2018 Annual Report

2018 HIGHLIGHTS

CARBON INTENSITY

0.0136

TONNES OF CO_2 PER BOE
LOWEST AMONG PEER GROUP

ADJUSTED FUNDS FLOW PER SHARE

$4.60

ADJUSTED FUNDS FLOW

$1.67 Billion

CASH RETURN ON INVESTED CAPITAL

19.1%

AVERAGE ANNUAL PRODUCTION

202,600 boe/d

CONDENSATE SALES

76,400 bbls/d

CANADA'S LARGEST CONDENSATE PRODUCER

OPERATING NETBACK

$24.88 per boe

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IBC Corporate Info

For important additional information, please refer to the "Advisories and Guidance" beginning on page 45.

Seven Generations trades on the Toronto Stock Exchange under the symbol VII.

On the cover: Lator natural gas plant, Kakwa River Project.

Seven Generations Energy is a low-supply cost energy producer dedicated to stakeholder service, responsible development and generating strong returns from its liquids-rich Kakwa River Project in northwest Alberta.

Seven Generations differentiates itself through its core attributes: the quality of its liquids-rich asset, large resource size, desirable location and market access, a high degree of operational control, proven and innovative technical execution and unique operating approaches. We are committed to protecting the natural beauty of the environment and preserving its capacity for current and future generations. Our ability to develop Alberta's resources responsibly is tied to the need for us to create value and generate compelling returns for our shareholders. For Seven Generations Energy, environmental responsibility and profitable development go hand in hand.

Seven

STRATEGY

Seven Generations seeks to differentiate itself based on four key strategic principles:

STAKEHOLDER SERVICE: recognizing that in a competitive world, only those who best serve their stakeholders can expect to survive in the long term.

RESOURCE QUALITY AND LOW SUPPLY COST: combining resource selection with innovation, technology and efficiency to remain among North America's lowest supply cost, unconventional liquids-rich natural gas developers.

FINANCIAL SUSTAINABILITY: pursuit of investments that will achieve positive free cash flow and earn full-cycle returns on capital employed across the entire commodity price cycle, focusing capital deployment on high return opportunities.

MARKET ACCESS: establishing ample gathering, processing, transportation and marketing capacity to expand market access for production in order to capture premium prices from diverse markets.

Kakwa River Project

GUIDING PRINCIPLE – STAKEHOLDER SERVICE

We believe that companies have only the rights given to them by society. While people have a natural entitlement to basic rights, corporations are an instrument created by society to provide its needs and ought to have no expectation of basic entitlements other than equitable rights with other corporations, including those wholly owned by a person.

We recognize that rights, sufficient to build and operate an energy project, can be granted and taken away by society. Over the longer term, companies can only expect to thrive if they serve the legitimate needs of society in which they exist. To thrive, companies must differentiate, rise above the pack, standout as being among the best with all of their stakeholders. At Seven Generations Energy Ltd., we acknowledge this granted entitlement and accept from our stakeholders a duty to thrive and an understanding of the need to differentiate.

Specifically, in acceptance of this challenge to differentiate with all stakeholders, we acknowledge:

- The **need of society** for us to conduct our business in a way that protects the natural beauty of the environment and preserves the capacity of the earth to meet the needs of present and future generations;
- The **need of Canada and Alberta** for us to obey all regulations and to proactively assist with the formulation of new policy that enables our company and our industry to better serve society;
- The **need of the communities** where we operate to be engaged in the planning of our projects and to participate in the benefits arising from them as they are built and operated;
- The **need of our business partners and infrastructure customers** to be treated fairly and attentively;
- The **need of our suppliers and service providers** to be treated fairly and paid promptly for equipment and services provided to us and to receive feedback from us that can help them to be competitive and thrive in their businesses;
- The **need of our employees** to be compensated fairly and provided a safe, healthy and happy work environment including a healthy work life – outside life balance; and
- The **need of our shareholders** and capital providers to have their investment managed responsibly and ethically and to earn strong returns.

We see ourselves as being in the service business, serving the needs of our stakeholders. We seek satisfaction for all stakeholders. Differentiation is imperative. We support an open and competitive business environment, recognizing in the competitive world that we envision, only those who best serve their stakeholders can expect the support required to survive for the longer term.

PRESIDENT & CEO'S MESSAGE

We believe that to thrive over the long term, we must differentiate Seven Generations Energy in positive ways that resonate with our stakeholders.

Responsible development defines the strength and success of our underlying business. Stakeholder service empowers us to achieve our business plans. Through the Kakwa River Project, 7G engages with and contributes to local communities, invests for the future and earns strong returns.

Responsibly delivering on our commitments in 2018

We have built Seven Generations on core strategic principles:

- stakeholder service
- resource quality and low supply cost
- financial sustainability
- market access

Our dedicated and professional 7G team delivered differentiated performance in each of these objectives. We maintain a strong balance sheet, our supply cost remains among the lowest in industry, we deliver our products to diverse and premium-priced North American markets and we have a 22-year reserve life in our 1.64 billion barrels of oil equivalent (boe) of proved plus probable reserves.

In 2018, we achieved a significant milestone – annual average production that exceeded 200,000 boe per day. Averaging 202,600 boe per day, production grew 16 percent. Adjusted funds flow was $1.67 billion or $4.60 per share in 2018, up 36 percent compared to 2017. Net income was $440 million or $1.21 per share and operating income increased by 76 percent to $574 million. Our trailing 12-month return on capital employed was 12.9 percent while our net debt to adjusted funds flow was 1.3 times, which underlines the strength and flexibility of our business despite challenging economic and regulatory conditions across our industry.

Even with difficult macro-environment conditions, we remain resilient, earning strong returns by delivering excellent technical, operating and financial performance, hitting our production targets and accessing premium markets for our condensate in Alberta and our natural gas in the U.S. Midwest, Gulf Coast and central Canadian markets. For the longer term, we enhanced the value of our assets through disciplined scientific analysis of our Kakwa River Project resources and returned value to shareholders by instituting a normal course issuer bid, purchasing for cancellation about 2.7 percent of our outstanding shares.

Building production infrastructure

In 2018, we brought 91 wells on production, taking our Montney producing well count to 420. We are well positioned for the future with our 500,000 net acre Montney land position, providing us with a robust inventory of top tier drilling locations and extensive delineation potential adjacent to our Nest and in the lower Montney. We constructed two new Super Pads, expanded four Super Pads, and completed 7G's third wholly owned natural gas processing facility.

Located in the Gold Creek area, the new plant was completed on time, under budget and increased our total available processing capacity to approximately 1 billion cubic feet per day, providing additional processing flexibility and production reliability.

Marty Proctor
President & CEO

At Gold Creek, we designed the plant to be powered by electric motors rather than natural gas fueled engines. We concentrated emissions in one location – the turbine power generator. By choosing this technology, we can recover the waste heat for about a quarter of the cost of recovering it from natural gas fueled engines. Turbine power generation also results in lower nitrogen oxides emissions and lower maintenance costs.

Gold Creek has our company's lowest emissions intensity, about 10 percent lower than 7G's other plants, which eliminates about 27,000 tonnes of carbon dioxide per year, the equivalent of removing more than 5,800 cars from the road. Gold Creek is another example of environmental responsibility and profitable development going hand in hand.

Serving stakeholders

To serve our seven stakeholders, it is imperative to perform well over the long term. Since becoming a public company less than five years ago, we have seen increasing expectations from society, regulators and customers. The dynamic competitiveness of our industry means that we must constantly innovate and strive to serve stakeholders in new and better ways. Our vision is clear:

Be the leading North American energy company, making the world better by serving stakeholders through differentiated and innovative responsible development.

From engaging in one-on-one conversations with our neighbours, earning strong returns, volunteering thousands of hours to help build the communities where we live and work, to helping raise significant funds that improve the health and well-being of communities, serving stakeholders continues to be a shared commitment among our team.

Health and safety

We continued to refine and strengthen our systems and processes to ensure that everybody arrives home safe at the end of the day. We saw reduced incidents over the course of the year, and no lost-time injuries from August to December. We are educating every employee and contractor that "Safe Production is #1." It is the foundation of our proactive safety culture, built around deconstructing any piece of work – no matter how simple or complex – by identifying, assessing and controlling risks.

Anyone working on a 7G site must come to work fit for duty and trained on our systems. All workers are empowered to stop any work they feel could be unsafe. We know that having a safe workplace is essential. We expect all workers to report even the smallest incident so we can continually improve.

Preserving our environment

Seven Generations continued to advance its environmental performance in 2018.

We earned a score of B for the 2017 reporting period from CDP – a global disclosure program that helps organizations manage environmental performance. This exceeds the oil and natural gas industry average score of C among our Canadian peers. We continually strive to be among the lowest carbon intensity producers and remain so with an intensity of 0.0136 tonnes of carbon dioxide equivalent per boe.

In water management, Seven Generations' growing water pipeline network is designed to connect injection wells and enable produced water to be recycled back to our development pads for use in hydraulic fracturing. This creates multiple benefits by reducing water sourcing and disposal costs as well as decreasing the amount of truck traffic.

I encourage you to read Generations, our stakeholder and sustainability report, to find out more about our environmental, social and governance performance, and to visit with our staff following our annual general meeting in Calgary on Wednesday, May 1, 2019.

Our vision

> *Be the leading North American energy company, making the world better by serving stakeholders through differentiated and innovative responsible development.*

People

In 2018, we welcomed a highly experienced industry leader to our board of directors. Mark Monroe became Chair on January 1, 2019. Mark succeeded 7G's founding Chair Kent Jespersen, who will retire in the spring of 2019. Kent helped us establish a new level of stakeholder service in the Canadian resource sector and we thank him for his insightful stewardship over the past decade.

Our leadership team evolution continued in 2018 with the addition of Derek Aylesworth as Chief Financial Officer, David Holt as Chief Operating Officer and Pam Ramotowski as Vice President, Human Resources. Kyle Brunner was promoted to Corporate Secretary in addition to being Vice President, General Counsel. Recently, Lynne Chrumka was promoted to Vice President, Geosciences. All are highly accomplished industry professionals who bring seasoned leadership to 7G.

Disciplined self-funded capital investment in 2019 that enhances asset value

Our 2019 capital investment budget is based upon a WTI oil price of US$50 per barrel and a Henry Hub natural gas price of US$3.00 per Mcf. We plan a self-funded capital program of $1.25 billion, which is designed to maintain annual average production above 200,000 boe/d while continuing to enhance the value of our asset base through further delineation of the lower Montney and development of the Nest.

This strategy reflects the commodity price environment, balancing production and future growth while living within cash flow. A lower growth pace will moderate production decline rates and preserve our top-tier drilling inventory. We are focused on disciplined execution to improve operating and capital cost efficiencies, infrastructure investments to lower operating costs and expand margins, plus delineation drilling to increase our inventory and help unlock the value of our significant lower Montney resource.

We will continue to deliver on our commitments by levering our strengths: stakeholder service, resource quality and low supply cost, diversified market access and financial sustainability. We enter 2019 well capitalized, with more than $1.3 billion of available funding and improving capital efficiencies. If commodity prices improve, so too will our investment options, where adjusted funds flow in excess of budgeted capital requirements could reduce debt and enhance shareholder value through share buybacks, high-return production growth and infrastructure investments that expand margins.

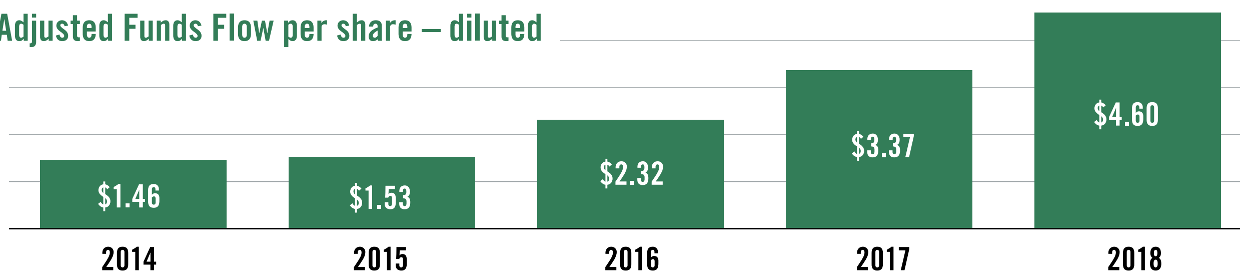
In this challenging energy landscape in Canada, we strive to be anti-fragile, resilient, responsible and sustainable in our financial and environmental performance. Seven Generations has an aligned team that can effectively respond to external stresses. We have a world-class resource, ample development opportunities, running room for growth and access to premium markets. We are well positioned to deliver compelling returns to shareholders while responsibly serving all stakeholders.

I thank our board of directors and staff for their service and dedication and all of our stakeholders for their continued support as we embark on a promising year ahead.

Sincerely,

Marty Proctor
President & Chief Executive Officer
Seven Generations Energy

March 2019



Building value with growing cash flow per share.

2018 RESPONSIBLE DEVELOPMENT HIGHLIGHTS

SAFETY

0.10 — **Lost Time Incident Frequency**
down 33% from 2016 and 2015.

COMMUNITY ENGAGEMENT

728,000 — **Dollars** *raised by industry stakeholders at 7G's 2018 annual golf tournament for the Grande Prairie Regional Hospital Foundation and the Grande Prairie Regional College. Total raised in six years is $2.5 million.*

5,000 — **Hours** *volunteered by 7G employees in a variety of community organizations.*

ECONOMIC VALUE CREATED

7,000 — **Jobs*** *direct and indirect created by 7G's 2018 capital investment.*

600 million — **Dollars*** *of labour income generated by 2018 investment.*

**Based on Alberta Finance economic multipliers for oil and natural gas capital investment.*

LAND

2.1 — **Percent** *of land occupied by 7G operations in Kakwa River Project area. About 37 percent of land in the project area is used by humans with the majority for forestry. About 63 percent remains natural.*

AIR

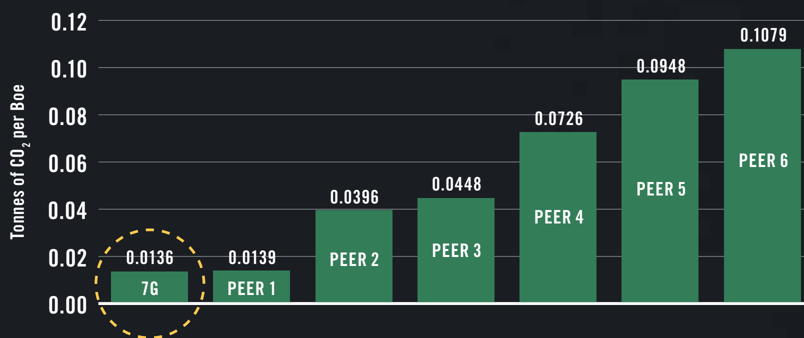
B

— **Score** *for CDP survey on emissions, achieving Management Level, which is above the industry average of Score C, Disclosure Level.*

10 — **Percent** *lower CO_2 intensity with the innovative design addition of waste heat recovery at Gold Creek. This will eliminate about 27,000 tonnes of carbon dioxide per year, equivalent to removing more than 5,800 cars from the road.*

0.0136** — **Tonnes** *of CO_2 per boe, lowest carbon intensity producer among peer group.*

For more information on our sustainability initiatives and performance, please refer to Generations and our information circular.



Steve, construction manager;
Emily, manager, project engineering

CHAIR'S MESSAGE

Dear Stakeholders,

It is a privilege and honour to write this annual report letter to the Seven Generations stakeholders as the company moves into its second decade of operations. I welcomed the opportunity to join the board of Seven Generations and look forward to contributing my more than 30 years of executive and director experience at a variety of exploration and production, midstream and drilling firms.

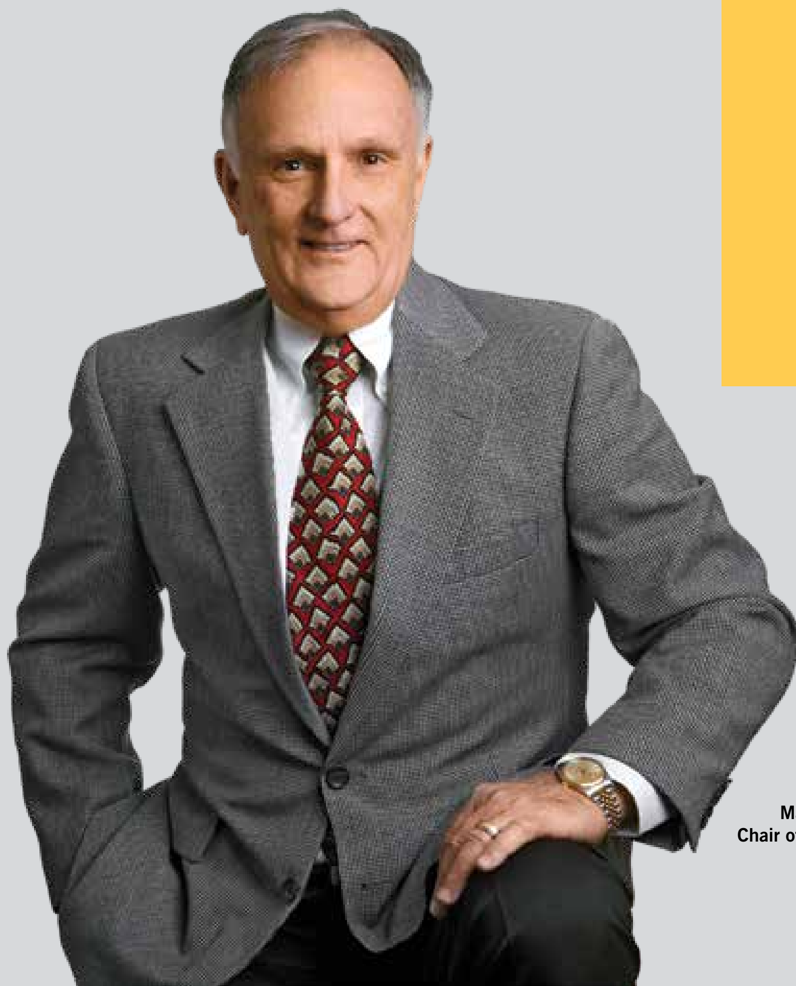
At the core of any board is strong governance. I bring a strong commitment to ensure the board applies high ethical standards and governance principles to its operations and all of its stakeholders. Seven Generations has a very well developed foundation embedded in its Guiding Principle – Stakeholder Service. While corporations have traditionally focused on ensuring value creation for shareholders, societal expectations have advanced to incorporate larger and more diverse interests. Our seven stakeholders, as outlined in our Guiding Principle on page 2, define the needs of those we serve.

Seven Generations is young by many measures, however, it has become a substantial producer, growing daily production more than six-fold since its initial public offering in late 2014. In 2018, production averaged more than 200,000 boe per day, ranking Seven Generations among Canada's top ten oil and natural gas producers. We are the country's largest producer of high-value condensate.

In that short, four-year period, Seven Generations has evolved, transitioning from a high-growth producer to one focused on generating strong returns to shareholders. The composition of the board has also evolved, with four long-term directors not standing for re-election at our annual meeting on Wednesday, May 1, 2019.

Founding chair **Kent Jespersen** provided strong board leadership over the past decade's growth at Seven Generations. **Kevin Brown, Kaush Rakhit** and **Jeff van Steenbergen** were also key contributors to building the company's current proved plus probable reserve position of 1.64 billion barrels. Kevin and Jeff represented private equity investors, ARC Financial Corp. and Azimuth Capital Management, respectively. Similarly, Kaush was an early investor in Seven Generations. Each provided entrepreneurial insight and ground-up value creation, from our initial capital raise to our industry standing today. These four directors helped lead remarkable growth and provided a solid underpinning for long-term success.

Mark Monroe joined 7G's Board of Directors on October 30, 2018 and was named Chair on January 1, 2019. Mark served as president and chief executive officer at Louis Dreyfus Natural Gas and president and chief operating officer at Continental Resources – two independent U.S. exploration and production companies. Mark brings more than 30 years of strategic, financial and operational leadership. A Certified Public Accountant, Mark continues to serve as lead director at Continental Resources. He previously chaired the Oklahoma Independent Petroleum Association and has served on a variety of other oil and gas public company and industry association boards. Mark received his Bachelor of Business Administration in 1975 from the University of Texas at Austin, where he resides.



Mark Monroe
Chair of the Board

Stairs on natural gas liquids storage tank at Gold Creek

I am pleased to have recently welcomed Ronnie Irani to the Seven Generations board. He is an experienced reservoir engineer who brings decades of success in creating value in a series of profitable exploration, production and midstream companies operating in the U.S.

As I look ahead, the proposed board represents a deep roster of business professionals well placed to serve the diverse needs of stakeholders. Around the board table, I count five current or former chief executive officers, four professional engineers, two accounting professionals, two directors steeped in the capital markets and a lawyer, who is also chair of a major energy firm. All but 7G President & Chief Executive Officer Marty Proctor are independent, and all have decades of accomplishments in the North American energy business. Seven Generations is well served by these directors' governance and I invite you to read our 2019 Management Information Circular for a thorough treatment of the board member's credentials, alongside information on the board's governance, performance and development.

As I have come to know the management and other staff, I have garnered an appreciation of the entire team's dedication to Seven Generations' core strategies – stakeholder service, resource quality and low supply cost, financial sustainability, and market access. Seven Generations is grounded in a strong balance sheet, a large, high-quality asset, talented and skilled professionals and a dedication to providing responsible energy for North American consumers. Through 2019 and beyond, I believe these noteworthy credentials will deliver value and strong returns to shareholders.

On behalf of the board, I thank the 7G leadership team, staff, contractors, business partners, shareholders and all stakeholders for their support. We look forward to differentiating Seven Generations among its competitors, on behalf of its stakeholders, in 2019 and beyond.

Sincerely,

Mark Monroe
Chair of the Board of Directors
Seven Generations Energy

March 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Seven Generations Energy Ltd. (the "Company" or "Seven Generations") is dated February 27, 2019 and should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2018 and 2017 (the "consolidated financial statements"). These financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS").

Unless otherwise noted, all financial measures are expressed in Canadian dollars and tabular dollar amounts are presented in millions. See Advisories and Guidance for reconciliations and information regarding the following non-IFRS financial measures used in this MD&A: "operating income", "operating netback", "adjusted funds flow per boe", "marketing income", "adjusted EBITDA", "adjusted EBIT", "CROIC", "ROCE", "adjusted working capital" and "available funding". Certain abbreviated terms used throughout this MD&A are explained on the last pages of this MD&A. Additional information about Seven Generations is available on the SEDAR website at www.sedar.com ("SEDAR"), including the Company's Annual Information Form for the year ended December 31, 2018, dated February 27, 2019 (the "AIF"). The Advisories and Guidance section of this MD&A was updated in March 2019 from the original publication in order to reflect advisories and guidance with respect to additional information that has been included in the front end of this annual report.

About Seven Generations

Seven Generations is a low-supply cost energy producer dedicated to stakeholder service, responsible development and generating strong returns from its liquids-rich Kakwa River Project in northwest Alberta. Seven Generations' corporate office is in Calgary, Alberta and its operations headquarters is in Grande Prairie, Alberta. The Company's class A common shares ("common shares") trade on the TSX under the symbol "VII".

Seven Generations seeks to differentiate itself based on four key strategies:

- **Stakeholder service:** recognizing that in a competitive world, only those who best serve their stakeholders can expect to survive in the long term.
- **Resource quality and low supply cost:** combining resource selection with innovation, technology and efficiency to remain among North America's lowest supply cost, unconventional liquids-rich natural gas developers.
- **Financial sustainability:** pursuit of investments that will achieve positive free cash flow and earn full-cycle returns on capital employed across the entire commodity price cycle, focusing capital deployment on high return opportunities.
- **Market access:** establishing ample gathering, processing, transportation and marketing capacity to expand market access for production in order to capture premium prices from diverse markets.

Seven Generations produces condensate and liquids-rich natural gas primarily from the Montney formation in the Company's Kakwa River Project. During the year ended December 31, 2018, Seven Generations produced 202.6 mboe/d (60% liquids) from over 420 net horizontal Montney wells. Development of the Kakwa River Project to date has resulted in the booking of approximately 1.6 billion boe of gross proved plus probable reserves [(1)] as at December 31, 2018. The Company currently holds over 500,000 net acres of Montney lands in the Kakwa River Project.

Seven Generations' acreage is interconnected with key infrastructure and take-away capacity allowing the Company to deliver the majority of its condensate and liquids-rich natural gas by pipeline to the market. The Company's natural gas transportation capacity also has geographic diversification across North America with exposure to the US Midwest, US Gulf Coast, US Pacific Northwest, Western Canadian and Eastern Canadian markets.

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(1) Based on the reports of McDaniel & Associates Consultants Ltd., Seven Generations' independent qualified reserve evaluators, effective December 31, 2018. Refer to Advisories and Guidance and to the AIF for additional important information about the Company's reserves.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2018

- **Cash flow –** For the year ended December 31, 2018, Seven Generations' cash provided by operating activities was $1,796.3 million and adjusted funds flow was $1,674.2 million, an increase of 56% and 36%, respectively, compared to the prior year. The increases were primarily due to higher benchmark commodity prices for condensate and higher production from ongoing development activities in the Kakwa River Project.
- **Production –** Seven Generations averaged fourth quarter sales volumes of 215.1 mboe/d, a 9% increase compared to sales volumes of 197.3 mboe/d during the same period in the prior year, primarily due to ongoing Kakwa River Project development activities. For the year ended December 31, 2018, production averaged 202.6 mboe/d, a 16% increase compared to 175.0 mboe/d in 2017 and in line with the Company's original guidance range of 200 to 210 mboe/d.
- **Return on capital –** The Company continued to deliver strong returns from the Kakwa River Project, generating a return on capital employed ("ROCE") [(1)] of 12.9% during the year ended December 31, 2018 (December 31, 2017 – 9.8%). Seven Generations' cash return on invested capital ("CROIC") [(1)] in 2018 was 19.1% compared to 17.9% in 2017.
- **Condensate –** During the year ended December 31, 2018, the Company sold 76.4 mbbl/d of condensate, which represented 38% of sales volumes on an aggregate per boe basis and 69% of the Company's liquids and natural gas sales value (year ended December 31, 2017 [(2)] – 35% of volume and 62% of sales value, respectively). Condensate yields exceeded Seven Generations' expectations in 2018 with a condensate-to-gas ratio of 156 bbl/MMcf (December 31, 2017 – 135 bbl/MMcf). The Company's realized price for condensate was $71.63 per bbl in 2018, which was 85% of the Canadian dollar WTI benchmark price (December 31, 2017 – $61.28 per bbl and 93%, respectively). Declines in realized condensate prices relative to the Canadian dollar WTI benchmark price were primarily due to transport capacity constraints out of Alberta and rising inventory storage levels during the fourth quarter.
- **Natural gas pricing –** With approximately 88% of the Company's natural gas sales in the US Midwest, the US Gulf Coast and Eastern Canada, the Company's realized price for natural gas during the year ended December 31, 2018 was $3.98 per Mcf compared to the local AECO benchmark price which averaged $1.42 per GJ.
- **Capital investments –** The Company continued to develop its Montney assets in the Kakwa River Project, investing $1,765.7 million in 2018, in line with its original guidance range of $1.675 to $1.775 billion. Seven Generations drilled 91 wells, completed 89 wells and brought 91 wells on production in 2018. Investments also included a number of infrastructure developments including the expansion of the Company's pipeline network and water handling initiatives. Seven Generations' Board has approved a 2019 capital investment budget of $1.25 billion.
- **Gold Creek –** During the year ended December 31, 2018, Seven Generations completed construction of its 250 MMcf/d natural gas processing facility located in the Gold Creek region. Facility construction was completed under budget by 10% and the plant was brought on line during the fourth quarter. The Company is exploring potential opportunities to enhance the value of the Company's extensive infrastructure network.
- **Return of capital –** During the year ended December 31, 2018, Seven Generations purchased 9.7 million of the Company's common shares, representing 2.7% of the weighted average common shares outstanding in 2018. The shares were acquired at an average price of $10.72 per share before transaction costs. The Company continues to evaluate opportunities to return capital to shareholders.
- **Liquidity –** Seven Generations closed 2018 with a strong balance sheet, which included available funding [(1)] of $1.3 billion and net debt of $2.2 billion (December 31, 2017 – $1.5 billion and $1.9 billion, respectively). The Company's 12-month ratio of net debt to adjusted funds flow was 1.3:1 for the year ended December 31, 2018 (December 31, 2017 – 1.5:1). Existing debt maturities are all beyond 2022 and carry a blended interest rate of 6.2%.

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

(2) Beginning in 2018, Seven Generations began presenting C5+ (pentanes plus) in the NGL mix as a condensate volume (previously reported as an NGL volume). Sales, volumes and realized prices in 2017 have been adjusted to conform to this current period presentation.

Operational and financial highlights

($ millions, except boe and per share amounts)	Three months ended December 31, 2018	2017	% Change	Three months ended September 30, 2018	% Change	Year ended December 31, 2018	2017	% Change
Sales volumes								
Condensate (mbbl/d) [1]	**81.8**	70.0	17	**87.3**	(6)	**76.4**	61.3	25
NGLs (mbbl/d) [1]	**47.4**	45.1	5	**47.3**	–	**44.4**	41.1	8
Natural gas (MMcf/d)	**515.4**	493.4	4	**511.3**	1	**490.5**	435.5	13
Total sales volumes (mboe/d) [2]	**215.1**	197.3	9	**219.8**	(2)	**202.6**	175.0	16
Liquids %	**60%**	58%	3	**61%**	(2)	**60%**	58%	3
Realized prices								
Condensate ($/bbl) [1]	**53.57**	67.95	(21)	**79.26**	(32)	**71.63**	61.28	17
Natural gas ($/Mcf)	**4.77**	3.53	35	**3.65**	31	**3.98**	3.84	4
NGLs ($/bbl) [1]	**8.44**	18.30	(54)	**14.02**	(40)	**12.21**	14.56	(16)
Total ($/boe) [2]	**33.66**	37.13	(9)	**42.99**	(22)	**39.33**	34.45	14
Royalty expense ($/boe)	**(0.99)**	(1.18)	(16)	**(2.20)**	(55)	**(1.34)**	(0.97)	38
Operating expenses ($/boe)	**(5.25)**	(5.69)	(8)	**(5.22)**	1	**(5.52)**	(5.60)	(1)
Transportation, processing and other ($/boe)	**(7.07)**	(6.43)	10	**(6.14)**	15	**(6.65)**	(6.09)	9
Operating netback before the following [2][3]	**20.35**	23.83	(15)	**29.43**	(31)	**25.82**	21.79	18
Realized hedging gains (losses) ($/boe)	**(1.58)**	0.38	nm	**(1.79)**	(12)	**(1.33)**	0.25	nm
Marketing income ($/boe) [3]	**0.20**	0.65	(69)	**0.28**	(29)	**0.39**	0.39	–
Operating netback ($/boe) [3]	**18.97**	24.86	(24)	**27.92**	(32)	**24.88**	22.43	11
Adjusted funds flow ($/boe) [3][5]	**17.06**	22.25	(23)	**25.81**	(34)	**22.65**	19.23	18
Financial Results								
Revenue ($) [4]	**1,146.8**	615.1	86	**809.0**	42	**3,169.9**	2,454.6	29
Net income ($)	**245.4**	83.1	195	**196.4**	25	**439.9**	562.5	(22)
Per share – diluted ($)	**0.68**	0.23	196	**0.53**	28	**1.21**	1.54	(21)
Operating income ($) [3]	**66.3**	129.2	(49)	**208.3**	(68)	**573.6**	326.3	76
Per share – diluted ($)	**0.18**	0.36	(50)	**0.57**	(68)	**1.58**	0.90	76
Cash provided by operating activities ($)	**410.1**	310.3	32	**536.9**	(24)	**1,796.3**	1,154.3	56
Per share – diluted ($)	**1.13**	0.85	33	**1.47**	(23)	**4.94**	3.17	56
Adjusted funds flow ($) [5]	**337.4**	403.8	(16)	**522.0**	(35)	**1,674.2**	1,228.3	36
Per share – diluted ($)	**0.93**	1.11	(16)	**1.43**	(35)	**4.60**	3.37	36
CROIC (%) [3]	**19.1%**	17.9%	7	**20.5%**	(7)	**19.1%**	17.9%	7
ROCE (%) [3]	**12.9%**	9.8%	32	**15.6%**	(17)	**12.9%**	9.8%	32
Balance sheet								
Capital investments ($)	**262.3**	322.3	(19)	**358.2**	(27)	**1,765.7**	1,651.4	7
Available funding ($) [3]	**1,345.9**	1,467.4	(8)	**1,379.4**	(2)	**1,345.9**	1,467.4	(8)
Net debt ($) [5]	**2,202.8**	1,866.4	18	**2,059.5**	7	**2,202.8**	1,866.4	18
Weighted average shares – basic	**359.2**	354.7	1	**361.9**	(1)	**358.6**	353.3	2
Weighted average shares – diluted	**362.3**	363.9	–	**365.7**	(1)	**363.9**	364.4	–

(1) Beginning in 2018, Seven Generations began presenting C5+ (pentanes plus) in the NGL mix as a condensate volume (previously reported as an NGL volume). 2017 liquids and natural gas sales have been adjusted to conform to this current period presentation.
(2) Excludes the purchase and resale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.
(3) See "Non-IFRS Financial Measures" under Advisories and Guidance. Certain comparative figures have been adjusted to conform to current period presentation.
(4) Represents the total of liquids and natural gas sales, net of royalties, gains (losses) on risk management contracts and other income.
(5) Refer to Note 17 of the consolidated financial statements for further details.

Operating netback per boe – three months ended

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Liquids and natural gas sales	**$ 33.66**	$ 37.13	(9)	**$ 42.99**	(22)
Royalty expense	**(0.99)**	(1.18)	(16)	**(2.20)**	(55)
Operating expenses	**(5.25)**	(5.69)	(8)	**(5.22)**	1
Transportation, processing and other [(1)]	**(7.07)**	(6.43)	10	**(6.14)**	15
Operating netback before the following	**20.35**	23.83	(15)	**29.43**	(31)
Realized hedging gains (losses)	**(1.58)**	0.38	nm	**(1.79)**	(12)
Marketing income [(1)(2)]	**0.20**	0.65	(69)	**0.28**	(29)
Operating netback per boe [(2)]	**$ 18.97**	$ 24.86	(24)	**$ 27.92**	(32)

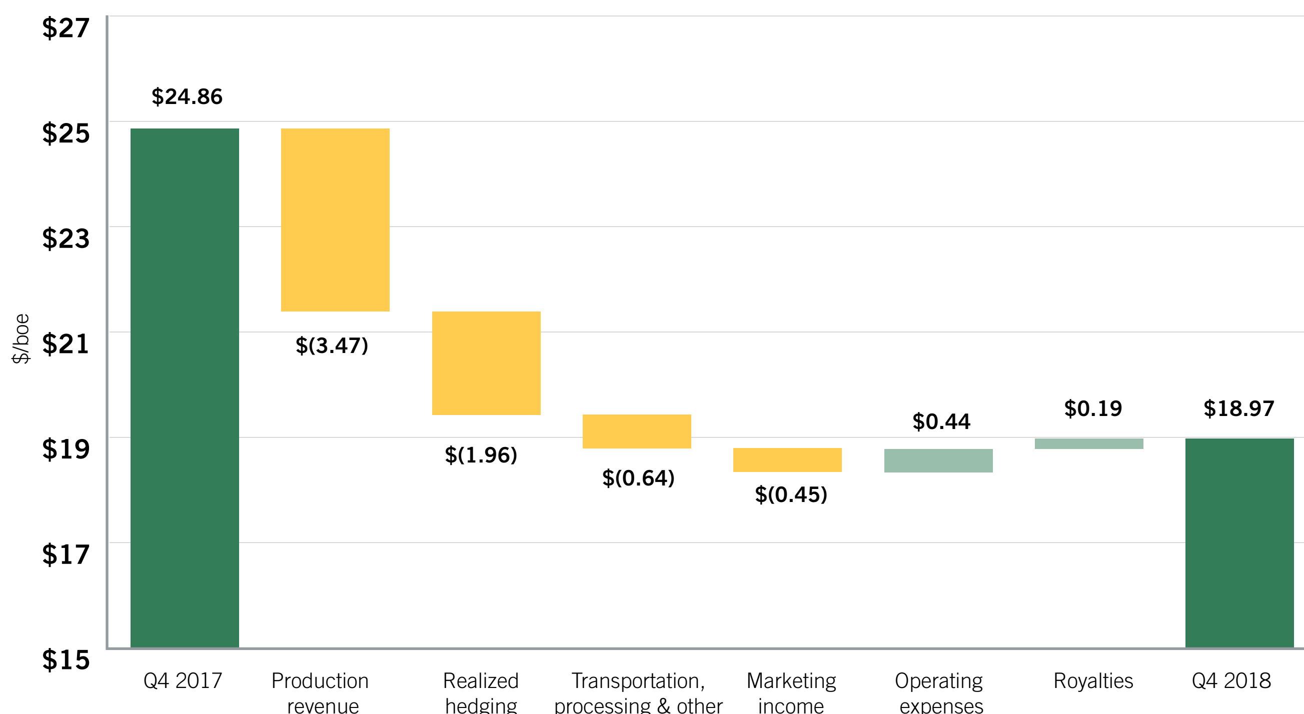
(1) In 2017, marketing income earned from pipeline utilization and marketing activities on the Alliance pipeline were netted against transportation and processing expenses. Beginning in the first quarter of 2018, marketing income has been presented as a separate line in the operating netback. 2017 figures have been reclassified to conform to this current period presentation. Refer to the Change in Presentation of Operating Results section for further details.
(2) See "Non-IFRS Financial Measures" under Advisories and Guidance.

During the fourth quarter of 2018, operating netbacks were $18.97 per boe, a 24% decrease compared to $24.86 per boe during the same period in the prior year. The decrease in operating netbacks were primarily due to declines in realized condensate prices related to widening differentials for Canadian liquids relative to the WTI benchmark price. The Company also realized derivative losses from the Company's crude oil hedges.

Transportation, processing and other expenses increased due to increased pipeline transportation capacity, a higher proportion of trucked condensate volumes and higher-priced fuel gas costs. These increases were partially offset by a reduction in year over year operating expenses mostly due to the Company's water handling initiatives and lower royalties primarily due to lower reference prices.

Compared to the third quarter of 2018, operating netbacks decreased by 32% during the fourth quarter of 2018 primarily due to a decline in crude oil benchmark prices, widening differentials on Canadian liquids and the increases to transportation, processing and other expenses.

Change in operating netback during the three months ended December 31, 2018



Operating netback per boe – year ended

	Year ended December 31,		
	2018	2017	% Change
Liquids and natural gas sales	**$ 39.33**	$ 34.45	14
Royalty expense	**(1.34)**	(0.97)	38
Operating expenses	**(5.52)**	(5.60)	(1)
Transportation, processing and other [(1)]	**(6.65)**	(6.09)	9
Operating netback before hedging and marketing	**25.82**	21.79	18
Realized hedging gains (losses)	**(1.33)**	0.25	nm
Marketing income [(1)(2)]	**0.39**	0.39	–
Operating netback per boe [(2)]	**$ 24.88**	$ 22.43	11

(1) In 2017, marketing income earned from pipeline utilization and marketing activities on the Alliance pipeline were netted against transportation and processing expenses. Beginning in the first quarter of 2018, marketing income has been presented as a separate line in the operating netback. 2017 figures have been reclassified to conform to this current period presentation. Refer to the Change in Presentation of Operating Results section for further details.
(2) See "Non-IFRS Financial Measures" under Advisories and Guidance.

During the year ended December 31, 2018, operating netbacks were $24.88 per boe, an 11% improvement compared to $22.43 per boe in the prior year. The increase was primarily due to higher realized prices from higher benchmark crude oil prices during the first nine months of 2018, partially offset by realized derivative losses from the Company's crude oil hedges and higher royalty rates. Transportation, processing and other expenses were higher in 2018 primarily due to additional pipeline capacity and higher volumes trucked and processed through third party facilities in the second half of the year.

Change in operating netback during the year ended December 31, 2018

Cash performance measures

Cash provided by operating activities is an IFRS measure that is found on the Company's consolidated statements of cash flows. Adjusted funds flow is calculated as cash provided by operating activities excluding the impacts of changes in non-cash working capital, reclamation expenditures and prepaid processing expenditures. The Company uses adjusted funds flow as a measure of the Company's 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. Refer to Note 17 of the consolidated financial statements for further details.

The following table reconciles cash provided by operating activities to adjusted funds flow for the periods indicated:

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Cash provided by operating activities	**$ 410.1**	$ 310.3	32	**$ 536.9**	(24)
Reclamation expenditures	**1.2**	–	100	**0.1**	100
Prepaid processing fees on third-party facilities	**–**	1.5	(100)	**(0.6)**	(100)
Changes in non-cash working capital and other	**(73.9)**	92.0	nm	**(14.4)**	nm
Adjusted funds flow	**$ 337.4**	$ 403.8	(16)	**$ 522.0**	(35)
Adjusted funds flow per boe [(1)]	**$ 17.06**	$ 22.25	(23)	**$ 25.81**	(34)

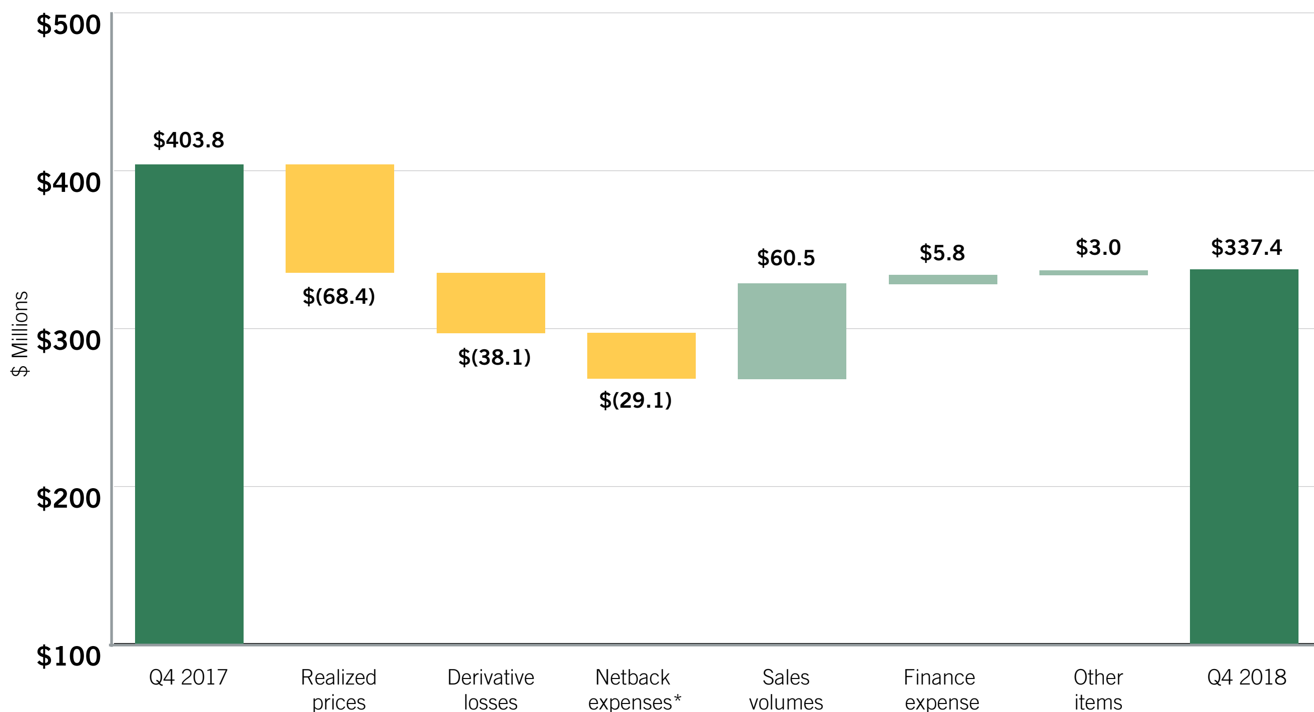
(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

During the three months ended December 31, 2018, adjusted funds flow was $337.4 million, a decrease of 16% compared to $403.8 million during the same period in 2017. The decrease in adjusted funds flow was primarily due to lower realized prices, realized derivative losses on fixed oil contracts and higher transportation, processing and other expenses, partially offset by higher production volumes. Compared to the third quarter of 2018, adjusted funds flow declined by 35% during the fourth quarter of 2018, primarily due to lower realized prices for liquids, lower production and higher transportation, processing and other costs.

During the three months ended December 31, 2018, the Company generated cash provided by operating activities of $410.1 million, an increase of 32% compared to $310.3 million during the same period in the prior year. The increase was primarily due to a $178.9 million increase in changes in non-cash working capital, partially offset by the decrease in adjusted funds flow. The increase in non-cash working capital primarily relates to a declining revenue receivable in the fourth quarter of 2018 as a result of lower realized prices and an increasing revenue receivable during the fourth quarter of 2017 from higher realized prices and growth in production volumes during that period.

Compared to the third quarter of 2018, cash provided by operating activities declined by 24% during the fourth quarter of 2018, primarily due to lower prices on liquids and higher transportation, processing and other costs relating to higher trucked volumes and higher fuel gas costs. The increases were partially offset by declines in the revenue receivable.

Change in adjusted funds flow during the three months ended December 31, 2018



*Netback expenses include royalties, operating expenses and transportation, processing and other expenses, net of marketing income.

The following table reconciles the cash provided by operating activities to funds from operations:

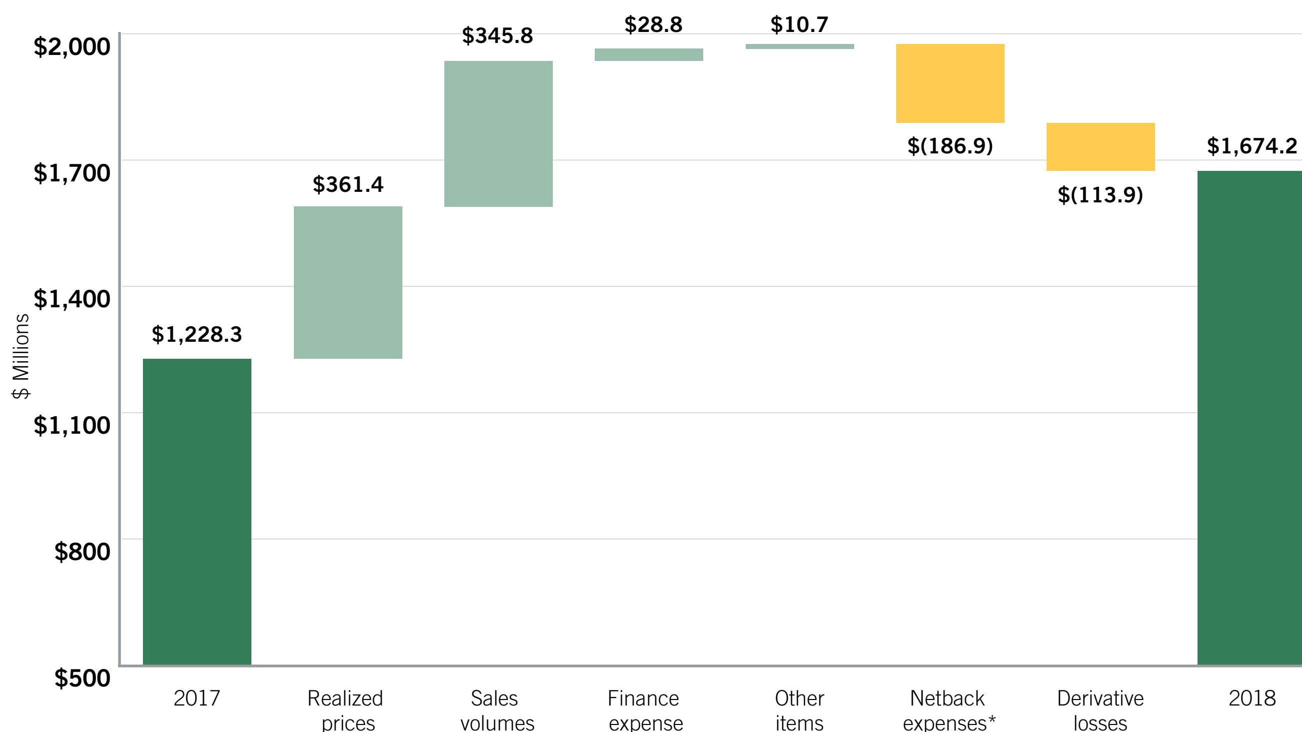
	Year ended December 31,		
	2018	2017	% Change
Cash provided by operating activities	**$ 1,796.3**	$ 1,154.3	56
Reclamation expenditures	**2.9**	–	100
Prepaid processing fees on third-party facilities	**(0.9)**	21.0	nm
Changes in non-cash working capital and other	**(124.1)**	53.0	nm
Adjusted funds flow	**$ 1,674.2**	$ 1,228.3	36
Adjusted funds flow per boe [(1)]	**$ 22.65**	$ 19.23	18

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

During the year ended December 31, 2018, adjusted funds flow was $1,674.2 million, an increase of $445.9 million, or 36%, compared to the prior year. The increase was primarily due to higher benchmark commodity prices for condensate, higher production and lower interest and finance expenses due to the senior unsecured note refinancing in the fourth quarter of 2017. These improvements were partially offset by higher operating, transportation, processing and other expenses attributable to higher production and operational activity in the field and realized derivative losses from the Company's crude oil hedges as a result of increased benchmark prices. Seven Generations also incurred higher royalty expenses due to fewer wells on incentives, higher reference prices and higher volumes.

During the year ended December 31, 2018, the Company generated cash provided by operating activities of $1,796.3 million, an increase of $642.0 million, or 56%, compared to the prior year. Consistent with adjusted funds flow, the majority of the increase in cash provided by operating activities was due to increased benchmark commodity prices, higher production and lower interest and finance expenses. Cash provided by operating activities also increased due to a $190.1 million increase in non-cash working capital. These increases were partially offset by higher netback expenses due to increased production and operational activity in the field and realized derivative losses on crude oil hedges.

Change in adjusted funds flow during year ended December 31, 2018



*Netback expenses include royalties, operating expenses and transportation, processing and other expenses, net of marketing income.

Income performance measures

Net income is an IFRS measure that is found on the Company's statement of comprehensive income. Operating income is calculated as net income, excluding unrealized gains and losses on financial instruments, realized foreign exchange gains and losses on debt repayments, accrued redemption premiums on senior notes, gains and losses on disposition of assets, net losses on investments in associates and the respective income tax impact of those adjustments. Operating income is used by the Company and others as a performance measure that provides comparability of financial results between periods of the Company's ongoing operations at the Kakwa River Project, by excluding highly variable and non-operating related items such as unrealized gains or losses on financial instruments.

The following tables reconcile the Company's net income to operating income:

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Net income	**$ 245.4**	$ 83.1	195	**$ 196.4**	25
Unrealized (gain) loss on risk management contracts	**(395.3)**	55.6	nm	**68.4**	nm
Foreign exchange (gain) loss on senior notes and other	**109.5**	5.6	nm	**(38.0)**	nm
Deferred tax (recovery) expense relating to adjustments	**106.7**	(15.1)	nm	**(18.5)**	nm
Operating income [(1)]	**$ 66.3**	$ 129.2	(49)	**$ 208.3**	(68)
Operating income per boe [(1)]	**$ 3.35**	$ 7.12	(53)	**$ 10.30**	(67)

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

	Year ended December 31,		
	2018	2017	% Change
Net income	**$ 439.9**	$ 562.5	(22)
Unrealized (gains) losses on risk management contracts	**(49.1)**	(186.7)	(74)
Foreign exchange (gain) loss on senior notes and other	**169.6**	(137.3)	nm
Loss on investment in associate	**–**	10.2	(100)
Redemption premium on senior notes	**–**	37.2	(100)
Deferred tax (recovery) expense relating to adjustments	**13.2**	40.4	(67)
Operating income [(1)]	**$ 573.6**	$ 326.3	76
Operating income per boe [(1)]	**$ 7.76**	$ 5.11	52

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

OPERATING INCOME

During the three months ended December 31, 2018, the Company's operating income was $66.3 million compared to $129.2 million during the same period in the prior year. The decrease in operating income primarily related to lower adjusted funds flow from lower realized prices and higher depletion and depreciation during the fourth quarter of 2018.

During the year ended December 31, 2018, the Company's operating income was $573.6 million compared to $326.3 million during 2017. The overall increase primarily occurred during the first nine months of 2018 and was primarily due to higher adjusted funds flow from higher realized prices and higher production, partially offset by higher depletion and depreciation.

Compared to the third quarter of 2018, operating income decreased by 68% primarily due to lower adjusted funds flow from lower realized prices.

NET INCOME

During the three months ended December 31, 2018, the Company earned net income of $245.4 million compared to net income of $83.1 million during the same period in the prior year. The increase was primarily due to unrealized gains on derivative contracts from declining oil price futures relative to the Company's derivative contract positions, partially offset by lower operating income and unrealized foreign exchange losses on the Company's US dollar-denominated senior notes as a result of declines in the value of the Canadian dollar during the fourth quarter of 2018.

For the year ended December 31, 2018, the Company earned net income of $439.9 million compared to net income of $562.5 million in 2017. The decrease was primarily attributable to losses on the Company's risk management contracts and foreign exchange in 2018 compared to gains in 2017, partially offset by higher operating income from realized prices and higher production volumes. The derivative losses were primarily due to declines in WTI futures relative to the Company's fixed contract positions. The unrealized foreign exchange losses on senior notes were primarily due to a decline in the value of the Canadian dollar during the year.

Compared to the third quarter of 2018, the Company's net income during the fourth quarter of 2018 increased from $196.4 million to $245.4 million, primarily due to unrealized gains on risk management contracts in the fourth quarter from lower oil price futures compared to unrealized losses on these contracts during the third quarter. The increase in net income was partially offset by lower operating income from lower condensate prices and volumes. The Company also recognized an unrealized loss on foreign exchange primarily related to the Company's US dollar denominated senior notes, as the Canadian dollar weakened during the fourth quarter, compared to an unrealized foreign exchange gain from a strengthening Canadian dollar during the third quarter.

OUTLOOK

2019 Guidance		
Capital budget ($ millions)		
Drilling and completion	$	**700**
Facilities and infrastructure		**400**
Construction, land and other		**150**
Capital investments	$	**1,250**
Production		
Number of wells brought on production		**65 – 70**
Liquids percentage (%)		**58% – 60%**
Total production (mboe/d)		**200 – 205**
Expenses (1)		
Royalties (%)		**5% – 7%**
Operating expenses ($/boe)	$	**5.00 – 5.50**
Transportation, processing and other ($/boe)	$	**6.75 – 7.25**
G&A expense ($/boe)	$	**0.80 – 0.90**
Interest ($/boe)	$	**1.80 – 1.90**

(1) Pricing assumptions: WTI: US $50.00/bbl, NYMEX/HH: US $3.00/MMbtu, CAD:USD: 1.35:1 and AECO basis: US $1.75/MMBtu. NGLs as a % of WTI: C4 – 50%, C3 – 35% and condensate $4 CAD/bbl differential.

On January 9, 2019, Seven Generations approved a 2019 capital investment program of $1.25 billion for continued development of the Kakwa River Project, targeting an average production range of 200 to 205 mboe/d in 2019. Beyond core drilling and completion activities in the Nest 2 area, the 2019 capital program includes resource evaluation activities in the Lower Montney formation, Wapiti and other exploration areas as well as additional development of Nest 1 and Nest 3. Nest 3 development includes investments in infrastructure and pipelines required to fully integrate the region into the Company's existing gathering and processing network.

The 2019 capital program is approximately $500 million less than the Company's 2018 capital program, reflective of current commodity prices and market conditions. The capital program focuses on maintaining current production levels, delineation of the Lower Montney formation and building key infrastructure to support the Company's prolific multi-year drilling inventory and potential for inventory expansion. Should stronger commodity prices lead to increases in adjusted funds flow, the Company will evaluate the optimal allocation of additional funds to alternatives that may include share repurchases, debt repayment, margin-enhancing infrastructure investments or high-return production growth.

Seven Generations expects that the current 2018 and 2019 capital investment profiles will result in a moderate decline in production volumes during the first half of 2019, and an increase in production volumes during the second half of the year as new wells are brought on stream.

RESERVES

McDaniel & Associates Consultants Ltd. ("McDaniel"), the Company's independent, qualified reserves evaluator, performed a reserve evaluation of the Company's Kakwa River Project as at December 31, 2018. The following table summarizes Seven Generations' proved plus probable reserves based on McDaniel's report:

	Year ended December 31,					
	2018			2017		
Reserve Category [1]	**MMboe**		**$MM [2]**	MMboe		$MM [2]
Gross proved developed producing reserves	**242**	**$**	**2,824**	211	$	2,470
Gross proved reserves ("1P")	**856**	**$**	**6,518**	870	$	6,133
Gross proved plus probable reserves ("2P")	**1,644**	**$**	**12,282**	1,695	$	11,988

(1) Refer to Advisories and Guidance for additional information regarding the Company's estimated reserves and the estimated net present value of future net revenue.
(2) Estimated pre-tax net present value of discounted cash flows from reserves using a 10% discount rate.

Seven Generations' total PDP reserve volumes increased 15 percent year-over-year, replacing 142 percent of 2018 production. Total gross 1P and 2P reserves were 856 MMboe and 1,644 MMboe, respectively, a decrease of 2% and 3%, compared to the prior year. Declines in the Company's 1P and 2P reserves were primarily due to 2018 production and a reduction of natural gas volumes, partially offset by higher condensate volumes and additional reserve assignments from 2018 development activities. Revisions to Seven Generations' reserves in 2018 reflects the Company's enhanced understanding of the condensate and natural gas mix in sub-regions of the Kakwa River Project.

The Company's 2P reserves as at December 31, 2018 were estimated to have a pre-tax net present value of approximately $12.3 billion, compared to $12.0 billion in the prior year reserve report. The increases in the estimated discounted cash flows were primarily due to the higher condensate volumes, increase in developed reserves and higher net present values following the completion of the 2018 capital investment program. The improvements were partially offset by declines in natural gas volumes and lower commodity price assumptions.

CHANGE IN PRESENTATION OF OPERATING RESULTS

Seven Generations purchases condensate for resale on a monthly basis in order to satisfy transportation commitments or fulfill pipeline sales nominations. During the year ended December 31, 2017, the resale of condensate was presented net of the cost of purchases within liquids and natural gas sales on the income statement. Amounts presented within the Company's MD&A during the years ended December 31, 2017 and 2016 followed this accounting presentation. Starting on January 1, 2018, following the adoption of *IFRS 15 Revenue from Contracts with Customers*, Seven Generations began presenting purchases of condensate for resale separately from liquids and natural gas sales on the income statement. The comparative period income statement and notes in the consolidated financial statements for the years ended December 31, 2018 and 2017 have been reclassified to conform to this current period presentation.

In 2017 and prior, Seven Generations received a net share of margins that were earned in respect of third party marketing arrangements that utilized Seven Generations' natural gas transportation capacity, primarily on the Alliance pipeline. This third-party marketing income, net of applicable transport tariffs relating to the purchased volumes, 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. In conjunction with the adoption of *IFRS 15*, product purchases and resales of natural gas and associated pipeline tariffs related to the Company's in-house marketing activities have been presented separately in the consolidated financial statements for the years ended December 31, 2018 and 2017. Any income earned from remaining third-party marketing arrangements as well as the comparative third-party Alliance marketing income earned in 2017 continues to be presented on a net basis within transportation, processing and other expenses.

With respect to the disclosures of operating results within this MD&A for the years ended December 31, 2018 and 2017, all purchases, resale revenues and applicable transportation charges in respect of condensate and natural gas marketing activities have been presented on a net basis as "marketing income" in the calculation of operating netback. Third party marketing income in 2017 and 2018 have also been reclassified separately as marketing income in the calculation of operating netback. Accordingly, all of the operating netback accounts, other than marketing income and realized gains and losses from risk management contracts, are intended to solely reflect the results of Seven Generations' operational performance in the Kakwa River Project.

Starting in the first quarter of 2018, Seven Generations began presenting its pentanes plus ("C5+" or "condensate") production in the NGL mix together with the Company's condensate volumes that are separated at the wellhead. Previously, C5+ included in the NGL mix, which is later separated at natural gas and liquids processing facilities, was reported with NGL volumes along with butane (C4), propane (C3) and ethane (C2). Comparative period sales volumes, realized prices and gross revenues by product type that are included in this MD&A and the consolidated financial statements for the years ended December 31, 2018 and 2017 have been reclassified to conform to this current period presentation. The purpose of this change was to more clearly reflect the hydrocarbon mix within Seven Generations' production.

CAPITAL INVESTMENTS

During the year ended December 31, 2018, Seven Generations invested $1,765.7 million to continue development of the Kakwa River Project. The 2018 capital program primarily focused on core Nest 2 acreage development, infrastructure developments and delineation of the Nest 2 and 3 areas.

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Drilling and completions	**$ 148.9**	$ 167.4	(11)	**$ 232.6**	(36)
Facilities and infrastructure	**67.7**	115.0	(41)	**90.8**	(25)
Land and other [(1)]	**45.7**	39.9	15	**34.8**	31
Total capital investments	**$ 262.3**	$ 322.3	(19)	**$ 358.2**	(27)

(1) Includes camps, workovers, construction, office investments and capitalized salaries and benefits.

	Year ended December 31,		
	2018	2017	% Change
Drilling and completions	**$ 1,037.0**	$ 1,021.9	1
Facilities and infrastructure	**544.8**	530.6	3
Land and other [(1)]	**183.9**	98.9	86
Total capital investments	**$ 1,765.7**	$ 1,651.4	7

(1) Includes camps, workovers, construction, office investments and capitalized salaries and benefits.

Capital investments were in line with the Company's original 2018 capital guidance of $1.675 billion and $1.775 billion.

Drilling and completions

During the year ended December 31, 2018, Seven Generations invested $1,037.0 million on drilling and completions activities. The Company drilled 91 wells, completed 89 wells and brought 91 wells in the Nest on production in 2018.

	Three months ended December 31,			Three months ended September 30,	
Montney Well activity [1]	**2018**	2017	% Change	**2018**	% Change
Wells drilled (rig-released)	**19**	20	(5)	**21**	(10)
Wells completed	**13**	16	(19)	**28**	(54)
Wells brought on production	**8**	23	(65)	**42**	(81)

(1) These gross well counts include all Nest horizontal Montney wells and exclude water injection wells and wells that were re-drilled or abandoned. Drilling counts are based on rig release date and brought on production counts are based on the first production date after the wells were tied in to permanent facilities.

	Year ended December 31,		
Montney Well activity [1]	**2018**	2017	% Change
Drilled	**91**	93	(2)
Completed	**89**	91	(2)
Brought on production	**91**	103	(12)

(1) These gross well counts include all Nest horizontal Montney wells and exclude water injection wells and wells that were re-drilled or abandoned. Drilling counts are based on rig release date and brought on production counts are based on the first production date after the wells were tied in to permanent facilities.

During the year, the Company drilled 14 wells and completed six outside the Nest (2017 – nine and three, respectively). Seven Generations also drilled three water disposal wells in 2018 and brought three water disposal wells on stream (2017 – one water disposal well drilled). The fourth water disposal well is expected to be operational in early 2019.

The following table summarizes Seven Generations' drilling and completion metrics for Montney development activities in the Nest area. The following metrics exclude expiry and delineation activities outside of the Nest and water wells:

	Three months ended December 31,			Three months ended September 30,		Year ended December 31,		
Nest Activity	**2018**	2017	% Change	**2018**	% Change	**2018**	2017	% Change
Drilling [1]								
Horizontal wells rig released	**19**	20	(5)	**21**	(10)	**91**	88	3
Average measured depth (m)	**6,010**	5,278	14	**5,691**	6	**5,735**	5,742	–
Average horizontal length (m)	**2,776**	2,128	30	**2,557**	9	**2,551**	2,537	1
Average drilling days per well	**28**	29	(3)	**28**	–	**27**	33	(18)
Average drill cost per lateral metre ($) [2]	**$ 1,236**	$ 1,760	(30)	**$ 1,373**	(10)	**$ 1,389**	$ 1,592	(13)
Average well cost ($ millions) [2]	**$ 3.4**	$ 3.6	(6)	**$ 3.5**	(3)	**$ 3.5**	$ 3.9	(10)
Completion [1]								
Wells completed	**13**	16	(19)	**28**	(54)	**89**	88	1
Average number of stages per well	**46**	39	18	**58**	(21)	**48**	41	17
Average tonnes pumped per metre	**1.9**	2.2	(14)	**2.0**	(5)	**2.3**	2.4	(4)
Average tonnes pumped per well	**4,417**	5,643	(22)	**5,206**	(15)	**5,402**	6,236	(13)
Average cost per tonne [2]	**$ 1,282**	$ 1,107	16	**$ 1,240**	3	**$ 1,228**	$ 1,190	3
Average well cost ($ millions) [2]	**$ 5.7**	$ 6.2	(8)	**$ 6.5**	(12)	**$ 6.6**	$ 7.3	(10)
Total D&C cost per well ($ millions) [2]	**$ 9.1**	$ 9.8	(7)	**$ 10.0**	(9)	**$ 10.1**	$ 11.2	(10)

(1) The drilling and completion counts include only horizontal Montney wells in the Nest. The drilling counts and metrics exclude wells that are re-drilled or abandoned.
(2) Information provided is based on field estimates and is subject to change.

During the three months ended December 31, 2018, the Company rig-released 19 wells in the Nest with an average horizontal length of 2,776 metres and averaging 28 drilling days per well. Seven Generations also completed 13 Nest wells during the period averaging 46 stages and 4,417 tonnes pumped per well.

During the three and 12 months ended December 31, 2018, per well drilling costs declined by 6% and 10%, respectively, compared to the same periods in the prior year, primarily due to improvements in drilling efficiencies which resulted in lower average drilling days per well.

Completion costs per well declined by 8% and 10% for the three and 12 months ended December 31, 2018, respectively, compared to the same periods in 2017. The declines were due to efficiencies, third party rate reductions and lower intensity fractures in 2018 with average tonnage pumped per lateral metre decreasing by 14% and 4%. The Company continues to reassess the optimal tonnage and stage counts for its completions in the Nest area and is focusing on optimizing proppant distributions following a comprehensive reservoir study completed by the Company in the first half of the year. Following these changes, Seven Generations has observed lower interspatial well communication.

The reductions in Seven Generations' total drilling and completion costs per well are attributable to both cost efficiencies and reductions in the amount of time taken to drill, complete and bring wells on stream. During the year ended December 31, 2018, the Company reduced this spud-to-production time by 27% from 285 days to 208 days. The majority of the Company's development is on multi-well pads utilizing batch drilling and completions procedures.

Facilities and infrastructure

During the three and 12 months ended December 31, 2018, the Company invested $67.7 million and $544.8 million, respectively, on facilities and infrastructure to support the Company's production growth in the Kakwa River Project.

GAS PROCESSING FACILITIES

During the year ended December 31, 2018, Seven Generations invested $113.0 million to complete the construction of its third wholly-owned gas processing facility in the Gold Creek area. The total construction cost of the Gold Creek facility was $225.0 million. The 250 MMcf/d natural gas processing facility was constructed under budget by approximately 10% and became operational during the fourth quarter of 2018.

Combined with the Company's Cutbank, Lator and Karr facilities, Seven Generations now has wholly-owned natural gas processing capacity of 760 MMcf/d and 60 mbbl/d of condensate stabilization. The Company also has access to additional third-party processing capacity at the Pembina Kakwa River natural gas plant, which is designed to provide additional processing capacity of up to 250 MMcf/d for natural gas and 20.0 mbbl/d for condensate.

PAD DEVELOPMENT

Seven Generations builds super pads in order to decentralize the traditional gas gathering and processing model by placing dehydration, separation and compression at the super pad site. The super pads allow for a more efficient use of infrastructure and provide high-pressure dry gas at the pad site that can be used for artificial lift. The Company also constructs smaller, cost effective satellite pads which feed into the super pads for dehydration, separation and compression. Super pads and satellite pads employ a multi-well design, which provides costs savings on a per well basis and reduces the Company's environmental footprint.

The Company completed construction of two new super pads and the expansion of four super pads in the Kakwa River Project in 2018 to accommodate drilling expansions in the Nest. At December 31, 2018, Seven Generations had approximately 36 satellite pads with an average of nine wells per pad, and 14 super pads with an average of 13 wells per pad.

WATER HANDLING

Since drilling its first water disposal well in 2017, the Company has drilled three additional disposal wells in 2018. As at December 31, 2018, three of the wells were on stream, with the fourth anticipated to be operational in early 2019. The Company is building a water pipeline network to connect these injection wells, which will enable produced water to be recycled back to the Company's development pads for use in hydraulic fracturing. In the interim, Seven Generations has built a temporary water hub for disposal and re-use.

The Company's water infrastructure initiative is anticipated to reduce overall water sourcing, trucking and disposal costs as well as reduce truck traffic. The Company had began to observe tangible cost reductions from these initiatives in 2018 and anticipates continued improvements to operating costs and capital efficiencies going forward.

PIPELINE INFRASTRUCTURE AND FIELD EGRESS

During the year ended December 31, 2018, Seven Generations constructed a pipeline network that connects the Company's Gold Creek natural gas processing facility to its field gathering system and the Cutbank facility to the Pembina Kakwa River natural gas plant. These interconnections allow for field production volumes to be routed to multiple facilities, which helps maximize operating efficiencies and allows Seven Generations to circumvent plant outages for maintenance and redirect volumes between the Alliance pipeline and NGTL/TCPL system. The Company plans to further expand its pipeline network in 2019, connecting the southern Nest 3 development area to the Gold Creek facility providing the Company with additional egress optionality in the field.

OPERATING RESULTS

Daily sales and production volumes

	Three months ended December 31,			Three months ended September 30,	
Sales and production volumes [1][2]	**2018**	2017 [2]	% Change	**2018**	% Change
Condensate (mbbl/d)	**81.8**	70.0	17	**87.3**	(6)
Natural gas (MMcf/d)	**515.4**	493.4	4	**511.3**	1
NGLs (mbbl/d)	**47.4**	45.1	5	**47.3**	–
Total sales volumes (mboe/d)	**215.1**	197.3	9	**219.8**	(2)
Inventory build (draw)	**(2.0)**	–	(100)	**2.0**	nm
Total production volumes (mboe/d)	**213.1**	197.3	8	**221.8**	(4)
Liquids percentage of production [3]	**60%**	58%	3	**62%**	(3)
Condensate-to-gas ratio (bbls/MMcf)	**155**	142	9	**175**	(11)

(1) Excludes volumes that were purchased and re-sold in respect of the Company's transportation utilization and marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). Prior period sales volumes have been reclassified to conform to this current period presentation.
(3) Liquids percentage is calculated on total production volumes.

	Year ended December 31,		
Sales and production volumes [1][2]	**2018**	2017 [2]	% Change
Condensate (mbbl/d)	**76.4**	61.3	25
Natural gas (MMcf/d)	**490.5**	435.5	13
NGLs (mbbl/d)	**44.4**	41.1	8
Total sales and production volumes (mboe/d)	**202.6**	175.0	16
Liquids percentage of production [3]	**60%**	58%	3
Condensate-to-gas ratio (bbls/MMcf)	**156**	128	22

(1) Excludes volumes that were purchased and re-sold in respect of the Company's transportation utilization and marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). Prior period sales volumes have been reclassified to conform to this current period presentation.

Seven Generations' production and sales volumes relate to the Kakwa River Project. As at December 31, 2018, Seven Generations had over 420 net horizontal Montney producing wells in the Kakwa River Project with an inventory of 49 wells at various stages of construction between drilling, completion and tie-in (December 31, 2017 – 330 wells producing and 56 wells under construction).

During the three and 12 months ended December 31, 2018, Seven Generations' production averaged 213.1 mboe/d and 202.6 mboe/d, respectively, compared to 197.3 mboe/d and 175.0 mboe/d during the same periods in the prior year. The increases in production were primarily due to 103 wells being brought on stream during 2017 and 91 wells during 2018, partially offset by natural well declines. Production during the year ended December 31, 2018 was within the Company's original guidance range of 200 and 210 mboe per day.

Compared to the third quarter of 2018, production decreased by 4% during the fourth quarter of 2018 primarily due to natural well declines from the 42 new wells brought on production during the third quarter, compared to eight new wells brought on production in the fourth quarter.

Seven Generations' production from the Kakwa River Project continues to deliver high liquids content. During the year ended December 31, 2018, liquids yields averaged 60% liquids and had a condensate-to-gas ratio of 156 bbl/MMcf compared to 58% liquids and 128 bbl/MMcf in 2017. Liquids production weighting was at the high end of the Company's guidance at 60% due to higher condensate yields than expected from wells brought onstream in 2018.

During the third quarter of 2018, the Company retained 2.0 mboe/d, or approximately 180 mboe of liquids in physical storage facilities. The condensate volumes were sold in the fourth quarter of 2018.

Benchmark prices

	Three months ended December 31,			Three months ended September 30,	
Average Monthly Benchmark Prices	**2018**	2017	% Change	**2018**	% Change
Oil – WTI (US$/bbl)	**$ 58.81**	$ 55.40	6	**$ 69.50**	(15)
Oil – WTI (C$/bbl)	**$ 77.75**	$ 70.47	10	**$ 90.84**	(14)
Condensate – CRW Pool (C$/bbl)	**$ 60.32**	$ 73.62	(18)	**$ 87.10**	(31)
Natural gas – NYMEX Henry Hub (US$/MMBtu)	**$ 3.64**	$ 2.92	25	**$ 2.90**	26
Natural gas – Chicago Citygate (US$/MMBtu)	**$ 3.63**	$ 2.92	24	**$ 2.75**	32
Natural gas – Dawn (US$/MMBtu)	**$ 3.79**	$ 3.04	25	**$ 2.91**	30
Natural gas – AECO 5A (C$/GJ)	**$ 1.48**	$ 1.60	(8)	**$ 1.13**	31
Average exchange rate – C$ to US$	**1.322**	1.272	4	**1.307**	1

	Year ended December 31,		
Average Monthly Benchmark Prices	**2018**	2017	% Change
Oil – WTI (US$/bbl)	**$ 64.77**	$ 50.95	27
Oil – WTI (C$/bbl)	**$ 83.94**	$ 66.08	27
Condensate – CRW Pool (C$/bbl)	**$ 78.78**	$ 66.48	19
Natural gas – NYMEX Henry Hub (US$/MMBtu)	**$ 3.09**	$ 3.02	2
Natural gas – Chicago Citygate (US$/MMBtu)	**$ 3.02**	$ 3.04	(1)
Natural gas – Dawn (US$/MMBtu)	**$ 3.12**	$ 2.93	6
Natural gas – AECO 5A (C$/GJ)	**$ 1.42**	$ 2.04	(30)
Average exchange rate – C$ to US$	**1.296**	1.297	–

The majority of Seven Generations' condensate and natural gas liquids production is delivered and sold in Edmonton, Alberta through Pembina's pipeline systems. The price of WTI for crude oil sales at Cushing, Oklahoma is the primary benchmark for crude oil pricing in North America. The price that Seven Generations receives for its condensate production is primarily driven by the price of WTI, adjusted for pipeline apportionments, external supply and demand, changes in foreign exchange rates, transportation costs and quality differentials.

During the three and 12 months ended December 31, 2018, the average WTI price increased by 6% and 27%, respectively, compared to the same periods in the prior year. The increases were primarily due to growth in global demand for crude oil, further production curtailments by OPEC and lower global crude oil inventories. Compared to the third quarter of 2018, the benchmark price for WTI decreased by 15% during the fourth quarter of 2018 as a result of projected declines in global demand, rising interest rates, growth in North American crude oil production and reduced economic growth expectations.

The CRW Pool price for liquids sales at Edmonton, Alberta is the primary reference price for condensate in Western Canada. During the three months ended December 31, 2018, the CRW Pool price was 78% of the Canadian dollar equivalent WTI benchmark price (three months ended December 31, 2017 – 104%). For the year ended December 31, 2018, the CRW Pool price was 94% of the Canadian dollar equivalent WTI benchmark price (December 31, 2017 – 101%).

Growth in Canadian oil sands production combined with constrained egress out of Western Canada resulted in downward pressure on Canadian crude oil prices and widening liquids differentials relative to the Canadian dollar WTI benchmark price during the fourth quarter of 2018. In response, the Alberta Government announced a temporary 8.7% province-wide mandatory production curtailment for certain producers in order to ease the over-supply of Canadian crude oil. The curtailments take effect in 2019 and decline throughout the year to align with additional egress expected in the second half of 2019.

Seven Generations sells approximately 70% of its natural gas production in the United States primarily via the Alliance pipeline system, the majority of which is sold in Chicago, Illinois. From there, the Company also delivers a portion of its natural gas to the US Gulf Coast in Louisiana and Texas on the NGPL pipeline system. Accordingly, Chicago Citygate and Henry Hub prices were the primary benchmarks for the Company's natural gas sales in the United States for the three and 12 months ended December 31, 2018.

During the fourth quarter of 2018, the Chicago Citygate price and Henry Hub price climbed by 24% and 25%, respectively compared to the fourth quarter in 2017. Compared to the third quarter of 2018, the Chicago Citygate and Henry Hub prices increased by 32% and 26%, respectively. The increases were primarily due to declines in natural gas storage inventories and higher than normal seasonal demand due to below seasonal weather temperatures in the fourth quarter of 2018.

During the year ended December 31, 2018, the Chicago Citygate and Henry Hub benchmarks remained relatively unchanged from the prior year, as lower gas prices during the first three quarters of 2018 were mostly offset by higher prices in the fourth quarter of 2018.

During the fourth quarter of 2017, Seven Generations began shipping a portion of its natural gas to the Dawn, Ontario market on the TCPL system. The Dawn benchmark price was more than double the AECO 5A benchmark price throughout 2018. The Company sold approximately 16% of its natural gas in Eastern Canada during the year ended December 31, 2018 and expects to deliver similar natural gas volumes in 2019.

The remainder of Seven Generations' natural gas production is sold in Alberta on the NGTL system. The AECO 5A price is the primary benchmark for the Company's natural gas sales in Alberta. During the year ended December 31, 2018 and 2017, the AECO 5A benchmark price settled at a substantial discount to other North American benchmark prices primarily due to limited economic transportation and egress solutions out of the basin, increasing domestic production and limited access to local storage facilities. The Company continues to pursue new potential market access opportunities for its liquids and natural gas. Starting in 2019, Seven Generations will begin delivering natural gas to the GTN pipeline which provides access to customers in the US Pacific Northwest.

Realized prices

	Three months ended December 31,			Three months ended September 30,	
	2018	2017 [2]	% Change	**2018**	% Change
Condensate ($/bbl)	**$ 53.57**	$ 67.95	(21)	**$ 79.26**	(32)
Natural gas ($/Mcf)	**4.77**	3.53	35	**3.65**	31
NGLs ($/bbl)	**8.44**	18.30	(54)	**14.02**	(40)
Total ($/boe) [1]	**$ 33.66**	$ 37.13	(9)	**$ 42.99**	(22)

(1) Excludes the purchase and resale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). Realized prices in 2017 have been adjusted to conform to this current period presentation.

	Year ended December 31,		
	2018	2017 [2]	% Change
Condensate ($/bbl)	**$ 71.63**	$ 61.28	17
Natural gas ($/Mcf)	**3.98**	3.84	4
NGLs ($/bbl)	**12.21**	14.56	(16)
Total ($/boe) [1]	**$ 39.33**	$ 34.45	14

(1) Excludes the purchase and resale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). Realized prices in 2017 have been adjusted to conform to this current period presentation.

During the three months ended December 31, 2018, the Company's realized condensate prices declined by 21% compared to the fourth quarter of 2017. Compared to the third quarter of 2018, the Company's realized condensate prices declined by 32%. The declines were primarily due to condensate differentials widening as a result of the Western Canadian transportation constraints, US refinery turnarounds and rising Canadian crude oil inventories.

Seven Generations was not mandated to restrict its production under the Province of Alberta's production curtailment initiative. Although the majority of the Company's condensation production is ultimately consumed in the heavy oil blending process, Seven Generations does not currently anticipate any mandated production curtailments in 2019. Condensate price differentials have improved in early 2019 relative to the fourth quarter of 2018.

During the year ended December 31, 2018, the Company's realized condensate prices improved by 17% compared to the prior year, primarily due to stronger crude oil prices in the first nine months of 2018.

Despite low AECO benchmark prices, Seven Generations' realized natural gas prices remained strong in 2017 and 2018 due to the Company's diverse natural gas marketing portfolio. The Company's realized natural gas price for the year ended December 31, 2018, was 4% higher than 2017, primarily due to a full year of natural gas sales at Dawn, Ontario in 2018 which received higher pricing than the local AECO market.

During the fourth quarter of 2018, Seven Generations' realized natural gas price increased by 35% compared to the same period in the prior year primarily due to increases in US gas benchmark prices and a weakening of the Canadian dollar, as the majority of Seven Generations' natural gas volumes received US dollar-denominated pricing. Compared to the third quarter of 2018, realized natural gas prices increased by 31%, consistent with the increases in US gas benchmark prices.

Seven Generations' product mix of NGLs averaged approximately 40% ethane, 40% propane and 20% butane in 2018. Approximately 55% of the Company's NGLs are sold in the US Midwest market and 45% are sold in the Alberta market.

The Company's realized price for NGLs during the three months ended December 31, 2018, decreased by 54% compared to the same period in the prior year and by 40% compared to the third quarter of 2018. The declines were primarily due to higher liquids processing fees and lower propane prices. Realized NGL pricing decreased by 16% during the year ended December 31, 2018, compared to 2017, primarily due to the higher liquids processing fees in Illinois more than offsetting improved butane and propane prices in the first half of 2018.

Liquids and natural gas sales

	Three months ended December 31,			Three months ended September 30,	
	2018	2017 [2]	% Change	**2018**	% Change
Condensate	**$ 403.2**	$ 437.6	(8)	**$ 636.6**	(37)
Natural gas	**225.7**	160.3	41	**171.8**	31
NGLs	**36.8**	76.0	(52)	**61.0**	(40)
Liquids and natural gas sales [1]	**$ 665.7**	$ 673.9	(1)	**$ 869.4**	(23)
Liquids and natural gas sales per boe	**$ 33.66**	$ 37.13	(9)	**$ 42.99**	(22)

(1) Excludes the purchase and resale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities. Refer to the "Marketing income" section of this MD&A for details regarding the Company's marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). 2017 liquids and natural gas sales have been adjusted to conform to this current period presentation.

	Year ended December 31,		
	2018	2017 [2]	% Change
Condensate	**$ 1,997.3**	$ 1,371.1	46
Natural gas	**712.6**	610.3	17
NGLs	**197.8**	218.3	(9)
Liquids and natural gas sales [1]	**$ 2,907.7**	$ 2,199.7	32
Liquids and natural gas sales per boe	**$ 39.33**	$ 34.45	14

(1) Excludes the purchase and resale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities. Refer to the "Marketing income" section of this MD&A for details regarding the Company's marketing activities.
(2) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). 2017 liquids and natural gas sales have been adjusted to conform to this current period presentation.

Liquids and natural gas sales relate to the sale of liquids-rich production from the Company's Kakwa River Project. During the three months ended December 31, 2018, Seven Generations recognized $665.7 million in liquids and natural gas sales, a decrease of 1%, or $8.2 million, compared to the same period in the prior year. The decrease related to lower realized prices of $69.0 million, which was mostly offset by higher volumes of $60.8 million.

During the year ended December 31, 2018, liquids and natural gas sales increased by 32% to $2,907.7 million compared to the prior year. Higher realized prices accounted for $361.0 million of the variance and $347.0 million was from higher sales volumes.

Compared to the third quarter of 2018, liquids and natural gas sales declined by 23% or $203.7 million. Lower realized prices accounted for $185.1 million of the decline and lower volumes accounted for $18.6 million.

Marketing income

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Sale of purchased condensate and natural gas	**$ 135.8**	$ 47.0	189	**$ 88.0**	54
Less: cost of product purchases	**(122.5)**	(37.6)	226	**(72.6)**	69
Less: transportation expenses	**(9.4)**	(5.6)	68	**(10.0)**	(6)
Add: third party marketing income	**–**	8.0	(100)	**0.3**	(100)
Marketing income (1)	**$ 3.9**	$ 11.8	(67)	**$ 5.7**	(32)
Marketing income per boe (1)	**$ 0.20**	$ 0.65	(69)	**$ 0.28**	(29)

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

	Year ended December 31,		
	2018	2017	% Change
Sale of purchased condensate and natural gas	**$ 406.6**	$ 108.7	274
Less: cost of product purchases	**(332.7)**	(101.1)	229
Less: transportation expenses	**(46.0)**	(5.6)	nm
Add: third party marketing income	**0.8**	23.0	(97)
Marketing income (1)	**$ 28.7**	$ 25.0	15
Marketing income per boe (1)	**$ 0.39**	$ 0.39	–

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

Marketing income relates to the purchase and resale of condensate and natural gas in order to utilize the Company's pipeline capacity or fulfill sales nominations. Seven Generations' marketing sales increased in 2018 primarily due to the growth in the Company's condensate production and increased capacity on the Pembina Phase III expansion system. Beginning in the fourth quarter of 2017, Seven Generations began taking advantage of its Alliance natural gas transportation capacity without the use of a third party. Prior to that time, the Company received a share of the margin that was earned under third party marketing arrangements that utilized Seven Generations' transportation capacity.

For the year ended December 31, 2018, marketing income increased by 15% primarily due to the purchase and resale of natural gas along the Alliance pipeline. Compared to the fourth quarter of 2017, marketing income declined from $11.8 million to $3.9 million during the fourth quarter of 2018, primarily due to condensate marketing losses as a result of wider liquids differentials during the fourth quarter of 2018.

The purchase and resale of liquids and natural gas in respect of the Company's in-house marketing activities, together with the pipeline tariffs associated with the purchased volumes, are not included in the presentation of sales and production volumes or the realized price and revenue sections of this MD&A. Transportation expenses relate to the pipeline tariffs for volumes that were purchased for resale and delivered to market. Transportation expenses in respect of the Company's marketing income has been excluded from the "Transportation, processing and other expenses" section of this MD&A.

Risk management contracts

Seven Generations continues to execute its routine risk management program which is primarily designed to reduce revenue and cash flow volatility, secure funding for a portion of the Company's capital investment program and to help ensure there are sufficient cash flows to service debt obligations.

The Company hedges liquids and natural gas production and exchange rates through a rolling three year hedging program. Price targets are established at levels that are expected to provide a threshold rate of return on capital investments based on a combination of projected well performance and capital efficiencies. The Company hedges up to 65% of current production guidance of condensate and natural gas volumes (net of royalties) for the upcoming four quarters, up to 35% of current production guidance for the subsequent four quarters and up to 20% for the four quarters following.

Derivative contract settlements are recognized as a realized gain or loss in net income. The fair value of the Company's unsettled derivatives are recorded as an asset or liability at each reporting period with any change in the mark-to-market position of the contracts recognized as an unrealized gain or loss in net income.

	Three months ended December 31,		Three months ended September 30,
	2018	2017	**2018**
Realized gain (loss)	**$ (31.2)**	$ 6.9	**$ (36.2)**
Unrealized gain (loss)	**395.3**	(55.6)	**(68.4)**
Risk management gain (loss)	**$ 364.1**	$ (48.7)	**$ (104.6)**
Realized gain (loss) per boe	**$ (1.58)**	$ 0.38	**$ (1.79)**

	Year ended December 31,	
	2018	2017
Realized gain (loss)	**$ (98.2)**	$ 15.7
Unrealized gain	**49.1**	186.7
Risk management gain (loss)	**$ (49.1)**	$ 202.4
Realized gain (loss) per boe	**$ (1.33)**	$ 0.25

Volatility in North American crude oil and natural gas prices in 2018 and 2017 has continued to drive substantial changes in the value of the Company's commodity derivative contracts over the past two years. The following table summarizes the changes in the value of risk management contracts during the year ended December 31, 2018:

	Natural Gas	Oil	Foreign Exchange	**Total**
Derivative asset (liability) as at December 31, 2017	$ 70.2	$ (50.5)	$ 18.6	**$ 38.3**
Realized (gains) losses	(0.8)	103.8	(4.8)	**98.2**
Unrealized gains (losses)	(24.0)	21.8	(46.9)	**(49.1)**
Derivative asset (liability) as at December 31, 2018	$ 45.4	$ 75.1	$ (33.1)	**$ 87.4**

During the three and 12 months ended December 31, 2018, Seven Generations recognized unrealized derivative gains of $395.3 million and $49.1 million, respectively, primarily due to declining oil price futures late in the fourth quarter of 2018 relative to the Company's crude oil derivative contract positions, partially offset by unrealized derivative losses on foreign exchange contracts due to declines in the value of the Canadian dollar relative to the US dollar. The Company recognized an unrealized derivative loss of $68.4 million during the third quarter of 2018 primarily due to the rise in oil price futures during the period.

An unrealized derivative loss of $55.6 million during the fourth quarter of 2017 was primarily due to an increase in the benchmark price for oil price futures during the fourth quarter of 2017 and a strengthening of the Canadian dollar. For the year ended December 31, 2017, the Company recognized an unrealized derivative gain of $186.7 million primarily due to declines in commodity price futures, mainly natural gas, during the first and second quarters of 2017.

During the three and 12 months ended December 31, 2018, Seven Generations incurred realized derivative losses of $31.2 million and $98.2 million, respectively, compared to gains during those the same periods in 2017. The realized derivative losses were primarily due to higher average oil prices in 2018 relative to the Company's lower priced oil contract positions.

The following is a summary of the carrying value of Seven Generations' outstanding risk management contracts:

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 had the following risk management contracts in place 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.

Royalty expense

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	2018	% Change
Royalties	19.5	21.5	(9)	44.4	(56)
Royalties per boe	0.99	1.18	(16)	2.20	(55)
Effective royalty rate [(1)]	3%	3%	–	5%	(40)

(1) Calculated as total royalty expenses divided by liquids and natural gas sales, excluding resales of purchased product.

	Year ended December 31,		
	2018	2017	% Change
Royalties	99.2	62.1	60
Royalties per boe	1.34	0.97	38
Effective royalty rate [(1)]	3%	3%	–

(1) Calculated as total royalty expenses divided by liquids and natural gas sales, excluding resales of purchased product.

The Company's royalties are paid to the Province of Alberta. Seven Generations' new wells in the Kakwa River Project qualify for Crown incentive programs which have a low initial royalty rate until a threshold return of capital has been achieved.

During the three months ended December 31, 2018, royalty expenses were $19.5 million (3% of revenue) compared to $21.5 million (3% of revenue) during the same period in the prior year. For the year ended December 31, 2018, royalty expenses were $99.2 million (3% of revenue) compared to $62.1 million (3% of revenue) during the year ended December 31, 2017.

Effective royalty rates as a percentage of revenue remained relatively unchanged during the three and 12 months ended December 31, 2018, compared to the same periods in 2017, primarily due to lower royalty rates for wells on incentive and higher gas cost allowances from natural gas facility construction activities in 2017 and 2018. The increases were partially offset by higher royalty reference prices. On a per boe basis, royalties were lower than original guidance of 5% to 8% of revenues, primarily due to lower royalty rates for wells under the previous royalty framework and higher gas cost allowances received from the construction of gas processing facilities.

Compared to third quarter of 2018, royalty expenses per boe declined by 55% primarily due to lower royalty rates for wells on incentive and lower royalty reference prices.

Operating expenses

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Water trucking and disposal	**$ 45.7**	$ 46.8	(2)	**$ 36.3**	26
Equipment rental and maintenance	**27.9**	27.6	1	**36.6**	(24)
Staff and contractor costs	**13.2**	10.1	31	**14.1**	(6)
Chemicals and fuel	**11.4**	12.0	(5)	**11.1**	3
Property tax and other	**5.6**	6.8	(18)	**7.4**	(24)
Operating expenses	**$ 103.8**	$ 103.3	0	**$ 105.5**	(2)
Operating expenses per boe	**$ 5.25**	$ 5.69	(8)	**$ 5.22**	1

	Year ended December 31,		
	2018	2017	% Change
Water trucking and disposal	**$ 159.3**	$ 159.9	0
Equipment rental and maintenance	**129.0**	98.5	31
Staff and contractor costs	**51.4**	39.4	30
Chemicals and fuel	**43.4**	38.8	12
Property tax and other	**25.2**	21.2	19
Operating expenses	**$ 408.3**	$ 357.8	14
Operating expenses per boe	**$ 5.52**	$ 5.60	(1)

Seven Generations' operating expenses primarily consist of the lifting costs associated with the Company's production from the Kakwa River Project which includes water trucking and disposal, equipment rentals, maintenance, chemicals, fuel, well site operation and supervision activities.

During the three months ended December 31, 2018, operating expenses were $5.25 per boe, compared to $5.69 per boe during the same period in 2017. The decline in operating costs was primarily due to lower trucking and disposal costs as a result of the Company's water handling initiatives. Declines in operating expense per boe were partially offset by higher staff and contractor costs associated with higher activity in the field to support the Company's production growth and ongoing operations.

For the year ended December 31, 2018, operating expenses increased by 14% compared to the prior year, primarily due to higher production volumes, increased field activity, higher well counts and facilities. On a per boe basis, operating expenses were mostly unchanged as higher equipment rental costs and higher staff and contractor costs to support new production were offset by decreased trucking and disposal costs. Operating expenses exceeded the original guidance of $4.50 – $5.00 primarily due to higher equipment rental costs relating to production testers, workover activities in the first half of 2018, higher staff and contractor costs due to increased activity in the field and lower water recycling than planned.

Compared to the third quarter of 2018, operating expenses were consistent during the fourth quarter of 2018 as lower equipment rental costs and workover activities were offset higher trucking, disposal, staff and contractor costs.

As part of the Company's ongoing cost reduction initiatives, Seven Generations began recycling its flow back water during the fourth quarter of 2017. The Company drilled its first water disposal well in 2017 with three additional disposal wells drilled in 2018. Seven Generations is building a water pipeline network to connect its injection wells that will enable efficient recycling of produced water back to the Company's development pads for use in hydraulic fracturing, which is expected to reduce water handling and disposal costs and reduce truck traffic. As an interim measure, a temporary water hub was built and put into use for water disposal, which resulted in higher temporary water handling costs during the fourth quarter of 2018.

Transportation, processing and other

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Pipeline tariffs	**$ 91.9**	$ 79.6	15	**$ 84.1**	9
Processing	**22.8**	25.3	(10)	**21.9**	4
Trucking and other	**25.2**	11.9	112	**18.2**	38
Transportation, processing and other [(1)]	**$ 139.9**	$ 116.8	20	**$ 124.2**	13
Transportation, processing and other per boe	**$ 7.07**	$ 6.43	10	**$ 6.14**	15

(1) Beginning in 2018, marketing income and transportation tolls in respect of marketing activities are no longer reflected within transportation and processing expenses. Refer to the "Marketing income" section of this MD&A for details regarding the Company's 2018 marketing activities.

	Year ended December 31,		
	2018	2017	% Change
Pipeline tariffs	**$ 325.9**	$ 258.3	26
Processing	**100.2**	80.7	24
Trucking and other	**65.7**	49.8	32
Transportation, processing and other [(1)]	**$ 491.8**	388.8	26
Transportation, processing and other per boe	**$ 6.65**	$ 6.09	9

(1) Beginning in 2018, marketing income and transportation tolls in respect of marketing activities are no longer reflected within transportation and processing expenses. Refer to the "Marketing income" section of this MD&A for details regarding the Company's 2018 marketing activities.

Seven Generations' transportation and processing expenses primarily relate to tolls on the Pembina Peace, NGTL, TCPL, NGPL and Alliance pipeline systems. The Company trucks a portion of its liquids volumes that are in excess of current pipeline transportation capacity or that are not tied directly into the Pembina system. The Company incurs processing and fractionation fees for capacity at Keyera, Plains and Pembina's facilities, including the Pembina Kakwa River Gas Plant under a natural gas processing agreement that was assumed as part of a major asset acquisition during the third quarter of 2016.

Starting in the third quarter of 2017, Seven Generations began delivering condensate volumes on Pembina's Phase III expansion pipeline. Combined with existing liquids take-away capacity, the Company delivers more than 80% of its condensate production to market via pipeline. Having secured NGPL pipeline capacity to the US Gulf Coast in 2016 and capacity to the Dawn, Ontario and northern California markets in 2017, Seven Generations' natural gas transportation capacity provides geographic diversification across North America including the US Midwest, US Pacific Northwest, Alberta and Eastern Canada as well as exposure to an LNG export facility off the US Gulf Coast in Louisiana.

Transportation and processing expenses per boe increased by 15% during the fourth quarter of 2018, compared to the third quarter of 2018, primarily due to an increase in trucked condensate volumes, higher-priced fuel costs and increased pipeline capacity related to the Gold Creek natural gas processing facility.

Transportation and processing expenses per boe for the three months ended December 31, 2018 were 10% higher compared to the same period in 2017, primarily due to higher trucking costs as a result of pipeline apportionments and higher condensate volumes, partially offset by lower processing costs attributable to lower unutilized demand charges.

During the year ended December 31, 2018, transportation, processing and other expenses per boe were 9% higher compared to the prior year, primarily due to additional pipeline capacity added in 2017 to accommodate the Company's growth in production. Processing, trucking and other costs per boe increased due to higher production resulting in more volumes trucked and processed through third party facilities and higher fuel gas costs associated with higher natural gas prices. On a per boe basis, transportation, processing and other expenses exceeded original guidance of $6.00 to $6.50 primarily due to higher condensate volumes being delivered by truck to third party facilities.

TAKE OR PAY COMMITMENTS

The following table outlines the take or pay obligations, on average over the next five years, under the Company's significant delivery and receipt transportation and processing agreements:

	Destination	2019	2020	2021	2022	2023
Transportation						
Condensate						
Pembina (mbbl/d)	**Edmonton, AB**	57	65	74	74	74
Natural gas						
Alliance (MMcf/d)	**US Midwest**	508	508	508	425	8
NGTL Receipt (MMcf/d)	**Western Canada**	279	444	545	567	567
NGTL Empress Delivery (MMcf/d)	**Eastern Canada**	80	80	80	67	–
TCPL Delivery (MMcf/d)		77	77	77	77	77
NGTL A/BC Delivery (MMcf/d)	**Pacific Northwest**	2	58	92	92	92
Foothills (BC) Delivery (MMcf/d)		2	58	91	91	91
GTN (MMcf/d)		11	58	92	92	92
NGPL (MMcf/d)	**US Gulf Coast**	100	100	100	100	100
NGLs						
Pembina (mbbl/d)	**Edmonton, AB**	27	30	33	33	33
Processing						
Natural gas (MMcf/d)		193	200	200	200	200
NGLs (mbbl/d)		38	38	38	38	38

The Company enters into transportation and processing commitments in order to secure capacity to markets considering future growth plans, capacity constraints within the area and expectations for future transportation and fractionation costs. Accordingly, capacity deficits may arise when comparing future reserve production estimates against such commitments. In comparing Seven Generations' commitments as at December 31, 2018 to the Company's expected future production of its proved reserves, based on the McDaniel Reserves Report, natural gas transportation commitments exceed production by approximately 455 Bcf over 2019 through 2022 with an associated cost totaling $154.6 million over this period.

The shortfall relative to the commitments described above reflects the future production of the Company's proved reserves development plan. The Company believes that holding these transportation commitments is an asset, and envisions a number of ways in which the indicated impacts can be partially or wholly reduced. First, the Company is able to accelerate development at its discretion, depending on, among other factors, financial capacity related to prevailing commodity prices and existing field processing capacity. Second, the Company is constantly testing new well designs with the aim of optimizing production. Third, to date the Company has been able to mitigate the majority of its unused take-or-pay capacity through marketing transactions and intends to continue to do so.

The Company is of the view that holding transportation commitments sized only to proved reserves would be insufficient relative to the production potential of its assets. The Company believes that the transportation commitments are more accurately sized to the potential recognized within proved plus probable reserves and best estimate contingent resources.

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%.

Steelhead LNG is considered a related party due to common directorships and certain significant shareholders, 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.

Depletion and depreciation

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Depletion and depreciation	**$ 234.3**	$ 209.2	12	**$ 228.6**	2
Depletion and depreciation per boe	**$ 11.85**	$ 11.53	3	**$ 11.30**	5

	Year ended December 31,		
	2018	2017	% Change
Depletion and depreciation	**$ 846.9**	$ 730.2	16
Depletion and depreciation per boe	**$ 11.46**	$ 11.43	–

During the three and 12 months ended December 31, 2018, depletion and depreciation increased by 12% and 16%, respectively, compared to the same periods in the prior year, primarily due to higher production in 2018 from new wells on stream.

Compared to the third quarter of 2018, depletion and depreciation increased by 2% during the fourth quarter of 2018, primarily due to a higher depletion rate from an increase in the Company's depletable base and the commencement of Gold Creek natural gas processing facility, partially offset by lower production during the fourth quarter.

LIQUIDITY AND CAPITAL RESOURCES

Available funding

	December 31, 2018	December 31, 2017
Current assets	**$ 423.3**	$ 523.0
Current liabilities	**(410.4)**	(394.8)
Working capital	**12.9**	128.2
Adjusted for:		
Current portion of risk management assets	**(83.9)**	(36.2)
Current portion of risk management liabilities	**16.9**	17.5
Adjusted working capital [(1)]	**(54.1)**	109.5
Credit Facility capacity [(2)]	**1,400.0**	1,357.9
Available funding [(1)]	**$ 1,345.9**	$ 1,467.4

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.
(2) As at December 31, 2017, $42.1 million in letters of credit were issued and outstanding under the Credit Facility. The letters of credit expired during the first quarter of 2018 and were reissued under a separate letter of credit facility.

As at December 31, 2018, Seven Generations had available funding of C$1.3 billion which primarily consisted of an undrawn covenant-based senior secured credit facility of C$1.4 billion (the "Credit Facility"), adjusted for working capital.

During the fourth quarter of 2018, the Credit Facility was amended to extend the maturity date until December 2023, provide greater flexibility under the negative and financial covenants in the agreement, and add an accordion feature to provide the Company with the ability to access an incremental $300.0 million of secured debt, subject to certain conditions.

In 2018, Seven Generations drew on its Credit Facility in order to fund its working capital requirements primarily for its capital investments. 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 and 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.

The following tables reconcile net income to adjusted EBITDA for periods indicated:

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Net income	**$ 245.4**	$ 83.1	195	**$ 196.4**	25
Finance expense	**30.8**	36.6	(16)	**32.7**	(6)
Current and deferred income taxes	**133.6**	38.2	250	**56.5**	136
Depletion and depreciation	**234.3**	209.2	12	**228.6**	2
Stock-based compensation	**5.2**	6.2	(16)	**4.6**	13
Unrealized loss (gain) on risk management contracts	**(395.3)**	55.6	nm	**68.4**	nm
Foreign exchange (gain) loss on senior notes and other	**109.5**	5.0	nm	**(38.0)**	nm
Adjusted EBITDA [(1)]	**$ 363.5**	$ 433.9	(16)	**$ 549.2**	(34)
Adjusted EBITDA [(1)] per boe	**$ 18.38**	$ 23.90	(23)	**$ 27.16**	(32)

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

	Year ended December 31,		
	2018	2017	% Change
Net income	**$ 439.9**	$ 562.5	(22)
Current and deferred income taxes	**233.0**	172.5	35
Depletion and depreciation	**846.9**	730.2	16
Finance expense	**127.3**	193.2	(34)
Stock-based compensation	**19.9**	28.5	(30)
Unrealized gain on risk management contracts	**(49.1)**	(186.7)	(74)
Foreign exchange (gain) loss on senior notes and other	**169.6**	(137.3)	nm
Loss on investment in associate	**–**	10.2	(100)
Adjusted EBITDA [(1)]	**$ 1,787.5**	$ 1,373.1	30
Adjusted EBITDA [(1)] per boe	**$ 24.18**	$ 21.50	12

(1) See "Non-IFRS Financial Measures" under Advisories and Guidance.

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).

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.

The Company manages its liquidity risk through its capital structure, cash flow forecasting and available credit. Seven Generations' 2019 capital budget of $1.25 billion are anticipated to be funded by the Company's cash flow. Seven Generations 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 1.3:1 for the 12 months ended December 31, 2018 (December 31, 2017 – 1.5).

RETURN ON CAPITAL INVESTMENTS

The Company continued to deliver strong returns from the Kakwa River Project, generating a ROCE of 12.9% during the year ended December 31, 2018 (December 31, 2017 – 9.8%). Seven Generations' CROIC for the year ended December 31, 2018 was 19.1% compared to 17.9% in the prior year.

The following table summarizes the calculation of the Company's ROCE and CROIC for the periods indicated:

	12 months ended December 31,			12 months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Average total assets	**$ 7,707.0**	$ 6,948.4	11	**$ 7,665.7**	1
Less: average current liabilities	**(402.6)**	(355.5)	13	**(1,003.8)**	(60)
Average net assets	**7,304.4**	6,592.9	11	**6,661.9**	10
Adjusted EBIT (1)(2)	**$ 940.6**	$ 642.9	46	**$ 1,036.5**	(9)
ROCE (1)(2)	**12.9%**	9.8%	32	**15.6%**	(17)
Average oil and gas assets	**$ 7,192.7**	$ 6,241.6	15	**$ 7,213.2**	0
Add: Accumulated depletion and depreciation	**2,182.3**	1,421.1	54	**1,865.2**	17
Average gross oil and gas assets	**9,375.0**	7,662.7	22	**9,078.4**	3
Adjusted EBITDA (1)(2)	**$ 1,787.5**	$ 1,373.1	30	**$ 1,858.4**	(4)
CROIC (1)(2)	**19.1%**	17.9%	7	**20.5%**	(7)

(1) Refer to "Non-IFRS Financial Measures" under Advisories and Guidance.
(2) Adjusted EBITDA and adjusted EBIT are based on the 12-month trailing figures from the dates indicated. Average net assets and average gross oil and gas assets, have been calculated using opening and closing balances of the 12-month trailing period.

ROCE is determined by dividing Seven Generations' adjusted EBIT by the average carrying value of the Company's net assets. For the purposes of the calculation, net assets are defined as total assets less current liabilities. Adjusted EBIT is defined as adjusted EBITDA less depletion and depreciation. CROIC is calculated by dividing adjusted EBITDA by the average carrying value of the Company's oil and natural gas assets, excluding accumulated depletion and depreciation.

RETURN OF CAPITAL

In the fourth quarter of 2018, Seven Generations' initiated a normal course issuer bid ("NCIB") in response to its higher than expected adjusted funds flow and management's assessment of the Company's intrinsic value relative to its current trading value. The Company believes that an NCIB can enhance adjusted funds flow on a per-share basis.

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.

OUTSTANDING COMMON SHARES

Seven Generations is authorized to issue, among other classes of shares, an unlimited number of class A voting common shares without nominal or par value. The following table summarizes the number of common shares and convertible securities outstanding as at February 18, 2019:

(millions)	February 18, 2019
Common shares issued and outstanding	**353.0**
Convertible securities:	
Stock options	**11.0**
Performance warrants	**2.9**
Performance share units ("PSUs")	**0.7**
Restricted share units ("RSUs")	**0.1**
Deferred share units ("DSUs")	**0.3**

During the year ended December 31, 2018, total outstanding equity compensation units declined by 6.1 million units primarily due to the exercise of 5.0 million performance warrants, 2.2 million stock options and 0.4 million PSUs and RSUs, partially offset by the issuance of 1.5 million new equity unit grants net of forfeitures.

The vesting of PSUs is 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. In calculating stock-based compensation for the PSUs, the Company has used an adjustment factor of 1.0, which assumes that the Company will be within the 50th percentile of its relative peer group based on total shareholder return at the respective vesting dates. As at December 31, 2018, assuming the highest performance multiplier is available to all PSU tranches, the maximum number of common shares issuable pursuant to the outstanding PSUs is 1.1 million.

For additional information regarding these compensation plans, refer to Seven Generations' consolidated financial statements for the year ended December 31, 2018 and most recent Management Information Circular, which are available on SEDAR.

INDEBTEDNESS AND MARKET CAPITALIZATION

	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$700 million 5.375% senior notes, due September 30, 2025	**955.0**	878.2
Senior notes principal	**2,148.7**	1,975.9
Adjusted working capital (1)	**54.1**	(109.5)
Net debt	**2,202.8**	1,866.4
Market capitalization (2)	**3,928.9**	6,306.6
Total capitalization	**$ 6,131.7**	$ 8,173.0

(1) Refer to "Non-IFRS Financial Measures" under Advisories and Guidance.
(2) 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).

The Company closed the fourth quarter of 2018 with available funding of $1.3 billion (December 31, 2017 – $1.5 billion) and net debt of $2.2 billion (December 31, 2017 – $1.9 billion).

Seven Generations currently holds an option to redeem the 5.375% Notes on or after September 30, 2020 at a redemption price of 104.031% of the debt principal. The cost of the prepayment option declines at each anniversary until reaching par by September 30, 2023. Prior to September 30, 2020, the Company may 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 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 to September 20, 2020.

The Company also currently holds prepayment options on its 6.75% Notes and 6.875% Notes which carry a weighted average cost of 105.2% of the debt principal as at December 31, 2018. The cost of the prepayment options declines each year on specified anniversary dates until reaching par in 2021.

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.

Refer to the Company's consolidated financial statements for the year ended December 31, 2018 and the AIF dated February 27, 2019, which is available on SEDAR for further details. The indentures under which the senior notes were issued are also available on SEDAR.

FINANCE EXPENSE

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Interest on senior notes	**$ 32.4**	$ 34.5	(6)	**$ 31.7**	2
Revolving credit facility fees and bank fees	**1.5**	1.2	25	**2.1**	(29)
Accretion	**1.2**	1.1	9	**1.1**	9
Amortization of premiums and debt issuance costs	**0.6**	0.4	50	**0.8**	(25)
Premium on redemption of senior notes	**–**	0.2	(100)	**–**	–
Finance costs	**35.7**	37.4	(5)	**35.7**	–
Capitalized borrowing costs	**(4.9)**	(0.8)	nm	**(3.0)**	63
Finance expense	**$ 30.8**	$ 36.6	(16)	**$ 32.7**	(6)
Finance expense per boe	**$ 1.56**	$ 2.02	(23)	**$ 1.62**	(4)

	Year ended December 31,		
	2018	2017	% Change
Interest on senior notes	**$ 126.0**	$ 149.3	(16)
Revolving credit facility fees and bank fees	**6.6**	5.4	22
Accretion	**4.5**	3.8	18
Amortization of premiums and debt issuance costs	**2.2**	(0.6)	nm
Premium on redemption of senior notes	**–**	37.2	(100)
Finance costs	**139.3**	195.1	(29)
Capitalized borrowing costs	**(12.0)**	(1.9)	nm
Finance expense	**$ 127.3**	$ 193.2	(34)
Finance expense per boe	**$ 1.72**	$ 3.02	(43)

The Company's finance expense primarily relates to interest on its senior notes with an aggregate combined principal amount of US$1.575 billion. The Company also incurs interest and standby fees on its $1.4 billion Credit Facility. Accretion relates to the amortization of the discount factor applied to the Company's decommissioning obligations. Seven Generations also amortizes debt issuance costs and debt premiums over the term of its debt instruments.

Compared to the same periods in the prior year, financing costs declined by 16% and 34% during the three and 12 months ended December 31, 2018, respectively. The declines were primarily due to lower interest expense on the 5.375% senior notes that were issued on October 2, 2017 to replace the 8.25% US$700.0 million senior notes. The Company also incurred a $37.2 million premium on the redemption of senior notes as a part of the refinancing.

Capitalized borrowing costs in 2017 and 2018 relate to the construction of the natural gas processing facility in the Gold Creek area, the Company's third wholly-owned natural gas processing plant in the Kakwa River Project. The processing facility became operational late in the fourth quarter of 2018, at which time the Company discontinued capitalization of the borrowing costs associated with facility construction.

FOREIGN EXCHANGE

	Three months ended December 31,		Three months ended September 30,
	2018	2017	2018
Foreign exchange gain (loss) on US senior notes	**$ (109.6)**	$ (10.2)	$ 38.5
Unrealized foreign exchange gain (loss) on US working capital	**0.1**	4.6	(0.5)
Realized foreign exchange gain (loss) on US transactions	**5.2**	(3.6)	(2.8)
Net foreign exchange gain (loss)	**$ (104.3)**	$ (9.2)	$ 35.2

	Year ended December 31,	
	2018	2017
Foreign exchange gain (loss) on US senior notes	**$ (172.0)**	$ 140.0
Unrealized foreign exchange gain (loss) on US working capital	**2.4**	(2.7)
Realized foreign exchange gain (loss) on US transactions	**3.3**	(7.7)
Net foreign exchange gain (loss)	**$ (166.3)**	$ 129.6

Seven Generations' foreign exchange gains and losses are primarily related to the Company's US dollar denominated senior notes which are translated into Canadian dollars at the end of each reporting period. 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) relative to the amortized cost of the notes.

During the three and 12 months ended December 31, 2018, Seven Generations recognized an unrealized foreign exchange loss on its senior notes of $109.6 million and $172.0 million, respectively. The declines were primarily due to a weakening of the Canadian dollar during the periods from 1.294:1 to 1.364:1 (CAD:USD) and from 1.255:1 to 1.364:1 (CAD:USD).

For the year ended December 31, 2017, the Company recognized a net foreign exchange gain of $140.0 million on its senior notes due to an increase in the value of the Canadian dollar from 1.344:1 to 1.255:1 (CAD:USD).

The Company recognized a foreign exchange gain of $38.5 million during the third quarter of 2018 primarily due to an increase in the value of the Canadian dollar from 1.317:1 to 1.294:1 (CAD:USD).

Realized foreign exchange losses on USD working capital and USD transactions primarily relates to the conversion of US dollars to Canadian dollars for the settlement of transactions denominated in US dollars, primarily consisting of US liquids and natural gas sales, interest payments and pipeline tolls.

Contractual obligations

The following table summarizes the Company's estimated future minimum contractual obligations deemed to be significant, 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.

See the "Transportation, processing and other expenses" discussion under Operating Results in this MD&A for additional information with respect to the Company's transportation and processing commitments.

Off-balance sheet arrangements

The Company has certain fixed lease arrangements which were entered into in the normal course of operations. All material leases are classified as operating leases and the lease payments are included in operating expenses or G&A expenses as incurred, depending on the nature of the lease. These minimum commitments are disclosed under "Contractual obligations" above. No asset or liability has been recorded for these leases on the balance sheet at December 31, 2018 or December 31, 2017.

Following the adoption of IFRS 16 Leases, the Company anticipates that its long-term commitments with respect to corporate office lease arrangements will require recognition of a right of use asset and corresponding lease liability on the balance sheet. Refer to Advisories and Guidance for further details.

The Company enters into physical delivery contracts in its various gas markets 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. These instruments are not used for trading or speculative purposes. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The 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

OTHER CORPORATE EXPENSES

General and administrative (G&A)

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	2018	% Change
Personnel	$ 10.6	$ 7.9	34	$ 9.7	9
Office costs, travel and other	5.2	4.1	27	2.4	117
Professional fees	0.7	1.0	(30)	0.7	–
Information technology costs	2.4	0.6	nm	1.5	60
Gross G&A expenses	18.9	13.6	39	14.3	32
Capitalized salaries and benefits	(0.9)	(1.8)	(50)	(0.9)	–
G&A expenses	$ 18.0	$ 11.8	53	$ 13.4	34
G&A per boe	$ 0.91	$ 0.65	40	$ 0.66	38

	Year ended December 31,		
	2018	2017	% Change
Personnel	**$ 36.0**	$ 34.1	6
Office costs, travel and other	**13.8**	13.4	3
Professional fees	**3.4**	4.1	(17)
Information technology costs	**6.3**	4.5	40
Gross G&A expenses	**59.5**	56.1	6
Capitalized salaries and benefits	**(3.3)**	(10.1)	(67)
G&A expenses	**$ 56.2**	$ 46.0	22
G&A per boe	**$ 0.76**	$ 0.72	6

G&A expenses primarily consist of the Company's overhead costs incurred to support the ongoing operations of the Kakwa River Project. Capitalized salaries and benefits are attributable to personnel involved with the development of the Kakwa River Project.

Seven Generations' G&A expenses increased by 53% and 22% during the three and 12 months ended December 31, 2018, respectively, compared to the same periods in the prior year. The increases were primarily due to higher staff counts and software costs necessary to support the growth and ongoing operations at the Kakwa River Project.

Compared to the third quarter of 2018, gross G&A expense increased by 32% during the fourth quarter of 2018 primarily due to higher software costs, office costs and corporate initiatives.

On a per boe basis, G&A expenses exceeded original guidance of $0.65 to $0.75 primarily due to a lower capitalization rate and higher consulting and software costs.

Stock-based compensation

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Gross stock-based compensation	**$ 6.9**	$ 8.4	(18)	**$ 6.2**	11
Capitalized stock-based compensation	**(1.7)**	(2.2)	(23)	**(1.6)**	6
Stock-based compensation expense	**$ 5.2**	$ 6.2	(16)	**$ 4.6**	13
Stock-based compensation per boe	**$ 0.26**	$ 0.34	(24)	**$ 0.23**	13

	Year ended December 31,		
	2018	2017	% Change
Gross stock-based compensation	**$ 26.8**	$ 40.3	(33)
Capitalized stock-based compensation	**(6.9)**	(11.8)	(42)
Stock-based compensation expense	**$ 19.9**	$ 28.5	(30)
Stock-based compensation per boe	**$ 0.27**	$ 0.45	(40)

The Company's current stock-based compensation plans consist of stock options, PSUs, RSUs and DSUs that are granted primarily to employees, officers and directors of Seven Generations in respect of long-term remuneration incentives. Capitalized stock-based compensation is attributable to personnel involved with the development of the Kakwa River Project.

The fair value of stock-based compensation awards are estimated using a Black-Scholes pricing model that can include assumptions for expected life, stock price volatility, probability of certain market-based vesting conditions and forfeiture rates. A summary of these assumptions can be found in Notes 3 and 22 of the consolidated financial statements for the year ended December 31, 2018.

Stock-based compensation expense was $5.2 million and $19.9 million during the three and 12 months ended December 31, 2018, compared to $6.2 million and $28.5 million during the three and 12 months ended December 31, 2017. The decline in equity compensation expense during the periods was primarily due to forfeitures and lower fair values on new grants.

Income tax expense (recovery)

Seven Generations' income taxes primarily relate to deferred income taxes recognized in respect of the Company's operating income, which is anticipated under the Income Tax Act (Canada). Seven Generations also incurs current income tax expenses and recoveries relating to foreign sourced income earned from the Company's US subsidiary.

	Three months ended December 31,			Three months ended September 30,	
	2018	2017	% Change	**2018**	% Change
Current income tax expense (recovery)	**$ 0.3**	$ 0.5	(40)	**$ (1.7)**	nm
Deferred income tax expense	**133.3**	37.7	254	**58.2**	129
Income tax expense	**$ 133.6**	$ 38.2	214	**$ 56.5**	136

The following table reconciles the Company's expected income tax expense calculated at the Canadian statutory rate of 27% (2017 – 27%) for the periods indicated:

	Three months ended December 31,		Three months ended September 30,
	2018	2017	2016
Net income before income taxes	**$ 379.0**	$ 121.8	$ 252.9
Statutory income tax rate	**27.0%**	27%	27%
Expected income tax expense	**102.3**	32.9	68.3
Adjustments related to the following:			
Non-deductible portion of foreign exchange (gains) losses	**14.8**	1.3	(4.8)
Change in unrecognized deferred tax assets	**14.8**	1.6	(5.2)
Stock-based compensation	**1.5**	1.8	1.4
Change in tax rates and other	**0.2**	0.6	(3.2)
Income tax expense	**$ 133.6**	$ 38.2	$ 56.5

	Year ended December 31,		
	2018	2017	% Change
Current income tax expense (recovery)	**$ (0.4)**	$ 2.9	nm
Deferred income tax expense	**233.4**	169.6	38
Income tax expense	**$ 233.0**	$ 172.5	35

	Year ended December 31,	
	2018	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 (gains) losses	**23.3**	(18.9)
Change in unrecognized deferred tax assets	**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.

SELECTED QUARTERLY INFORMATION

The following table summarizes selected consolidated financial information for the Company for the preceding 12 quarters:

($ millions, except per share amounts, production and unit prices)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	**YE 2018**
FINANCIAL					
Cash provided by operating activities	$ 410.1	$ 536.9	$ 425.2	$ 424.1	**$ 1,796.3**
Cash provided by operating activities per boe	20.72	26.55	24.97	25.11	**24.29**
Per share – diluted	1.13	1.47	1.17	1.17	**4.94**
Adjusted funds flow (1)	337.4	522.0	434.0	380.8	**1,674.2**
Adjusted funds flow per boe (2)	17.05	25.81	25.49	22.54	**22.64**
Per share – diluted	0.93	1.43	1.19	1.05	**4.60**
Revenues	1,146.8	809.0	560.4	653.7	**3,169.9**
Net income (loss)	245.4	196.4	(24.6)	22.7	**439.9**
Per share – diluted	0.68	0.53	(0.07)	0.06	**1.21**
Operating income (2)	66.3	208.3	169.6	129.4	**573.6**
Per share – diluted	0.18	0.57	0.47	0.36	**1.58**
Capital investments:					
Drilling and completions	148.9	232.6	335.9	319.6	**1,037.0**
Facilities and infrastructure	67.7	90.8	179.3	207.0	**544.8**
Land and other	45.7	34.8	47.4	56.0	**183.9**
Total capital investments	262.3	358.2	562.6	582.6	**1,765.7**
Repurchases of common shares	104.2	–	–	–	**104.2**
Total assets	8,119.5	8,074.0	8,028.4	7,620.3	**8,119.5**
Available funding (2)	1,345.9	1,379.4	1,210.3	1,312.6	**1,345.9**
Net debt (1)	2,202.8	2,059.5	2,263.6	2,118.2	**2,202.8**
Senior notes	2,129.8	2,020.3	2,054.3	2,011.1	**2,129.8**
Credit Facility	$ –	$ –	$ 131.7	$ –	**$ –**
OPERATING					
Sales volumes					
Condensate (mbbl/d) (3)	81.8	87.3	69.0	67.3	**76.4**
Natural gas (MMcf/d)	515.4	511.3	461.3	473.3	**490.5**
NGLs (mbbl/d) (3)	47.4	47.3	41.2	41.5	**44.4**
Total (mboe/d)	215.1	219.8	187.1	187.7	**202.6**
Realized prices					
Condensate ($/bbl) (3)	$ 53.57	$ 79.26	$ 81.67	$ 73.39	**$ 71.63**
Natural gas ($/Mcf)	4.77	3.65	3.79	3.66	**3.98**
NGLs ($/bbl) (3)	8.44	14.02	13.39	13.33	**12.21**
Liquids and natural gas revenues	33.66	42.99	42.42	38.51	**39.33**
Royalties	(0.99)	(2.20)	(0.96)	(1.12)	**(1.34)**
Operating expenses	(5.25)	(5.22)	(6.00)	(5.73)	**(5.52)**
Transportation, processing and other	(7.07)	(6.14)	(6.93)	(6.54)	**(6.65)**
Operating netback before the following	20.35	29.43	28.53	25.12	**25.82**
Realized hedging gain (loss)	(1.58)	(1.79)	(1.04)	(0.78)	**(1.33)**
Marketing income (4)(2)	0.20	0.28	0.53	0.60	**0.39**
Operating netback (2)	$ 18.97	$ 27.92	$ 28.02	$ 24.94	**$ 24.88**

(1) Refer to Note 17 of the consolidated financial statements for further details.
(2) See "Non-IFRS Financial Measures" under Advisories and Guidance.
(3) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume).
(4) Marketing income is comprised of all purchases, resale revenues and applicable transportation tariffs in respect of condensate and natural gas marketing activities and have been reclassified out of liquids and natural gas sales, product purchases, and transportation, processing and other for all periods presented within this MD&A.

SELECTED QUARTERLY INFORMATION – CONTINUED

($ millions, except per share amounts, production and unit prices)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	YE 2017
FINANCIAL					
Cash provided by operating activities	$ 310.3	$ 314.1	$ 193.9	$ 336.0	$ 1,154.3
Cash provided by operating activities per boe	17.09	18.57	12.90	24.38	18.07
Per share – diluted	0.85	0.86	0.53	0.93	3.17
Adjusted funds flow (1)	403.8	284.3	268.1	272.1	1,228.3
Adjusted funds flow per boe (2)	22.25	16.80	17.83	19.75	19.23
Per share – diluted	1.11	0.78	0.73	0.75	3.37
Revenues	652.3	563.7	608.8	629.8	2,454.6
Net income	83.1	85.7	178.1	215.6	562.5
Per share – diluted	0.23	0.24	0.49	0.59	1.54
Operating income (2)	128.6	63.4	59.5	74.8	326.3
Per share – diluted	0.35	0.17	0.16	0.21	0.90
Capital investments:					
Drilling and completions	167.4	252.8	342.3	259.4	1,021.9
Facilities and infrastructure	115.0	176.5	153.9	85.2	530.6
Land and other	39.9	25.0	16.3	17.7	98.9
Total capital investments	322.3	454.3	512.5	362.3	1,651.4
Total assets	7,294.5	7,257.4	7,172.0	6,851.0	7,294.5
Available funding (2)	1,467.4	1,419.0	1,587.1	1,540.9	1,467.4
Net debt (1)	1,866.4	1,925.0	1,797.2	1,594.1	1,866.4
Senior notes	$ 1,956.4	$ 1,998.8	$ 2,041.9	$ 2,092.1	$ 1,956.4
OPERATING					
Sales volumes					
Condensate (mbbl/d) (3)	70.0	64.5	59.0	51.6	61.3
Natural gas (MMcf/d)	493.4	453.2	409.6	384.5	435.5
NGLs (mbbl/d) (3)	45.1	43.9	38.0	37.4	41.1
Total (mboe/d)	197.3	183.9	165.2	153.1	175.0
Realized prices					
Condensate ($/bbl) (3)	$ 67.95	$ 54.95	$ 58.28	$ 63.84	$ 61.28
Natural gas ($/Mcf)	3.53	3.46	4.09	4.36	3.84
NGLs ($/bbl) (3)	18.30	15.17	11.45	12.45	14.56
Liquids and natural gas revenues	37.13	31.43	33.59	35.52	34.45
Royalties	(1.18)	(0.86)	(0.62)	(1.22)	(0.97)
Operating expenses	(5.69)	(5.43)	(6.25)	(4.99)	(5.60)
Transportation, processing and other	(6.43)	(6.47)	(5.87)	(5.39)	(6.09)
Operating netback before the following	23.83	18.67	20.85	23.92	21.79
Realized hedging gain (loss)	0.38	0.84	0.12	(0.52)	0.25
Marketing income (4)(2)	0.65	0.27	0.42	0.17	0.39
Operating netback (2)	$ 24.86	$ 19.78	$ 21.39	$ 23.57	$ 22.43

(1) Refer to Note 17 of the consolidated financial statements for further details.
(2) See “Non-IFRS Financial Measures” under Advisories and Guidance.
(3) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). 2017 and 2016 liquids and natural gas sales have been adjusted to conform to this current period presentation.
(4) Marketing income is comprised of all purchases, resale revenues and applicable transportation tariffs in respect of condensate and natural gas marketing activities and have been reclassified out of liquids and natural gas sales, product purchases, and transportation, processing and other for all periods presented within this MD&A.

SELECTED QUARTERLY INFORMATION – CONTINUED

($ millions, except per share amounts, production and unit prices)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	YE 2016
FINANCIAL					
Cash provided by operating activities	$ 178.6	$ 169.3	$ 152.2	$ 144.5	$ 644.6
Cash provided by operating activities per boe	14.67	13.88	14.25	17.94	14.95
Per share – diluted	0.49	0.51	0.51	0.52	2.02
Adjusted funds flow (1)	219.7	212.1	197.6	110.6	740.0
Adjusted funds flow per boe (2)	18.05	17.39	18.50	13.73	17.16
Per share – diluted	0.60	0.64	0.66	0.40	2.32
Revenues	262.2	373.3	172.3	256.3	1,064.1
Net income (loss)	(104.9)	(2.2)	(57.5)	138.4	(26.2)
Per share – diluted	(0.30)	(0.01)	(0.21)	0.50	(0.09)
Operating income (1)	47.6	47.7	56.0	9.3	160.6
Per share – diluted	0.13	0.15	0.19	0.03	0.50
Capital investments:					
Drilling and completions	186.7	133.4	125.0	152.6	597.7
Facilities and infrastructure	78.5	62.6	88.1	107.9	337.1
Land and other	18.6	11.7	6.2	6.7	43.2
Total capital investments (before acquisitions)	283.8	207.7	219.3	267.2	978.0
Total assets	6,602.4	6,401.2	4,004.5	4,126.2	6,602.4
Available funding (2)	1,626.7	1,673.4	1,246.1	1,260.4	1,626.7
Net debt (1)	1,528.8	1,436.6	1,020.1	1,013.4	1,528.8
Senior notes	$ 2,111.9	$ 2,063.0	$ 1,443.9	$ 1,451.5	$ 2,111.9
OPERATING					
Sales volumes					
Condensate (mbbl/d) (3)	47.2	50.6	42.5	31.0	42.9
Natural gas (MMcf/d)	334.0	314.0	290.0	225.0	291.0
NGLs (mbbl/d) (3)	29.4	29.7	26.5	20.0	26.4
Total (mboe/d)	132.3	132.6	117.4	88.5	117.8
Realized prices					
Condensate ($/bbl) (3)	$ 57.03	$ 49.31	$ 51.68	$ 39.56	$ 50.35
Natural gas ($/Mcf)	4.15	3.92	2.62	3.24	3.53
NGLs ($/bbl) (3)	12.81	6.84	7.59	5.61	8.32
Liquids and natural gas revenues	33.67	29.65	26.91	23.33	28.92
Royalty expense (recovery)	(0.98)	(0.03)	1.74	(1.61)	(0.16)
Operating expenses	(4.86)	(3.85)	(4.19)	(3.85)	(4.22)
Transportation, processing and other	(6.33)	(6.39)	(5.38)	(4.95)	(5.85)
Operating netback before the following	21.50	19.38	19.08	12.92	18.69
Realized hedging gain	0.48	1.57	2.76	4.51	2.11
Marketing income (4)(2)	0.41	0.26	0.12	0.52	0.32
Operating netback (2)	$ 22.39	$ 21.21	$ 21.96	$ 17.95	$ 21.12

(1) Refer to Note 17 of the consolidated financial statements for further details.
(2) See "Non-IFRS Financial Measures" under Advisories and Guidance.
(3) Beginning in 2018, Seven Generations began presenting C5+ in the NGL mix as a condensate volume (previously reported as an NGL volume). 2017 and 2016 liquids and natural gas sales have been adjusted to conform to this current period presentation.
(4) Marketing income is comprised of all purchases, resale revenues and applicable transportation tariffs in respect of condensate and natural gas marketing activities and have been reclassified out of liquids and natural gas sales, product purchases, and transportation, processing and other for all periods presented within this MD&A.

Total capital investments have fluctuated primarily due to the timing of investments in drilling and infrastructure development. The Company's balance sheet has remained strong, with total assets continuing to increase proportionately higher in comparison to debt outstanding.

The Company's total production has steadily increased over the past 12 quarters due to a successful drilling program and added production from the significant asset acquisition completed in 2016. From 2016 to 2018, the Company has brought over 250 wells on production.

Revenues have steadily increased over the past 12 quarters primarily due to the growth in the Company's production volumes and improvements in commodity prices. The Company has recognized various interquartile fluctuations in revenue over the past three years primarily due to realized and unrealized gains and losses on the Company's risk management contracts. Volatility in North American crude oil and natural gas prices has continued to drive substantial changes in the value of the Company's commodity derivative instruments. Seven Generations continues to execute its routine risk management program which is primarily designed to reduce revenue and cash flow volatility, secure funding for a portion of the Company's capital investment program and to help ensure there are sufficient cash flows to service debt obligations. For additional information regarding the Company's 2017 and 2018 revenues, refer to the Operating Results and Risk Management Contracts sections in this MD&A. Additional information regarding 2016 revenues can be found in the Company's previous MD&As.

The Company has continued to see positive adjusted funds flow despite a volatile commodity price environment. Growth in adjusted funds flow has been primarily due to improved commodity prices and higher production.

Changes to net income (loss) in comparative quarterly periods from 2016 to 2018 is attributable to variations in operating income as the Company's operations have grown, as well as unrealized hedging fluctuations and the impact of foreign exchange changes on the US dollar denominated senior notes.

ADVISORIES AND GUIDANCE

Critical accounting policies and estimates

The preparation of the consolidated financial statements in accordance with IFRS often requires management to make significant judgments, estimates and assumptions that affect the Company's balance sheet and operating results. A summary of the Company's significant accounting policies, estimates and assumptions can be found in Notes 3 – 5 of the consolidated financial statements for the year ended December 31, 2018.

The consolidated financial statements follow the same accounting policies as the consolidated financial statements for the years ended December 31, 2017 and 2016, other than for the retrospective adoption of two new IFRS accounting policies on January 1, 2018 which were IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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.

IFRS 9 – FINANCIAL INSTRUMENTS

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.

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.

The changes to the Company's critical accounting policies and estimates during the year ended December 31, 2018 are disclosed the consolidated financial statements and in the "Change in Presentation of Operating Results" sections of this MD&A.

The following IFRS accounting standard will be adopted by Seven Generations on January 1, 2019:

IFRS 16 – LEASES

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.

Related party transactions

Seven Generations' related parties primarily consisted of the Company's directors and officers. Steelhead LNG is considered a related party due to common directorships and certain significant shareholders, including Azimuth Capital Management who has a majority ownership in Steelhead LNG and has professional ties with four of Seven Generations directors. Refer to Notes 9 and 24 of the consolidated financial statements for further details.

Non-IFRS financial measures

This document includes certain meaningful performance measures commonly used in the oil and natural gas industry that are not defined under IFRS, including "operating income", "operating netback", "adjusted funds flow per boe", "marketing income", "adjusted EBITDA", "adjusted EBIT", "cash return on invested capital" or "CROIC", "ROCE", "adjusted working capital" and "available funding". The performance measures presented in this document should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Company's audited consolidated financial statements. Readers are cautioned that the non-IFRS measures do not have any standardized meaning and should not be used to make comparisons between Seven Generations and other companies without also taking into account any differences in the method by which the calculations are prepared.

During the year ended December 31, 2018, the Company renamed 'funds from operations' and 'corporate netback' to adjusted funds flow and adjusted funds flow per boe, respectively. Seven Generations' net debt and adjusted funds flow measures have also been included within its consolidated financial statements under Note 17 Capital Management in order to provide users with a better understanding of the key metrics utilized by the Company to manage its capital and liquidity and assess performance. Accordingly, the net debt and adjusted funds flow performance measures are no longer presented as non-IFRS measures in this document. Refer to Seven Generations' consolidated financial statements for the year ended December 31, 2018 for further details.

OPERATING INCOME

“Operating income” is defined as net income, excluding unrealized gains and losses on financial instruments, realized foreign exchange gains and losses on debt repayments, accrued redemption premiums on senior notes, gains and losses on disposition of assets, transaction costs, net losses on investments in associates and the respective income tax impact of those adjustments. Operating income is used by Seven Generations and others as a performance measure that provides comparability of financial results between periods of the Company’s ongoing operations at the Kakwa River Project, by excluding highly variable and non-operating related items such as unrealized gains or losses on financial instruments. Refer to the “Operational and Financial Highlights” section in this MD&A for further details.

OPERATING NETBACK AND ADJUSTED FUNDS FLOW PER BOE

“Operating netback” is calculated on a per boe basis and is determined by deducting royalties, operating, transportation, processing and other expenses from oil and natural gas sales and marketing income after adjusting for realized hedging gains or losses. “Adjusted funds flow per boe” reflects adjusted funds flow on a per boe basis, which is calculated by dividing adjusted funds flow by total production on a boe basis. Adjusted funds flow per boe can also be determined by deducting G&A, financing and other cash operating related overhead expenses on a per boe basis from the operating netback. Refer to the “Operational and Financial Highlights” section in this MD&A for further details.

Operating netback and adjusted funds flow per boe are utilized by Seven Generations and others to analyze the profitability and performance of the Company’s liquids and natural gas assets by isolating the impact of changes in production volumes.

MARKETING INCOME

“Marketing income” is calculated as liquids and natural gas sales in respect of products that were purchased for resale plus third party marketing income, net of the cost of the product purchases and related transportation, processing and other expenses. This measure allows management and others to evaluate the Company’s incremental profits earned in respect of in-house marketing activities by excluding the operating results attributable to production from the Kakwa River Project. Users of the MD&A can reconcile the operating results of the Kakwa River Project to the income statement in Seven Generations’ financial statements by adding the components of marketing income to their respective accounts. Refer to the “Operational and Financial Highlights” and “Change in Presentation of Operating Results” sections in this MD&A for further details.

ADJUSTED EBITDA AND ADJUSTED EBIT

Adjusted EBITDA is calculated as net income (loss) before interest, income taxes, depletion, depreciation and amortization, adjusted for certain non-cash and extraordinary items primarily relating to unrealized gains and losses on financial instruments. This measure is consistent with the adjusted EBITDA formula prescribed under the Company’s Credit Facility and allows management and others to evaluate the impact of the Company’s earnings on its financial covenants. Adjusted EBIT is calculated as adjusted EBITDA less depletion and depreciation. Adjusted EBIT is used to calculate “ROCE”. Also refer to the “Liquidity and Capital Resources” section in this MD&A for further details.

CROIC & ROCE

Cash return on invested capital (“CROIC”) is determined by dividing adjusted EBITDA by the average gross carrying value of Company’s oil and natural assets. For the purposes of the CROIC calculation, the average carrying value of the Company’s oil and natural gas assets, as taken from the consolidated balance sheet, excludes accumulated depletion and depreciation.

Return on capital employed (“ROCE”) is determined by dividing Adjusted EBIT by the average carrying value of Company’s net assets. For the purposes of the ROCE calculation, net assets are defined as total assets on the Company’s consolidated balance sheet less current liabilities.

The CROIC and ROCE measures allow management and others to evaluate the Company’s capital spending efficiency and ability to generate profitable returns by measuring earnings relative to the capital employed in the business. Refer to the “Liquidity and Capital Resources” section in this MD&A for additional information.

ADJUSTED WORKING CAPITAL AND AVAILABLE FUNDING

"Available funding" is comprised of adjusted working capital and undrawn portions of the Company's Credit Facility. "Adjusted working capital" is comprised of current assets less current liabilities on the Company's balance sheet and excludes the current portion of risk management contracts, Credit Facility draws and the senior unsecured notes. The available funding measure allows management and other users to evaluate the Company's short term liquidity. Also refer to the "Liquidity and Capital Resources" section in this MD&A for further details.

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

Part 1 of National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings defines disclosure controls and procedures ("DC&P") as "controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure".

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, DC&Ps that provide reasonable assurance that (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO are required to cause the Company to disclose any change in the Company's internal controls over financial reporting that occurred during the most recent interim period, October 1, 2018 to December 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No changes in internal controls over financial reporting were identified during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Seven Generations conducted an evaluation of the operating effectiveness of the Company's DC&P and internal controls over financial reporting as at December 31, 2018. Based on this evaluation, the officers concluded that as of December 31, 2018, Seven Generations maintained effective DC&P and internal controls over financial reporting.

RISK FACTORS

The acquisition, exploration and development of oil and natural gas properties and the production, transportation and marketing of oil and natural gas involves many risks, which may influence the ultimate success of the Company. While the management of Seven Generations realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks. These risks include, but are not limited to the following:

- volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto;
- general economic, business and industry conditions;
- variance of the Company's actual capital costs, operating costs and economic returns from those anticipated;
- the ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms;
- risks related to the exploration, development and production of oil and natural gas reserves and resources;
- negative public perception of oil sands development, oil and natural gas development and transportation, hydraulic fracturing and fossil fuels;
- actions by governmental authorities, including changes in government regulation, royalties and taxation;

- potential legislative and regulatory changes;
- the rescission, or amendment to the conditions, of groundwater licenses of the Company;
- management of the Company's growth;
- the ability to successfully identify and make attractive acquisitions, joint ventures or investments, or successfully integrate future acquisitions or businesses;
- the availability, cost or shortage of rigs, equipment, raw materials, supplies or qualified personnel;
- adoption or modification of climate change legislation by governments;
- the absence or loss of key employees;
- uncertainty associated with estimates of oil, NGLs and natural gas reserves and resources and the variance of such estimates from actual future production;
- dependence upon compressors, gathering lines, pipelines and other facilities, certain of which the Company does not control;
- the ability to satisfy obligations under the Company's firm commitment transportation arrangements;
- the uncertainties related to the Company's identified drilling locations;
- the high-risk nature of successfully stimulating well productivity and drilling for and producing oil, NGLs and natural gas;
- operating hazards and uninsured risks;
- the risk of fires, floods and natural disasters;
- the possibility that the Company's drilling activities may encounter sour gas;
- execution of the Company's business plan;
- failure to acquire or develop replacement reserves;
- the concentration of the Company's assets in the Kakwa River Project;
- unforeseen title defects;
- aboriginal claims;
- failure to accurately estimate the amount or timing of abandonment and reclamation costs;
- development and exploratory drilling efforts and well operations may not be profitable or achieve the targeted return;
- horizontal drilling and completion technique risks and failure of drilling results to meet expectations for reserves or production;
- limited intellectual property protection for operating practices and dependence on employees and contractors;
- third-party claims regarding the Company's right to use technology and equipment;
- expiry of certain leases for the undeveloped leasehold acreage in the near future;
- failure to realize the anticipated benefits of acquisitions or dispositions;
- failure of properties acquired now or in the future to produce as projected and inability to determine reserve and resource potential, identify liabilities associated with acquired properties or obtain protection from sellers against such liabilities;
- changes in the interpretation and enforcement of applicable laws and regulations;
- political risks;
- restrictions on drilling intended to protect certain species of wildlife;
- potential conflicts of interests;
- actual results differing materially from management estimates and assumptions;
- seasonality of the Company's activities and the oil and gas industry;
- alternatives to and changing demand for petroleum products;
- extensive competition in the Company's industry;
- changes in the Company's credit ratings;
- third party credit risk;
- dependence upon a limited number of customers;
- lower oil, NGLs and natural gas prices and higher costs;
- failure of 2D and 3D seismic data used by the Company to accurately identify the presence of oil and natural gas or appropriate well placement within a reservoir;

- risks relating to commodity price hedging instruments;
- terrorist attacks or armed conflict;
- cyber security risks, loss of information and computer systems;
- inability to dispose of non-strategic assets on attractive terms;
- the potential for security deposits to be required under provincial liability management programs;
- reassessment by taxing authorities of the Company's prior transactions and filings;
- variations in foreign exchange rates and interest rates;
- risks associated with counterparties in risk management activities related to commodity prices and foreign exchange rates;
- sufficiency of insurance policies;
- potential for litigation;
- variation in future calculations of non-IFRS measures;
- breach of agreements by third parties and potential enforceability issues in contracts;
- impact of expansion into new activities on risk exposure;
- inability of the Company to respond quickly to competitive pressures; and
- the risks related to the common shares that are publicly traded and the senior notes and other indebtedness.

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the AIF, which is available on SEDAR.

Forward-looking information advisory

This document contains certain forward looking information and statements that involve various risks, uncertainties and other factors. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "should", "believe", "plans", and similar expressions are intended to identify forward looking information or statements. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: the Company's key strategies, objectives and competitive strengths; ability to combine resource selection with innovation, technology and efficiency to remain among North America's lowest supply-cost unconventional liquids-rich natural gas developers; the Company's goal of continued profitable growth to achieve free cash flow and earn full-cycle returns on capital employed across the entire commodity price cycle, focusing capital deployment on high return opportunities; the ability to expand the Company's market access and capture premium markets for the Company's production; the possibility of accelerating the value of the Company's infrastructure assets by pursuing strategic partnership opportunities; the forward-looking information provided under the heading "Outlook", including guidance, planned capital investment/capital budget, plans for allocating capital, expected production, the expected production profile, anticipated liquids yields, number of wells to be brought on production; anticipated expenses, including royalties, operating expenses, transportation, processing and other expenses, G&A expense and interest; the expected prolific nature of the Company's drilling inventory; the timeframe for the development of the Company's drilling inventory; the potential for drilling inventory expansion; extensive delineation potential of certain of the Company's assets; potential uses of funds; the possibility that production cycle times may coincide with the timing of anticipated crude oil egress solutions out of Western Canada in the second half of 2019 which could bolster support for regional condensate demand and price dynamics; anticipated transportation and processing capacity; continued cost improvement and capital efficiencies expected from the Company's water infrastructure initiatives; expected markets for the Company's products and the expected delivery of the Company's products to various markets; the expectation that the Government of Alberta's mandated production curtailments will not disrupt the Company's production; the Company's hedge targets; the Company's objective of managing capital to maintain a strong balance sheet in order to fund sustaining capital, future development growth and return capital to shareholders; the Company's targeted trailing 12-month ratio of net debt to adjusted funds flow of less than 2.0 times; the expectation that the 2019 capital budget will be funded by cash on hand, adjusted funds flow, divestitures and/or draws under the Credit Facility; the expectation that lower growth will moderate production decline rates and preserve top-tier drilling inventory; focus on disciplined execution to improve operating and capital cost efficiencies, infrastructure investment to lower operating costs and expand margins, and delineation drilling to increase top tier inventory and maximize lower Montney value; and intended positioning of the company to deliver compelling returns to investors. In addition to the foregoing, information and statements in this document relating to reserves are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and that they can be profitably produced in the future.

With respect to forward-looking information contained in this document, assumptions have been made regarding, among other things: future oil, NGLs and natural gas prices being consistent with current commodity price forecasts after factoring in quality adjustments at the Company's points of sale; the Company's continued ability to obtain qualified staff and equipment in a timely and cost-efficient manner; drilling and completion techniques; infrastructure and facility design concepts that have been successfully applied by the Company elsewhere in its Kakwa River Project may be successfully applied to other properties within

the Kakwa River Project; the consistency of the regulatory regime and framework governing royalties, taxes and environmental matters in the jurisdictions in which the Company conducts its business and any other jurisdictions in which the Company may conduct its business in the future; the Company's ability to market production of oil, NGLs and natural gas successfully to customers; the Company's future production levels and amount of future capital investment will be consistent with the Company's current development plans and budget; new technologies for recovery and production of the Company's reserves and resources may improve capital and operational efficiencies in the future; the recoverability of the Company's reserves and resources; sustained future capital investment by the Company; future cash flows from production; taxes and royalties will remain consistent with the Company's calculated rates; the future sources of funding for the Company's capital program; the Company's future debt levels; geological and engineering estimates in respect of the Company's reserves and resources; the geography of the areas in which the Company is conducting exploration and development activities, and the access, economic, regulatory and physical limitations to which the Company may be subject from time to time; the impact of competition on the Company; and the Company's ability to obtain financing on acceptable terms.

Actual results could differ materially from those anticipated in the forward-looking information that is contained herein as a result of the risks and risk factors that are set forth in the AIF, which is available on SEDAR, including, but not limited to: volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto; general economic, business and industry conditions; variance of the Company's actual capital costs, operating costs and economic returns from those anticipated; the ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms; risks related to the exploration, development and production of oil and natural gas reserves and resources; negative public perception of oil sands development, oil and natural gas development and transportation, hydraulic fracturing and fossil fuels; actions by governmental authorities, including changes in government regulation, royalties and taxation; political risk; potential legislative and regulatory changes; the rescission, or amendment to the conditions, of groundwater licenses of the Company; management of the Company's growth; the ability to successfully identify and make attractive acquisitions, joint ventures or investments, or successfully integrate future acquisitions or businesses; the availability, cost or shortage of rigs, equipment, raw materials, supplies or qualified personnel; the adoption or modification of climate change legislation by governments and the potential impact of climate change on the Company's operations; the absence or loss of key employees; uncertainty associated with estimates of oil, NGLs and natural gas reserves and resources and the variance of such estimates from actual future production; dependence upon compressors, gathering lines, pipelines and other facilities, certain of which the Company does not control; the ability to satisfy obligations under the Company's firm commitment transportation arrangements; the uncertainties related to the Company's identified drilling locations; the high-risk nature of successfully stimulating well productivity and drilling for and producing oil, NGLs and natural gas; operating hazards and uninsured risks; the risks of fires, floods and natural disasters, which could become more frequent or of a greater magnitude as a result of climate change; the possibility that the Company's drilling activities may encounter sour gas; execution risks associated with the Company's business plan; failure to acquire or develop replacement reserves; the concentration of the Company's assets in the Kakwa River Project; unforeseen title defects; aboriginal claims; failure to accurately estimate abandonment and reclamation costs; development and exploratory drilling efforts and well operations may not be profitable or achieve the targeted return; horizontal drilling and completion technique risks and failure of drilling results to meet expectations for reserves or production; limited intellectual property protection for operating practices and dependence on employees and contractors; third-party claims regarding the Company's right to use technology and equipment; expiry of certain leases for the undeveloped leasehold acreage in the near future; failure to realize the anticipated benefits of acquisitions or dispositions; failure of properties acquired now or in the future to produce as projected and inability to determine reserve and resource potential, identify liabilities associated with acquired properties or obtain protection from sellers against such liabilities; government regulations; changes in the application, interpretation and enforcement of applicable laws and regulations; environmental, health and safety requirements; restrictions on development intended to protect certain species of wildlife; potential conflicts of interests; actual results differing materially from management estimates and assumptions; seasonality of the Company's activities and the oil and gas industry; alternatives to and changing demand for petroleum products; extensive competition in the Company's industry; changes in the Company's credit ratings; third party credit risk; dependence upon a limited number of customers; lower oil, NGLs and natural gas prices and higher costs; failure of 2D and 3D seismic data used by the Company to accurately identify the presence of oil and natural gas; risks relating to commodity price hedging instruments; terrorist attacks or armed conflict; cyber security risks, loss of information and computer systems; inability to dispose of non-strategic assets on attractive terms; the potential for security deposits to be required under provincial liability management programs; reassessment by taxing authorities of the Company's prior transactions and filings; variations in foreign exchange rates and interest rates; risks associated with counterparties in risk management activities related to commodity prices and foreign exchange rates; sufficiency of insurance policies; potential for litigation; variation in future calculations of non-IFRS measures; breach of agreements by counterparties and potential enforceability issues in contracts; impact of expansion into new activities on risk exposure; inability of the Company to respond quickly to competitive pressures; and the risks related to the common shares that are publicly traded and the Company's senior notes and other indebtedness.

Any financial outlook and future-oriented financial information contained in this document regarding prospective financial performance, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action based on management's assessment of the relevant information that is currently available. Projected operational information contains forward-looking information and is based on a number of material assumptions and factors, as are set out above. These projections may also be considered to contain future oriented financial information or a financial outlook. The actual results of the Company's operations for any period will likely vary from the amounts set forth in these projections and

such variations may be material. Actual results will vary from projected results. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein. The forward-looking information and statements contained in this document speak only as of the date hereof and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Independent reserves evaluation

Estimates of the Company's reserves and the net present value of future net revenue attributable to the company's reserves as at December 31, 2018, are based upon a report prepared by McDaniel & Associates Consultants Ltd. ("McDaniel"), evaluating the Company's oil, natural gas and NGL reserves, dated February 27, 2019. The estimates of reserves provided in this document are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided in this in this document, and the difference may be material. Estimates of net present value of future net revenue attributable to the company's reserves do not represent the fair market value of the company's reserves and there is uncertainty that the net present value of future net revenue will be realized. There is no assurance that the forecast price and cost assumptions applied by McDaniel in evaluating Seven Generations' reserves will be attained and variances could be material. For important additional information regarding the independent reserves evaluation that was conducted by McDaniel, please refer to the AIF, which is available on SEDAR.

Certain oil and gas terms

Certain terms used in this document that are not otherwise defined herein are provided below:

reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates.

proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

gross means:

- in relation to reserves, the applicable working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests;
- in relation to wells, the total number of wells in which the Company has an interest; and
- in relation to properties, the total area of properties in which the Company has an interest.

net means:

- in relation to the Company's interest in wells, the number of wells obtained by aggregating the Company's working interest in each of its gross wells; and
- in relation to the Company's interest in a property, the total gross area in which the Company has an interest multiplied by the working interest owned by the Company.

References in this document to "proved plus probable reserves" or "2P" are referring to gross proved plus probable reserves.

Notes regarding industry metrics

This document includes certain metrics, including barrels of oil equivalent, reserve life and carbon intensity or CO_2 intensity, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional information to evaluate the company's performance; however, such measures are not reliable indicators of the future performance of the company and future performance may not compare to the performance in previous periods.

Seven Generations has adopted the standard of 6 Mcf:1 bbl when converting natural gas to boes. Condensate and other NGLs are converted to boes at a ratio of 1 bbl:1 bbl. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based roughly on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the Company's sales point. Given the value ratio based on the current price of oil as compared to natural gas and NGLs is significantly different from the energy equivalency of 6 Mcf: 1 bbl and 1 bbl: 1 bbl, respectively, utilizing a conversion ratio at 6 Mcf: 1 bbl for natural gas and 1 bbl: 1 bbl for NGLs, may be misleading as an indication of value.

Reserve life has been calculated by dividing the 2P reserves stated herein by 2018 production. Management has used this measure to determine how long booked reserves would last at 2018 production levels, if no further reserves were added.

The carbon intensity or CO_2 estimates for 7G that are provided herein were calculated by the company with the assistance of third parties. 7G quantified and reported its GHG emissions using what is referred to as the "operational control" approach. 7G's deemed organizational boundary included its corporate offices and all natural gas extraction and processing facilities (including well pads). 7G elected to report its Scope 1 and 2 GHG emissions and not to report its Scope 3 GHG emissions. For the purposes of 7G's GHG emissions reporting:

- Scope 1 emissions were defined as direct emissions from GHG sources that 7G owned or controlled (including, but not limited to, emissions from stationary equipment, mobile combustion, and process emissions and fugitive emissions);
- Scope 2 emissions were defined as indirect GHG emissions that resulted from 7G's consumption of energy in the form of purchased electricity; and
- Scope 3 emissions were defined as 7G's indirect emissions other than those covered in Scope 2, including from all sources not owned or controlled by 7G, but which occurred as a result of 7G's activities.

Notably, 7G's drilling and completion activities in the relevant periods were conducted by third parties and, consequently, those activities were deemed to be Scope 3.

7G retained Brightspot Climate Inc. to support the quantification of its 2018 GHG emissions. Emissions for all facilities were quantified in accordance with the methodologies specified in Alberta's Carbon Competitiveness Incentive Regulation (CCIR) and Specified Gas Reporting Regulation (SGRR), and Environment and Climate Change Canada's Greenhouse Gas Emissions Reporting Program, as applicable. Measured quantities, such as fuel volume, fuel carbon content, flare volumes, venting volumes, fugitive volumes, and electricity consumption were used, where metered data was available. Emission factors from published government sources were applied to the calculations.

A third party verification was conducted by Millennium EMS Solutions. This verification was completed in accordance with the ISO 14064:3 standard and the requirements of CCIR.

OTHER DEFINITIONS / ABBREVIATIONS

Terms and abbreviations used in this document that are not otherwise defined herein are provided below:

MEASUREMENTS

B	billion
bbl or bbls	barrel or barrels
boe	barrels of oil equivalent
d	day
GJ	gigajoules
km	kilometres
m	metres
mbbl	thousands of barrels
mboe	thousands of barrels of oil equivalent
Mcf	thousand cubic feet
MMBtu	million British thermal units
MMcf	million cubic feet
MMboe	million barrels of oil equivalent
$, C$ or CAD	Canadian dollars
$MM	millions of dollars
US$ or USD	United States dollars
nm	not meaningful information
Q1	first quarter ended March 31st
Q2	second quarter ended June 30th
Q3	third quarter ended September 30th
Q4	fourth quarter ended December 31st
YE	year-end
YTD	year to date
2P	Gross proved plus probable reserves

FINANCIAL, BUSINESS ENVIRONMENT & OTHER

A/BC	Alberta/British Columbia border
AECO	physical storage and trading hub for natural gas on the TransCanada Alberta transmission system which is the delivery point for various benchmark Alberta index prices
Alliance	the Alliance Pipeline
BC	British Columbia
CDP	CDP Worldwide
condensate	Pentanes Plus (C5+) separated at field level and C5+ separated from the NGL mix at the facility level
CROIC	cash return on invested capital
CO_2	carbon dioxide
CRW Pool	Enbridge's Condensate Blend Pool
DSU	Deferred Share Units
D&C	drilling and completion
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes depreciation and amortization
FX	Foreign exchange
GTN	Gas Transmission Northwest LLC
G&A	general and administrative
HH	Henry Hub
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Keyera	Keyera Corp. and its affiliates
LNG	liquefied natural gas
LIBOR	London interbank offered rate
NCIB	normal course issuer bid
Nest	Nest 1, Nest 2 and Nest 3 areas combined
Nest 1	the "Nest 1" area that is shown in the map provided in the AIF
Nest 2	the "Nest 2" area that is shown in the map provided in the AIF
Nest 3	the "Nest 3" area that is shown in the map provided in the AIF
NGL	natural gas liquids (consisting of ethane (C2), propane (C3) and butane (C4))
NGPL	Natural Gas Pipeline Company of America LLC
NGTL	Nova Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
OPEC	The Organization of the Petroleum Exporting Countries
Pembina	Pembina Pipeline Corporation and its affiliates
Plains	Plains Midstream Canada ULC and its affiliates
PSU	Performance Share Units
ROCE	return on capital employed
RSU	Restricted Share Units
SEDAR	System for Electronic Document Analysis and Retrieval
super pads	the Company's decentralized field conditioning plants that separate field condensate and natural gas
TCPL	TransCanada Pipelines Limited
TSX	Toronto Stock Exchange
US	United States of America
Wapiti	the "Wapiti" area that is shown in the map provided in the AIF
WTI	West Texas Intermediate

Seven Generations Energy Ltd. is also referred to as Seven Generations, Seven Generations Energy, 7G, we, our, the Company and the company.

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.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 27, 2019

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:

Dale Hohm
Director

Mark Monroe
Director

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.

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.

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.

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)

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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 by 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.

Term [1]	Chicago Citygate Swaps MMbtu/d	Chicago Citygate Swaps US$/MMbtu	Chicago Basis Swaps MMbtu/d	Chicago Basis Swaps US$/MMbtu	AECO 7A Collars/Swaps GJ/d	AECO 7A Collars/Swaps C$/GJ	NYMEX Henry Hub Swaps MMbtu/d	NYMEX Henry Hub Swaps US$/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.

Term [1]	FX Swaps/Collars US$MM	FX Swaps/Collars C$/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
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 10 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

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Vice President, General Counsel & Corporate Secretary

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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

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Chairman

Marty Proctor
President & CEO

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National Bank of Canada

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ATB Financial

Barclays Bank PLC

Fédération des Caisses Desjardins Du Québec

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Independent Evaluators

McDaniel & Associates Consultants Ltd.

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