Loss)
10% increase in US$ to C$	181,617
10% decrease in US$ to C$	(212,491)

The carrying amount of the Company's US dollar denominated monetary assets and liabilities as at December 31 was as follows:

As at December 31,	2015	2014
Assets	**35,545**	78,042
Liabilities	**1,563,829**	822,573

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. The Company manages its liquidity risk through ensuring, as reasonably as possible, that it will have sufficient liquidity to meets its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation. At December 31, 2015, the Company had $405.0 million of cash and cash equivalents, plus available credit facility of $812.0 million. Management believes it has sufficient funding to meet foreseeable liquidity requirements. The Company prepares capital expenditure budgets which are regularly monitored and updated. As well, the Company utilizes authorizations for investments on both operated and non-operated projects to manage capital investments. See Note 24 Subsequent Event.

The following are the contractual maturities of financial liabilities at December 31, 2015:

	Less than 1 year	2-3 years	4-5 years	Thereafter	Total
Accounts payable and accrued liabilities	187,760	—	—	—	**187,760**
Senior notes [1]	—	—	968,800	588,200	**1,557,000**
Interest on senior notes [1]	119,630	358,890	109,380	52,939	**640,839**
Total	307,390	358,890	1,078,180	641,139	**2,385,599**

(1) Balances denominated in US dollars have been translated at the December 31, 2015, US dollar to Canadian dollar exchange rate of 0.723.

20. CAPITAL MANAGEMENT

The capital structure of the Company is as follows:

As at December 31,	2015	2014
Total debt [1]	**1,546,761**	813,880
Total equity [2]	**1,786,650**	1,910,926
Total capital	**3,333,411**	2,724,806

(1) Senior unsecured notes.
(2) Equity is defined as share capital plus contributed surplus plus any retained earnings (deficit) and other comprehensive income (deficit).

The Company's objective for managing capital continues to be to maintain a strong balance sheet and capital base to provide financial flexibility to position the Company for growth and development. The Company strives to grow and maximize long-term shareholder value by ensuring it has the financing capacity to fund projects that are expected to add value to shareholders. Near-term major acquisitions and capital development will be funded by funds flow from operations, cash or cash equivalents, equity financings, the credit facility (Note 8) and debt financings (Note 10). The Company endeavors to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital investments.

The Company had adjusted working capital of $306.1 million (current assets less current liabilities excluding current portion of risk management contracts and deferred credits) plus $812.0 million of credit facility capacity creating available funding of $1.1 billion at December 31, 2015. The Company plans to use these funds, along with funds from operations, and the funds raised in February 2016 (Note 24) for the execution of its 2016 capital program.

Refer to Note 10 for non-financial covenants on the senior unsecured notes.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital

Year ended December 31	**2015**	2014
Accounts receivable	**(13,222)**	(33,917)
Deposits and prepaid expenses	**(3,064)**	(6,776)
Accounts payable and accrued liabilities	**(79,207)**	142,334
	(95,493)	101,641
Relating to:		
Operating activities	**(34,492)**	10,129
Financing activities	**—**	—
Investing activities	**(61,001)**	91,512

Other cash flow information

Year ended December 31	**2015**	2014
Cash interest paid	**94,050**	57,271
Cash taxes paid	**—**	—

22. COMMITMENTS AND CONTINGENCIES

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

	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Senior notes (1)	**1,557,000**	—	—	968,800	588,200
Interest on senior notes	**640,839**	119,630	358,890	109,380	52,939
Firm transportation and processing agreements (2)	**1,993,633**	220,331	780,243	556,055	437,004
Operating leases (3)	**12,800**	2,380	5,319	2,583	2,518
Deferred obligation and retention (4)	**2,748**	2,748	—	—	—
Estimated contractual obligations	**4,207,020**	345,089	1,144,452	1,636,818	1,080,661

(1) Balance represents US$1.1 billion principal converted to Canadian dollars at the closing exchange rate for the period end.

(2) Subject to completion of certain pipeline and facility upgrades by the counterparty transportation company.

(3) The Company is committed under operating leases for office premises.

(4) In November 2014, the Board of Directors approved a retention bonus plan for management and employees in aggregate of $6.0 million, payable over the two-year period starting November 5, 2014. Of this amount, $2.7 million is payable in 2016.

23. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of all directors and officers of the Company.

In November 2014, the Board of Directors approved a retention bonus plan for management and employees. The retention bonuses will be payable in four equal instalments payable every six months starting on May 5, 2015. Each instalment payment will be contingent upon the individual being employed by the Company on the date of payment. The maximum retention bonuses will be $6.0 million, payable over the two-year period starting November 5, 2014. Amounts paid to directors and officers are disclosed in the table below.

Pursuant to the USA, the Company was obligated to compensate, with cash or shares, certain directors, officers and employees prior to the completion of a change of control, liquidity event or qualified initial public offering (the "Liquidity Event"). With the closing of the IPO on November 5, 2014, the Liquidity Event condition was satisfied and the Company recognized a liability of $36.0 million. The settlement of the liability was approved by the Board and was paid in cash in 2015. Amounts paid to directors and officers are disclosed in the table below.

The amounts recognized in the consolidated financial statements for transactions with key management personnel are as follows:

Year ended December 31	**2015**	2014
Salaries, benefits and other short-term compensation	**8,785**	6,276
Stock based compensation	**8,884**	9,538
Retention expense	**1,368**	—
Liquidity event expense [1]	**—**	20,090
	19,037	35,904

(1) Amount expensed in 2014 on closing of the IPO. The allocation of payments to key management personnel was determined in 2015.

24. SUBSEQUENT EVENT

On February 24, 2016, the Company completed a private placement of 21,428,600 common shares at a price of $14.00 per share for gross proceeds of $300 million. Net proceeds after commissions and expenses were approximately $285 million.

CORPORATE INFORMATION

Management

Pat Carlson
CEO

Marty Proctor
President & COO

Christopher Law
CFO

Steve Haysom
Senior Vice President

Merlyn Spence
Senior Vice President, Marketing

Charlotte Raggett
Vice President, Midstream Business Development

Susan Targett
Vice President, Land

Glen Nevokshonoff
Vice President, Development

Barry Hucik
Vice President, Drilling

Randall Hnatuik
Vice President, Business Development

Kevin Johnston
Vice President, Accounting & Controller

Directors

Kent Jespersen
Chairman

Pat Carlson
CEO

Michael Kanovsky

Kevin Brown

Jeff van Steenbergen

Avik Dey

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

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Independent Evaluators

McDaniel & Associates Consultants Ltd.

Stock Symbol

VII
Toronto Stock Exchange