



SEVEN GENERATIONS
ENERGY

7G

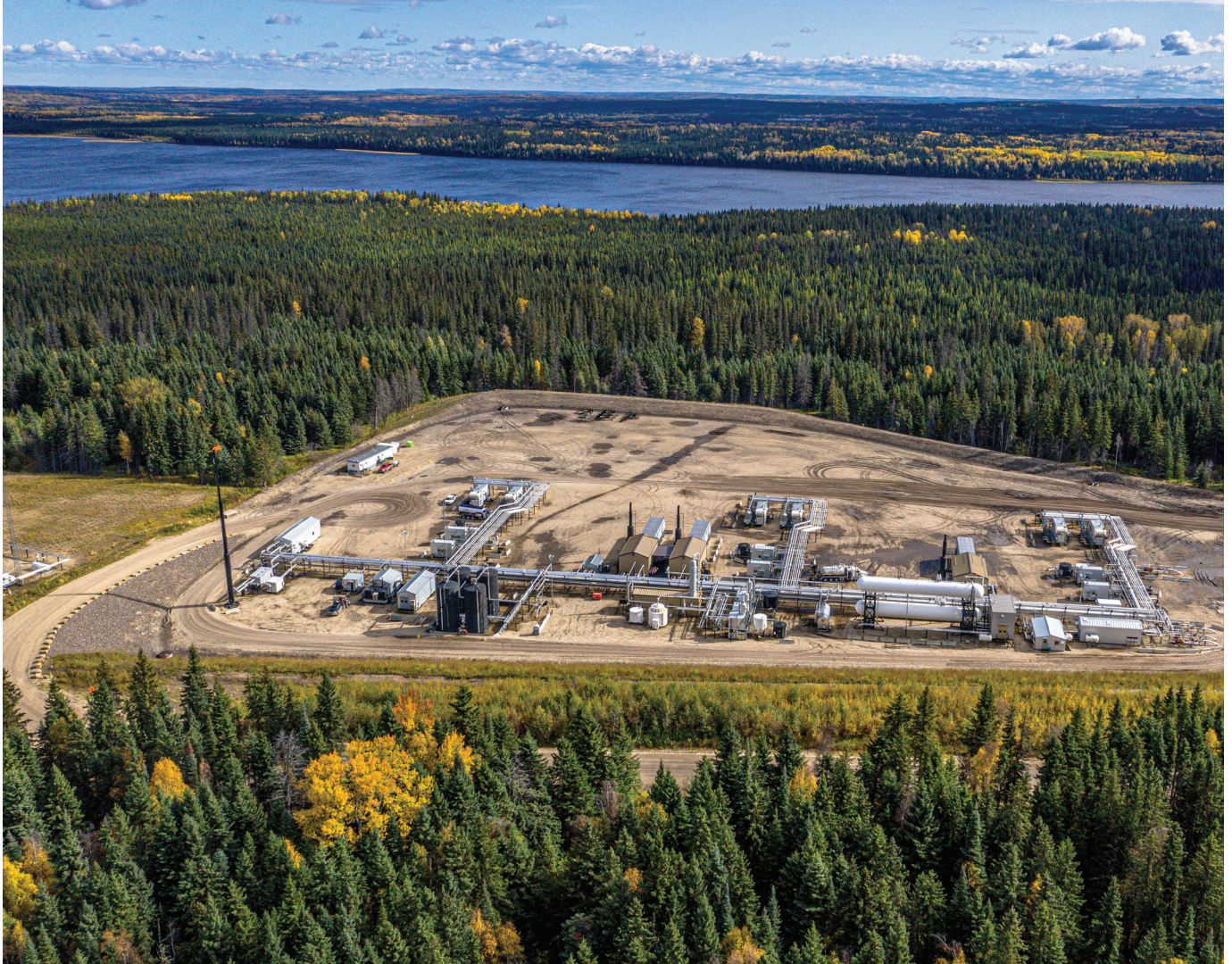


SEVEN GENERATIONS ENERGY
2019 Annual Report

7G

Seven Generations is a concept that drives us to live and work sustainably for the 7th generation to come.

To excel over the long term, we must serve our stakeholders in new and better ways. At 7G, we see ourselves as being in the stakeholder service business.



▲ 7G's Kakwa River Project achieved average production of 203,000 boe/d in 2019.

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About Us



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 and innovative technical execution.



OUR 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 thrive in the long term.

Market Access



establishing ample gathering, processing, transportation and marketing capacity to capture premium prices from diverse markets.

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



maintaining a strong balance sheet and pursuing investments that will contribute to free cash flow and earn full-cycle returns across the entire commodity price cycle, with focused capital deployment on high-return opportunities.

2019 Highlights

SUSTAINABILITY LEADERSHIP

7G is dedicated to stakeholder service and responsible development. With a mindset of “what gets measured, gets managed”, we achieved several key successes in advancing our sustainability performance.



A- CDP RATING

positioning 7G as a top-ranked energy producer in Canada for greenhouse gas emissions measurement and disclosure



2019 TRIF **0.46**

total recordable incident frequency improved 53% year-over-year



10,000+ HOURS

of employee volunteerism in the community with ~250 employees

FINANCIAL AND OPERATING PERFORMANCE

7G's 2019 results reflect our commitment to capital discipline, operational excellence and a stakeholder-focused mindset which targets per share free cash flow growth over time.



\$158 MILLION

free cash flow



14% CASH RETURN

on invested capital



6.3% REDUCTION

in total shares outstanding through share buyback program

SETTING THE STAGE FOR CONTINUED PROFITABILITY

Our investments to sustain production, build out our infrastructure network, expand our Nest and maximize capital efficiency continued to deliver positive results in 2019.



100 LOCATIONS

high-graded to Nest 2 locations



203 MBOE/D

average annual production



~20 YEAR

core drilling inventory

For additional information, see the “Advisories and Guidance” section of the Management’s Discussion and Analysis for the years ended December 31, 2019 and 2018 that is included in this Annual Report.

Message from our President & Chief Executive Officer



Marty Proctor
President & Chief Executive Officer

Dear Fellow Shareholders,

Reflecting on the events of 2019, it is without question that our industry continued to face significant economic and social headwinds. And while these headwinds present challenges, they also present opportunities.

At Seven Generations, our vision has and will always be centered around responsible development and stakeholder service. To us, this means developing the critical resources the world needs in a transparent and responsible way that considers the needs of all stakeholders – including our shareholders. Every day, we work hard to understand what's important to our communities, Indigenous Peoples, our customers and the partners we serve, to deliver solutions that provide shared value today and for future generations.

We believe this is a tangible differentiator for Seven Generations, and one that will serve us well as we navigate the complex macro-environment facing our industry.

We strive to serve our stakeholders by conducting our business in a way that provides:

- ▶ A responsible, differentiated approach to resource development
- ▶ Attention to the selection, development and replenishment of the lowest supply cost resource

“ We continue to find ways to better serve the needs of our stakeholders and drive incremental value across the business.

- ▶ Best-in-class execution through safe, responsible, innovative and efficient development
- ▶ Maximum profitability by proactively securing access to premium-priced markets
- ▶ An unwavering focus on balance sheet strength

Through the dedication and innovative work of the 7G team, our company made meaningful advancements in each of these areas in 2019. Our supply cost remains among the lowest in industry; we maintained our balance sheet strength; and we saw meaningful progress in our sustainability efforts.

Best-in-class Resource

Located in the sweet spot of the Montney, our Kakwa River Project is a world-class asset. In 2019, we invested \$1.23 billion into the project, executing our development and infrastructure programs which included the expansion of our intra-project pipeline network and bringing our 15th Super Pad on line.

Our 500,000 net acre land position enables us to control the pace of development as we methodically delineate each of our core Nest areas and the emerging lower Montney zone. Last year, our delineation efforts expanded the known boundary of high-deliverability, condensate-rich locations in the western portion of Nest 2 into an area which was previously considered part of the Wapiti region at year end 2018. This converted approximately 100 upper/middle Montney reserve and resource locations from a Wapiti to a Nest 2 type well for year end 2019.

We ended the year with 1.6 billion boe of gross proved plus probable reserves, having a sufficient reserve life index, we believe, to support nearly 20 years of activity and anchor major Canadian energy domestic supply and export projects should the opportunity arise.

Delivering Value

Consistent with our focus on free cash flow and driving shareholder returns, in 2019 we improved our capital efficiency, decreasing capital investments by 30 percent year-over-year while maintaining our production profile. In addition, moderating of our decline rates reduced sustaining capital requirements – a trend we anticipate will continue into 2020.

As the graphs below illustrate, we continued to leverage our past investments, pursue new innovations and moderate our production declines, generating free cash flow of \$158 million in 2019. This was returned to shareholders through our normal course issuer bid share buyback program. This program has reduced our share count by nearly nine percent since the program's inception in the fourth quarter of 2018, in addition to contributing to a cash return on invested capital of 14 percent in 2019.

Operational Excellence

Rigorous cost management, continuous improvement and a strong focus on safety underline our approach to operational excellence. Through these levers, we continue to find ways to better serve the needs of our stakeholders and drive incremental value across the business.

Prudent Cost Management

In 2019, we saw improvements to our overall cost structure with drilling and completion costs declining from \$10.1 million to \$9 million per well year-over-year. These savings enabled us to conduct additional drilling, completion and tie-in activities

during the fourth quarter while completing our existing 2019 capital program under budget. On a per-boe basis, operating expenses decreased 13 percent from the prior year, largely due to lower trucking and water disposal costs stemming from our investments in water handling infrastructure.

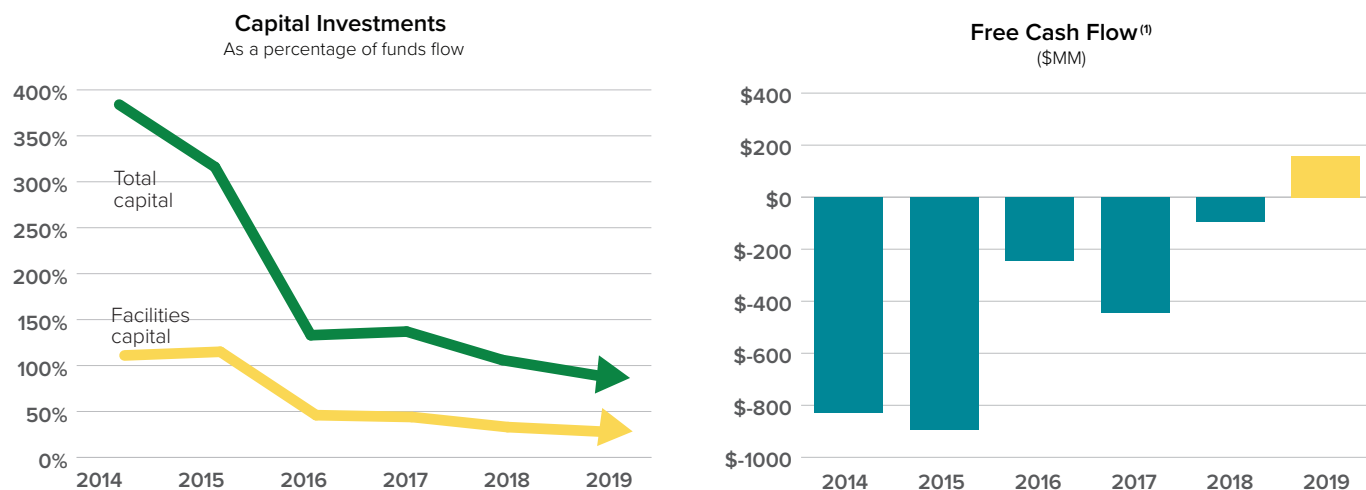
Safe Production is #1

Safety is core to how we approach our work. In 2019, we successfully advanced our safety management, systems, policies and operational practices. With senior management's support and our "Safe Production is #1" educational campaign, fewer workers had injuries on 7G work sites in 2019 than in previous years. We had 32 recordable injuries in 2019, a 61 percent improvement compared to 2018. Our total recordable incident frequency was 0.46 in 2019, another strong improvement from 0.98 in 2018. While this trend is promising, we believe even one injury is too many, and will strive to continue to improve our safety performance.

Market Optionality

Our Kakwa River Project produced 203,000 boe/d in 2019, in-line with guidance. Core to our strategy, our diverse market access positioned us to capture premium pricing for this production in an otherwise egress constrained basin. With about 90 percent of our natural gas sales located outside of Alberta, 7G's realized price for natural gas was \$3.41 per Mcf, compared to the AECO benchmark price of \$1.67 per GJ. In the fourth quarter of 2019, we began shipping natural gas to the western United States, further diversifying our market access.

INVESTMENTS DRIVING FREE CASH FLOW AND OPTIONALITY



(1) For additional information, see "Non-GAAP Financial Measures" in the "Advisories and Guidance" section of the Management's Discussion and Analysis for the years ended December 31, 2019 and 2018 that is included in this Annual Report.



Accessing New Canadian Markets

In early 2020, we broadened our markets again, announcing an agreement that sees our responsibly produced natural gas in Alberta delivered to Québec's largest natural gas distribution system. Our supply deal with Énergir s.e.c. is governed by the Equitable Origin EO100™ Standard for Responsible Energy Development, which provides third-party verification of our environmental, social and governance performance.

Volumes sold under this agreement will receive a modest premium which we will use to create the 7G Sustainability Fund. This new pool of capital will be used to internally fund sustainability initiatives aimed at further reducing our environmental footprint, broadening our Indigenous partnerships and supporting our responsible development initiatives.

Enhanced ESG Performance

Sustainability has become even more ingrained in our approach and we are beginning to receive external recognition for the meaningful improvements in our ESG performance across a broad spectrum of our operations.

We have taken part in CDP's Climate Change Questionnaire since 2016. For the 2019 reporting year based on 2018 performance, I'm proud to report 7G received a score of A-. This score is the highest score achieved in the North American oil and natural gas sector.

Our commitment to transparency was also recognized in 2019 with 7G receiving the Best Compensation Disclosure and Communication award from the Governance Professionals of Canada. We were also included in the 2020 Bloomberg Gender-Equality Index, an index that aims to track the performance of public companies committed to transparency in gender-data reporting.

In March 2020, we look forward to sharing more detail on our sustainability performance and initiatives through our first comprehensive ESG report. I encourage you to review the report which will be available on our website.

People

Our people play a critical role in realizing our strategy. In 2019, we added more bench strength and diverse perspectives to our leadership team which will serve us well as we embark on the next chapter for 7G. At the board level, we welcomed Leontine Atkins who brings more than 30 years of strategic experience in the global oil and gas industry. We also welcomed Karen Nielsen as our Chief Development Officer, a role that connects 7G's subsurface, business development, and capital planning with our core operations activities.

With our heightened focus on ESG, Brian Newmarch's role was expanded to Vice President, Capital Markets & Stakeholder Engagement, where he leads a multi-disciplinary team that has been assembled to continually improve our sustainability performance.

In addition, Lynne Chrumka was promoted to Vice President of Geosciences, where she leads geological and geophysical activities, reservoir characterization, and resource optimization.

The Path Forward

Last year in particular, we demonstrated that we can strengthen our business even through difficult circumstances like depressed commodity pricing, market access constraints and challenging capital markets. We have come through 2019 more resilient and enter 2020 well-positioned to create value for our shareholders. I am confident we have the people, resources and ingenuity required to take on the challenges and capture the opportunities of the year ahead.

On behalf of the 7G team, I would like to thank our board of directors for their guidance and our people for their service, forward-thinking ideas and dedication as we continue to serve our stakeholders in new and better ways.

Sincerely,

Marty Proctor

President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results from operations of Seven Generations Energy Ltd. (the "Company" or "Seven Generations") is dated February 26, 2020 and should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 (the "consolidated financial statements"). These financial statements, including the comparative figures, were prepared in accordance with GAAP.

Refer to the Advisories and Guidance section of this MD&A for reconciliations and information regarding the following non-GAAP financial measures used in this MD&A: "adjusted net income", "adjusted net income per boe", "adjusted net income per diluted share", "operating netback", "funds flow per boe", "funds flow per diluted share", "free cash flow", "marketing income", "marketing income per boe", "adjusted EBIT", "CROIC", "ROCE", "adjusted working capital" and "available funding". The Company also utilizes certain additional GAAP measures consisting of "funds flow", "adjusted EBITDA", "net debt" and "total capitalization". Also refer to the Advisories and Guidance section of this MD&A for information regarding the presentation of the Company's product types.

Unless otherwise noted, all financial measures are expressed in Canadian dollars and tabular dollar amounts are presented in millions. 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, including the Company's Annual Information Form for the year ended December 31, 2019, dated February 26, 2020 (the "AIF").

SEVEN GENERATIONS ENERGY LTD.

Seven Generations is a low supply-cost energy producer dedicated to stakeholder service, responsible development and generating strong returns from condensate and liquids-rich natural gas production at the Company's 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:** maintaining a strong balance sheet and pursuing investments that will contribute to free cash flow and earn full-cycle returns across the entire commodity price cycle, with focused capital deployment on high return opportunities.
- **Market access:** establishing ample gathering, processing and transportation capacity to capture premium prices from diverse markets.

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ABOUT THE 7G KAKWA RIVER PROJECT

Seven Generations' liquids-rich natural gas project is located approximately 100 kilometres south of Grande Prairie, Alberta. The Company's core Nest areas are characterized by an over-pressure formation, brittle Montney rock and a favorable balance of liquids and natural gas relative to some other North American liquids-rich shale plays.

- **Resource** – Seven Generations produces condensate and liquids-rich natural gas primarily from the Montney formation. During the year ended December 31, 2019, Seven Generations produced 203.0 mboe/d (59% liquids) ⁽¹⁾ from over 500 net horizontal Montney wells. Development of the Kakwa River Project to date has resulted in the booking of 1.6 billion boe of gross proved plus probable reserves ⁽²⁾ as at December 31, 2019. The Company currently holds over 500,000 net acres of Montney lands in the Kakwa River Project.
- **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 super pad sites. 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 are able to feed into the existing super pads' dehydration, separation and compression facilities. 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. At December 31, 2019, Seven Generations had approximately 43 satellite pads with an average of eight wells per pad and 15 super pads with an average of 14 wells per pad.
- **Water handling** – Seven Generations invests in water handling infrastructure in order to provide infield water disposal and recycling capacity to reduce overall water sourcing, trucking and disposal costs and on road traffic. As part of ongoing cost reduction initiatives, the Company also recycles a portion of its flowback water. Seven Generations has constructed a pipeline network to connect produced water from development wells to three wholly-owned water injection wells. The Company has also constructed a water hub system to allow for the efficient recycling of produced water for use in hydraulic fracturing. Beginning in the first quarter of 2020, the Company will have access to pipeline connected third party water disposal assets, which is anticipated to bring the Company's and third party committed total water disposal capacity to over 11,000 m3/d.
- **Processing capacity** – In the fourth quarter of 2018, Seven Generations brought on stream a wholly-owned natural gas processing facility in the Kakwa River Project (the "Gold Creek facility") with a natural gas processing capacity of 250 MMcf per day. Combined with the Company's Cutbank, Lator and Karr facilities, Seven Generations now has wholly-owned and integrated natural gas processing capacity of 760 MMcf/d and 60 mbb/d of condensate stabilization. The Company also has access to 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 mbb/d of condensate stabilization.
- **Field egress** – Seven Generations has completed a integrated pipeline network that connects the Company's Gold Creek facility to its field gathering system and the Cutbank facility to the Pembina Kakwa River natural gas plant. The Company's field interconnections and dually connected natural gas facilities allow field production volumes to be routed from multiple facilities across Nest 1, Nest 2, and Nest 3, which helps maximize operating efficiencies and allows Seven Generations to partially circumvent plant outages for maintenance and redirect volumes between the Alliance pipeline and NGTL/TC Energy systems to optimize marketing activities.
- **Market access** – 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 to market by pipeline. The Company's natural gas transportation capacity has geographic diversification across North America with exposure to US Midwest, US Gulf Coast, US Pacific Northwest, Western Canadian and Eastern Canadian markets.
- **People** – Seven Generations' Corporate headquarters are located in Calgary, Alberta. The Company's operational headquarters are based out of Grande Prairie, Alberta, where approximately half of the Company's work force are currently situated, providing Seven Generations with a unique advantage of having local operational and engineering expertise close to the development area.
- **ESG** – Seven Generation's Kakwa River Project is the first natural gas project to be certified under the EO100™ Standard for Responsible Energy Development – a comprehensive, third-party ESG evaluation framework. As part of the Company's continued demonstration of its industry-leading commitment to sustainability, Seven Generations is currently rated as an A- by CDP representing the best-ranked score within the Canadian oil and natural gas industry.

(1) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Based on the reports of McDaniel & Associates Consultants Ltd., Seven Generations' independent qualified reserve evaluators, effective December 31, 2019. Refer to the Advisories and Guidance section of this MD&A and to the AIF for important additional information about the Company's reserves.

OPERATIONAL AND FINANCIAL RESULTS

(\$ millions, except boe and per share amounts)	Three months ended December 31,			Three months ended September 30,		Year ended December 31,		
	2019	2018	% Change	2019	% Change	2019	2018	% Change
Financial Results								
Funds flow (\$) ⁽¹⁾	353.2	336.2	5	340.5	4	1,387.8	1,672.2	(17)
Per share – diluted (\$)	1.05	0.93	13	0.98	7	3.98	4.60	(13)
Free cash flow (\$) ⁽¹⁾	120.3	73.9	63	55.9	115	158.3	(93.5)	nm
Net income (\$)	82.6	245.4	(66)	85.1	(3)	473.8	439.9	8
Per share – diluted (\$)	0.24	0.68	(65)	0.25	(4)	1.36	1.21	12
Adjusted net income (\$) ⁽¹⁾	89.7	66.3	35	78.5	14	349.0	573.6	(39)
Per share – diluted (\$)	0.27	0.18	50	0.23	17	1.00	1.58	(37)
Revenue (\$) ⁽²⁾	669.6	1,146.8	(42)	718.0	(7)	2,729.4	3,169.9	(14)
CROIC (%) ⁽¹⁾	14.0%	19.1%	(27)	14.1%	(1)	14.0%	19.1%	(27)
ROCE (%) ⁽¹⁾	9.0%	14.1%	(36)	8.6%	5	9.0%	14.1%	(36)
Sales volumes ⁽³⁾								
Condensate (mmbbl/d)	75.0	81.8	(8)	75.5	(1)	74.8	76.4	(2)
Natural gas (MMcf/d)	523.1	515.4	1	515.3	2	503.0	490.5	3
Other NGLs (mmbbl/d)	45.9	47.4	(3)	43.2	6	44.4	44.4	—
Total sales volumes (mboe/d) ⁽⁴⁾	208.1	215.1	(3)	204.6	2	203.0	202.6	—
Liquids %	58%	60%	(3)	58%	—	59%	60%	(2)
Realized prices								
Condensate (\$/bbl)	66.39	53.57	24	65.59	1	66.76	71.63	(7)
Natural gas (\$/Mcf)	3.25	4.77	(32)	2.85	14	3.41	3.98	(14)
Other NGLs (\$/bbl)	10.75	8.44	27	2.74	nm	6.34	12.21	(48)
Total (\$/boe) ⁽⁴⁾	34.48	33.66	2	31.97	8	34.44	39.33	(12)
Royalty expense (\$/boe)	(2.62)	(0.99)	165	(1.99)	32	(2.28)	(1.34)	70
Operating expenses (\$/boe)	(4.43)	(5.25)	(16)	(4.81)	(8)	(4.79)	(5.52)	(13)
Transportation, processing and other (\$/boe)	(7.01)	(7.07)	(1)	(6.46)	9	(6.69)	(6.65)	1
Operating netback before the following (\$/boe) ⁽¹⁾⁽⁴⁾	20.42	20.35	—	18.71	9	20.68	25.82	(20)
Realized hedging gains (losses) (\$/boe)	0.55	(1.58)	nm	1.63	(66)	0.48	(1.33)	nm
Marketing income (\$/boe) ⁽¹⁾	0.18	0.20	(10)	0.19	(5)	0.30	0.39	(23)
Operating netback (\$/boe) ⁽¹⁾	21.15	18.97	11	20.53	3	21.46	24.88	(14)
Funds flow (\$/boe) ⁽¹⁾	18.45	16.99	9	18.09	2	18.73	22.61	(17)
Balance sheet								
Capital investments (\$)	232.9	262.3	(11)	284.6	(18)	1,229.5	1,765.7	(30)
Available funding (\$) ⁽¹⁾	1,351.0	1,345.9	—	1,277.2	6	1,351.0	1,345.9	—
Senior notes (\$)	2,030.2	2,129.8	(5)	2,069.3	(2)	2,030.2	2,129.8	(5)
Net debt (\$) ⁽¹⁾	2,099.3	2,206.8	(5)	2,213.7	(5)	2,099.3	2,206.8	(5)
Repurchase of common shares (\$)	50.2	104.2	(52)	73.8	(32)	168.1	104.2	61
Common shares outstanding	334.7	352.6	(5)	340.5	(2)	334.7	352.6	(5)
Weighted average shares outstanding – basic	336.5	359.2	(6)	345.9	(3)	346.8	358.6	(3)
Weighted average shares outstanding – diluted	337.9	362.3	(7)	347.0	(3)	348.5	363.9	(4)

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been adjusted to conform to current period presentation.

(2) Represents the total of liquids and natural gas sales, net of royalties, gains (losses) on risk management contracts and other income.

(3) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(4) Excludes the purchase and sale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2019

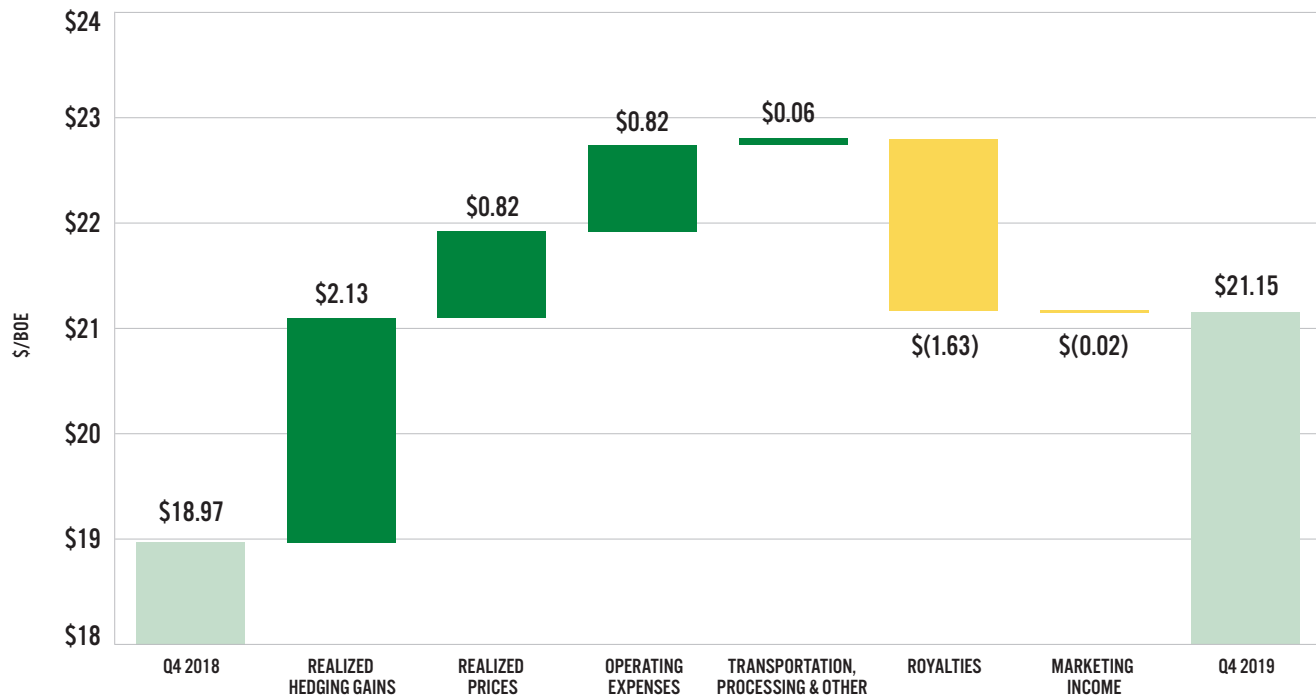
- **Funds flow** – For the year ended December 31, 2019, Seven Generations' funds flow ⁽¹⁾ was \$1,387.8 million, a 17% decline compared to \$1,672.2 million during the prior year. The decline was primarily due to lower benchmark commodity prices. During the year ended December 31, 2019, Seven Generations delivered free cash flow ⁽¹⁾ of \$158.3 million which was returned to shareholders through the Company's ongoing share buyback program.
- **Production** – For the year ended December 31, 2019, production averaged 203.0 mboe/d, consistent with the prior year and in-line with the Company's 2019 guidance of 200-205 mboe/d ⁽²⁾. In the current oil and gas price environment, Seven Generations is maintaining a flat production profile which is anticipated to moderate corporate decline rates and help drive free cash flow that will allow the Company to continue returning capital to shareholders or reduce net debt.
- **Condensate** – During the year ended December 31, 2019, the Company produced an average of 74.8 mbbl/d of condensate, which represented 37% of sales volumes on an aggregate per boe basis and 71% of the Company's liquids and natural gas sales value (year ended December 31, 2018 – 38% of volume and 69% of sales value, respectively) ⁽²⁾. The Company's realized price for condensate was \$66.76 per bbl in 2019, which was 88% of the Canadian dollar WTI benchmark price (December 31, 2018 – \$71.63 per bbl and 85%, respectively).
- **Return of capital** – The Company continued to execute its NCIB program, acquiring 22.1 million shares during the year ended December 31, 2019. In the fourth quarter of 2019, the Company received approvals to purchase up to an additional 23.8 million shares under a new NCIB program between November 11, 2019 and November 10, 2020. The Company believes that an NCIB can help enhance per-share value given the current share price. Since inception of the program in the fourth quarter of 2018, the Company has acquired 31.8 million shares representing approximately 8.8% of the Company's total common shares outstanding.
- **Return on capital** – The Company continued to deliver strong returns from its Kakwa River Project, generating a return on capital employed ("ROCE") ⁽¹⁾ of 9.0% during the year ended December 31, 2019 (December 31, 2018 – 14.1%). Seven Generations' 2019 cash return on invested capital ("CROIC") ⁽¹⁾ was 14.0% (December 31, 2018 – 19.1% in 2018). Declines in the ROCE and CROIC measures during the year were primarily due to lower commodity prices.
- **Market access** – With approximately 90% of Seven Generations' 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, 2019 was \$3.41 per Mcf before hedging compared to the local AECO benchmark price which averaged \$1.67 per GJ. In the fourth quarter of 2019, Seven Generations commenced shipping natural gas on the GTN pipeline system to the Pacific Northwest, further diversifying the Company's natural gas marketing portfolio.
- **Capital investments** – During the year ended December 31, 2019, Seven Generations invested \$1,229.5 million in the Company's Kakwa River Project. Seven Generations drilled 78 wells, completed 79 wells and brought 83 wells on production during the year. Investments also included a number of ongoing infrastructure developments including the expansion of the Company's infield pipeline network. Seven Generations' capital investments in 2019 were in line with its guidance of \$1.25 billion. The 30% decline in capital investments year over year has helped drive free cash flow ⁽¹⁾ in 2019 while still maintaining the Company's production profile.
- **Operations** – During year ended December 31, 2019, Seven Generations' operating expense per boe decreased by 13% to \$4.79 per boe, compared to \$5.52 per boe during the prior year. 2019 operating expenses were lower than the Company's original 2019 guidance range of \$5.00 – \$5.50, primarily due to the Company's ongoing water handling initiatives. Since 2017, Seven Generations has brought online a multi-well water disposal system and pipeline network and increased its water reuse.
- **Reserves** – As at December 31, 2019, the Company's total gross proved plus probable reserves were 1.6 billion boe ⁽³⁾. The Company's 2P reserves as at December 31, 2019 were estimated to have a pre-tax net present value of approximately \$12.6 billion using a 10% discount rate, compared to \$12.3 billion in the prior year ⁽³⁾. The increase in the estimated discounted cash flows were primarily due to the higher condensate volumes and lower future development costs partially offset by declines in natural gas volumes and lower commodity price assumptions.
- **Liquidity** – Seven Generations closed 2019 with a strong balance sheet, which included available funding ⁽¹⁾ of \$1.35 billion and net debt ⁽¹⁾ of \$2.10 billion. The Company's 12-month ratio of net debt to adjusted EBITDA ⁽¹⁾ was 1.4:1 at December 31, 2019. During the fourth quarter of 2019, the Company's Credit Facility was amended, extending the maturity date of the facility by one year to 2024 and increasing the optional accordion feature from \$300.0 million to \$500.0 million.

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been adjusted to conform to current period presentation.

(2) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

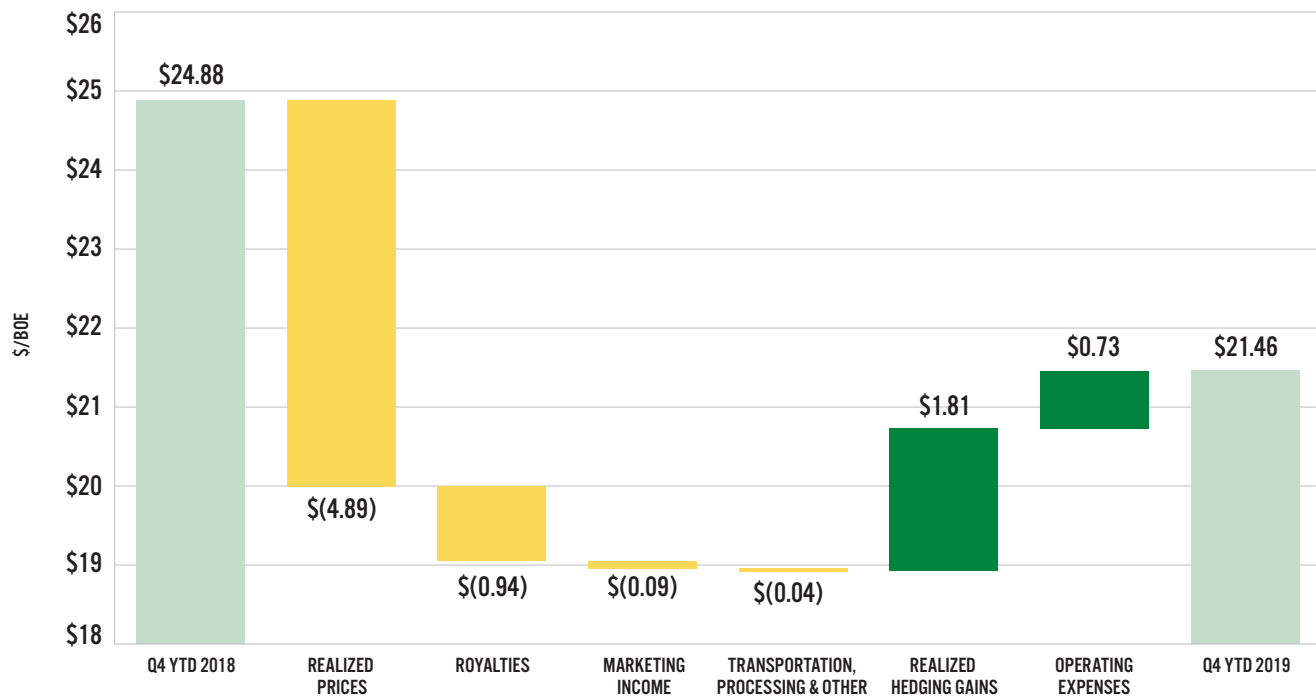
(3) Based upon the independent reserves evaluations conducted by McDaniel, as at December 31, 2019 and as at December 31, 2018. Refer to the Advisories and Guidance section of this MD&A and to the annual information forms for the years ended December 31, 2019 and December 31, 2018, respectively, for important additional information about the independent reserves evaluations conducted by McDaniel.

Change in Operating Netback During the Three Months Ended December 31, 2019



During the fourth quarter of 2019, operating netbacks were \$21.15 per boe, an 11% increase compared to \$18.97 per boe during the same period in the prior year. The increase in the operating netback was primarily due to realized hedging gains from natural gas hedges, higher realized prices from an increase in benchmark crude oil prices and lower operating costs as a result of the Company's water handling initiatives during the fourth quarter of 2019. The increase in operating netbacks were partially offset by increased royalty expenses from higher reference prices and a greater number of wells no longer on incentive. Compared to the third quarter of 2019, operating netbacks increased from \$20.53 per boe to \$21.15 per boe, primarily due to higher commodity prices.

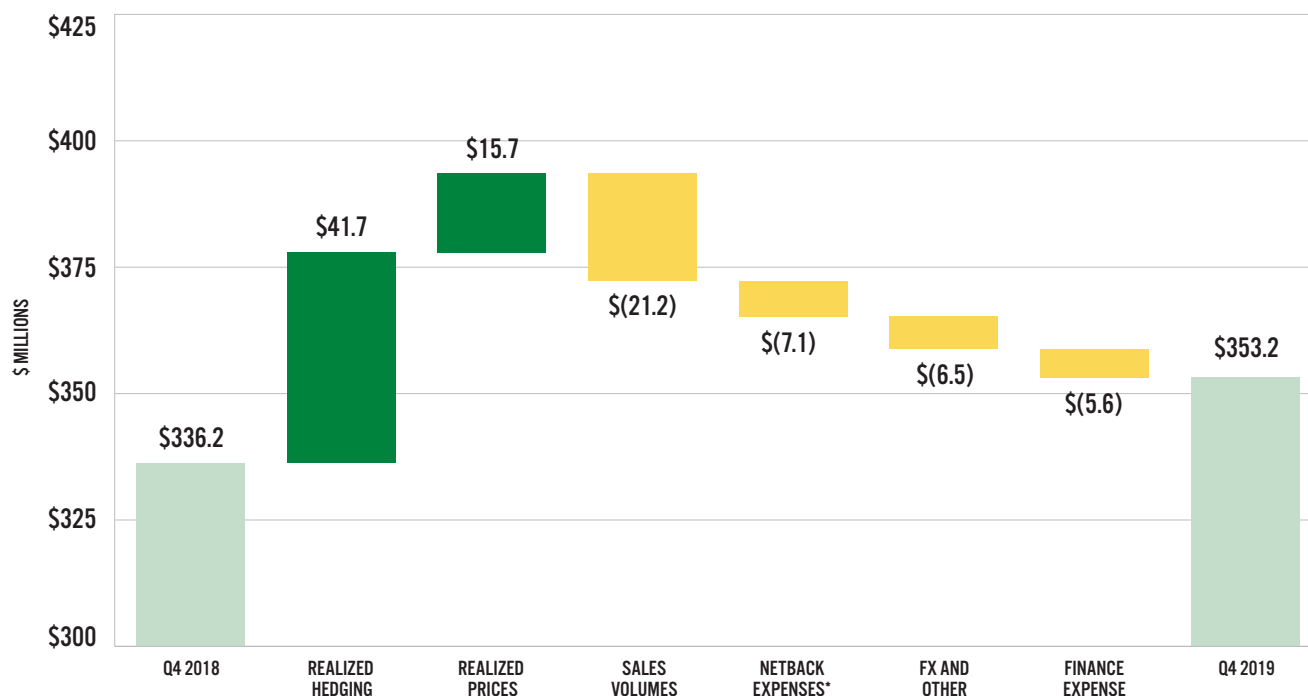
Change in Operating Netback During the Year Ended December 31, 2019



During the year ended December 31, 2019, operating netbacks were \$21.46 per boe, a 14% reduction compared to \$24.88 per boe during the same period in the prior year. The decline in the operating netback was primarily due to lower benchmark commodity prices and an increase in royalty expenses, partially offset by realized hedging gains on natural gas contracts and a reduction in operating expenses during the year.

The increase in royalty expenses per boe was primarily related to wells drilled in prior years that are no longer on royalty incentive. Operating expenses decreased from \$5.52 per boe to \$4.79 per boe primarily due to lower water and trucking disposal costs from water handling initiatives, a reduction in workover activities and lower equipment rental costs. Realized hedging gains in 2019 were primarily due to natural gas hedges benefiting from lower natural gas prices relative to the Company's fixed contract positions.

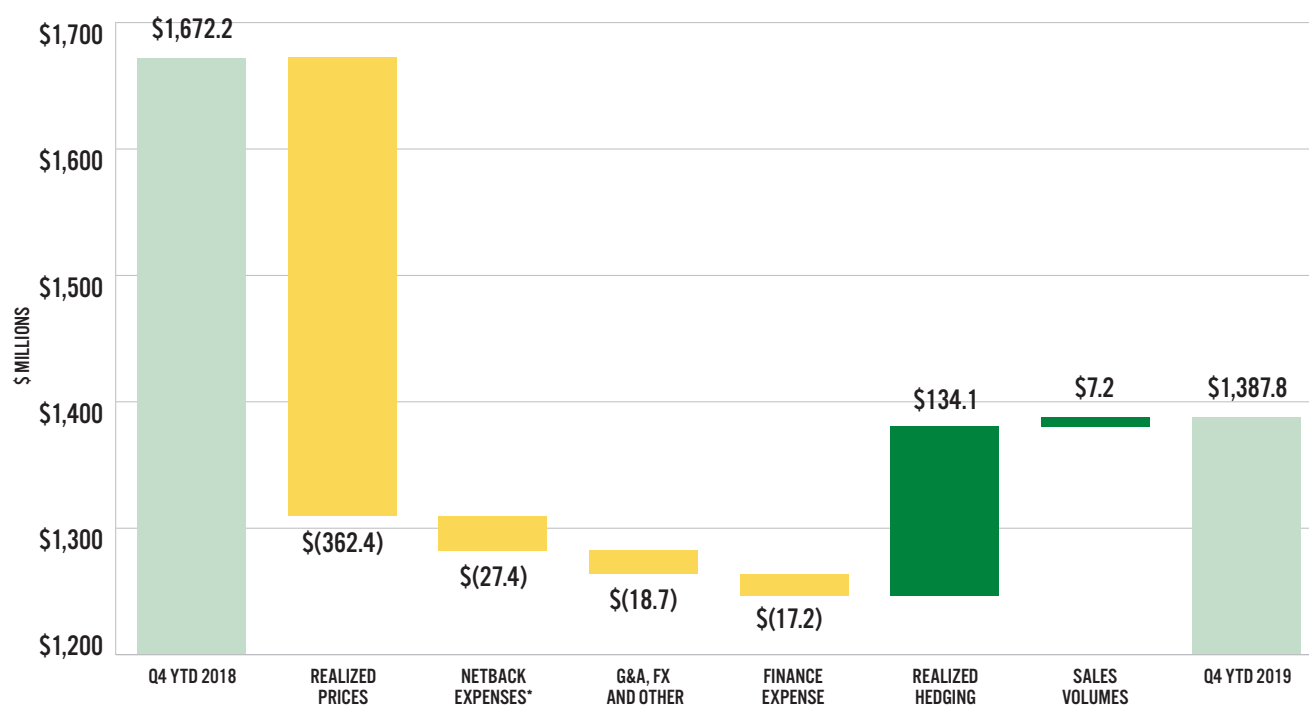
Change in Funds Flow During the Three Months Ended December 31, 2019



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

During the three months ended December 31, 2019, funds flow was 353.2 million, an increase of 5% compared to \$336.2 million during the same period in 2018. The increase in funds flow was primarily due to realized derivative gains from natural gas hedges and higher realized prices, partially offset by lower production. Compared to the third quarter of 2019, funds flow increased by 4% primarily due to higher commodity prices and an increase in production.

Change in Funds Flow During the Year Ended December 31, 2019



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

During the year ended December 31, 2019, Seven Generations' funds flow was \$1,387.8 million, a decrease of 17% compared to the same period in the prior year. The decrease was primarily due to lower benchmark commodity prices and higher royalty expenses due to fewer wells on royalty incentive, partially offset by realized hedging gains and higher production.

Income Performance Measures

The following tables reconcile the Company's net income to adjusted net income for the periods indicated:

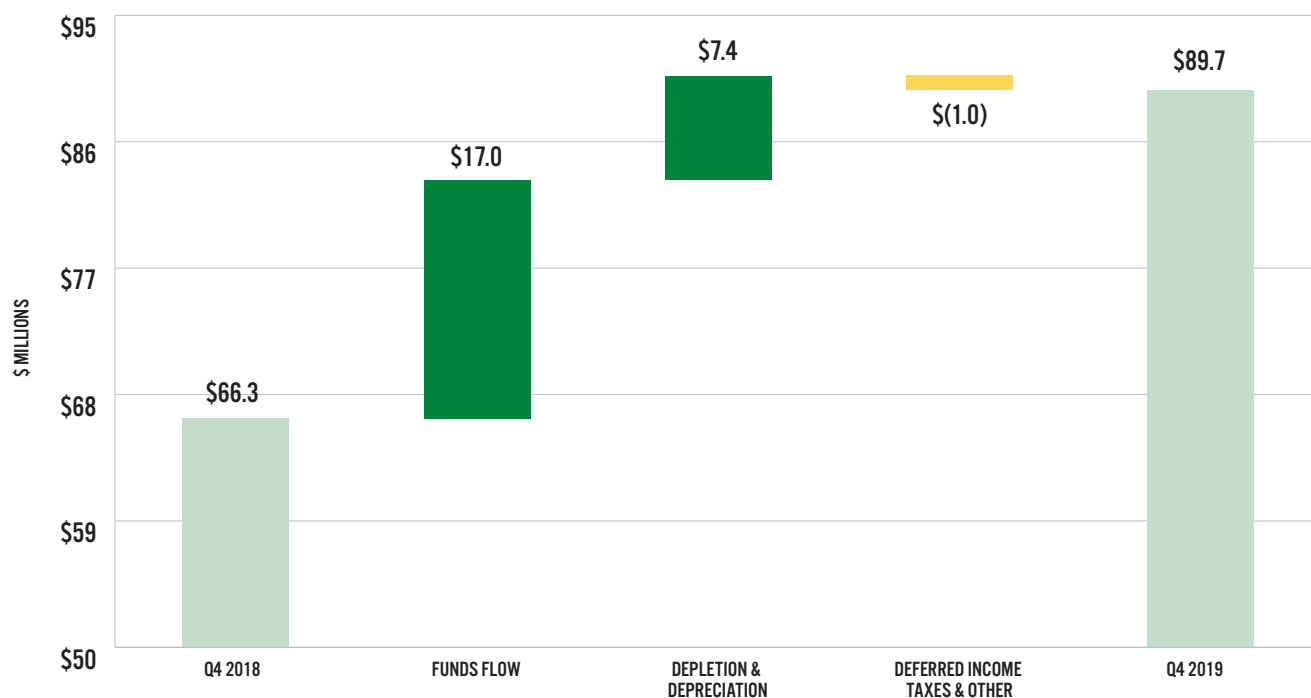
	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Net income	\$ 82.6	\$ 245.4	(66)	\$ 85.1	(3)
Unrealized (gain) loss on risk management contracts	83.6	(395.3)	nm	(44.1)	nm
Foreign exchange (gain) loss on senior notes and other	(39.7)	109.5	nm	24.4	nm
Deferred income tax recovery from changes in tax rates	(15.2)	—	—	1.4	nm
Deferred tax (recovery) expense relating to adjustments	(21.6)	106.7	nm	11.7	nm
Adjusted net income ⁽¹⁾	\$ 89.7	\$ 66.3	35	\$ 78.5	14
Adjusted net income per boe ⁽¹⁾	\$ 4.69	\$ 3.35	40	\$ 4.17	12

(1) See "Non-GAAP financial measures" in the Advisories and Guidance section of this MD&A.

	Year ended December 31,		
	2019	2018	% Change
Net income	\$ 473.8	\$ 439.9	8
Unrealized (gain) loss on risk management contracts	92.9	(49.1)	nm
Foreign exchange (gain) loss on senior notes and other	(102.9)	169.6	nm
Deferred income tax recovery from changes in tax rates	(90.2)	—	nm
Deferred tax (recovery) expense relating to adjustments	(24.6)	13.2	nm
Adjusted net income ⁽¹⁾	\$ 349.0	\$ 573.6	(39)
Adjusted net income per boe ⁽¹⁾	\$ 4.71	\$ 7.76	(39)

(1) See "Non-GAAP financial measures" in the Advisories and Guidance section of this MD&A.

Change in Adjusted Net Income During the Three Months Ended December 31, 2019



During the three months ended December 31, 2019, the Company's adjusted net income was \$89.7 million compared to \$66.3 million during the same period in the prior year, primarily due to higher commodity prices and lower depletion and depreciation from lower production. Compared to the third quarter of 2019, adjusted net income increased from \$78.5 million to \$89.7 million, primarily due to higher commodity prices.

Change in Adjusted Net Income During the Year Ended December 31, 2019



For the year ended December 31, 2019, the Company's adjusted net income was \$349.0 million compared to \$573.6 million during the year ended December 31, 2018. The decline in adjusted net income was primarily due to lower funds flow from lower commodity prices, higher royalty expenses, partially offset by lower operating expenses. The Company also recognized higher depletion and depreciation in 2019, primarily due to a higher depletable base.

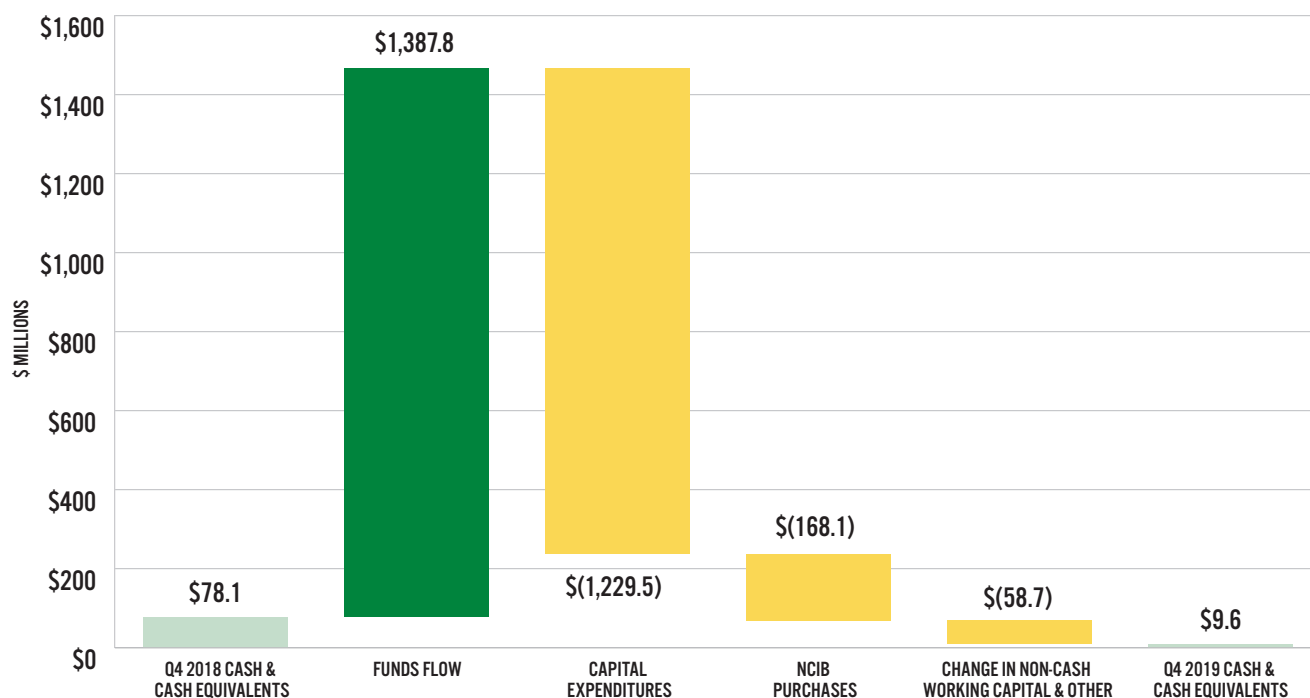
Net Income

During the three months ended December 31, 2019, the Company earned net income of \$82.6 million compared to \$245.4 million during the same period in the prior year. The decline in net income was primarily due to an unrealized gain on risk management contracts of \$395.3 million during the fourth quarter of 2018 as a result of a steep decline in oil price futures, compared to an unrealized loss of \$83.6 million on those instruments in 2019. The decline was partially offset by an unrealized foreign exchange gain on the Company's senior notes of \$39.7 million during the fourth quarter of 2019, compared to unrealized losses of \$109.5 million on those instruments during the fourth quarter of 2018.

During the year ended December 31, 2019, the Company earned net income of \$473.8 million compared to net income of \$439.9 million during the same period in 2018. The increase in net income was primarily due to an increase in unrealized foreign exchange gains and a deferred income tax recovery due to rate changes, partially offset by realized losses on risk management contracts, lower funds flow and higher depletion and depreciation expenses. The Company recognized an unrealized foreign exchange gain on its senior notes of \$102.9 million in 2019 compared to an unrealized loss of \$169.6 million in 2018 as a result of fluctuations in the value of the Canadian dollar. The Company recognized a deferred income tax recovery of \$90.2 million in 2019 as a result of a change in the provincial corporate tax rate from 12% to 8%. The unrealized derivative losses of \$92.9 million were due to increases in crude oil and natural gas futures relative to the Company's fixed contract positions.

Compared to the third quarter of 2019, the Company's net income during the fourth quarter of 2019 declined moderately from \$85.1 million to \$82.6 million as unrealized losses on risk management contracts were mostly offset by an unrealized foreign exchange gain on the Company's senior notes and higher funds flow in the fourth quarter. The Company recognized an unrealized loss on risk management contracts of \$83.6 million in the fourth quarter 2019 compared to an unrealized gain of \$44.1 million during the third quarter. The Company recognized an unrealized foreign exchange gain on its senior notes of \$39.7 million during the fourth quarter, compared to an unrealized foreign exchange loss of \$24.4 million on its senior notes during the third quarter.

Change in Cash During the Year Ended December 31, 2019



* Figures presented in the table above can be reconciled to the cash flow statement in the Company's consolidated financial statements for the year ended December 31, 2019.

The Company was able to internally fund the 2019 capital program as funds flow generated was in excess of capital investments. Seven Generations intends to continue utilizing free cash flow to repurchase shares or reduce net debt.

2020 OUTLOOK & 2019 REVIEW

Seven Generations has approved a 2020 capital investment program of \$1.1 billion for continued development of the Kakwa River Project, targeting an average production range of 200 to 205 mboe/d in 2020. The following table summarizes the 2020 budget highlights:

2020 OUTLOOK

Capital budget (\$ millions)	\$ 1,100
Average Production	
Number of wells brought on production	75 – 80
Condensate percentage (%) ⁽¹⁾	34% – 38%
Liquids percentage (%) ⁽¹⁾	56% – 60%
Total production (mboe/d) ⁽¹⁾	200 – 205
Expenses	
Royalties (%) at US\$50 WTI	5% – 7%
Royalties (%) at US\$60 WTI	7% – 9%
Operating expenses (\$/boe)	\$ 4.75 – 5.25
Transportation, processing and other (\$/boe)	\$ 6.75 – 7.25
G&A expense (\$/boe)	\$ 0.85 – 0.95
Interest (\$/boe)	\$ 1.80 – 1.90

(1) See the "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

The 2020 capital budget consists of planned investments in Seven Generations' Nest areas primarily allocated to maintaining production. Beyond sustaining development activities, the 2020 budget also includes \$100 million of discretionary capital for enhancements to the Company's water handling and condensate stabilization infrastructure.

Seven Generation's 2020 capital program is \$150 million lower than its 2019 capital program, reflective of improved capital efficiencies, moderating decline rates and a focus on per-share returns. The capital program focuses on maintaining current production levels and the construction of key value-added infrastructure to support the Company's multi-year drilling inventory. Should stronger commodity prices lead to higher funds flow than we have budgeted for capital investments, Seven Generations plans to prioritize the allocation of additional funds towards share repurchases or reductions of net debt.

2019 REVIEW	Guidance		Actual	
Capital budget (\$ millions)	\$	1,250	\$	1,230
Average Production				
Number of wells brought on production		65 – 70		83
Liquids percentage (%) ⁽¹⁾		58% – 60%		59%
Total production (mboe/d) ⁽¹⁾		200 – 205		203
Expenses				
Royalties (%) at US\$50 WTI		5% – 7%		7%
Operating expenses (\$/boe)	\$	5.00 – 5.25	\$	4.79
Transportation, processing and other (\$/boe)	\$	6.75 – 7.25	\$	6.69
G&A expense (\$/boe)	\$	0.80 – 0.90	\$	0.86
Interest (\$/boe)	\$	1.80 – 1.90	\$	1.86

(1) See the "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

Seven Generations delivered upon its operational guidance for the year ended December 31, 2019. The Company continued to achieve lower drilling and completion costs, with per well costs declining from \$10.1 million to \$9.0 million, year over year. Cost saving efficiencies from drilling and completion activities allowed the Company to perform additional drilling, completion and tie-in activities during the fourth quarter and still complete the 2019 capital program under budget. Late in the fourth quarter of 2019, Seven Generations was able to bring an additional nine wells on stream which did not significantly contribute to production in 2019. Operating expenses were less than 2019 guidance as the Company's water handling initiatives and lower equipment rental costs continue to drive lower per barrel operating costs.

RESERVES

McDaniel & Associates Consultants Ltd. ("McDaniel"), the Company's independent, qualified reserves evaluator, performed reserves evaluations of the Company's Kakwa River Project as at December 31, 2019 and as at December 31, 2018. The following table summarizes Seven Generations' reserves based on the McDaniel Reserves Report:

Reserve Category ⁽¹⁾	Year ended December 31,			
	2019		2018	
	MMboe	\$MM ⁽²⁾	MMboe	\$MM ⁽²⁾
Gross proved developed producing reserves	261	\$ 2,899	242	\$ 2,824
Gross proved ("1P") reserves	842	\$ 6,730	856	\$ 6,518
Gross proved plus probable ("2P") reserves	1,604	\$ 12,602	1,644	\$ 12,282

(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 8% year-over-year, replacing 126% of 2019 production. The increase was primarily due to ongoing drilling activities, enhanced recovery assumptions and results from the lower Montney. Total gross 1P and 2P reserves were 842 MMboe and 1,604 MMboe, respectively, a decrease of approximately 2%, compared to the prior year. Declines in the Company's 1P and 2P reserves were primarily due to 2019 production and a reduction of natural gas volumes, partially offset by higher condensate volumes and additional reserve assignments from 2019 development activities.

The Company's 2P reserves as at December 31, 2019 were estimated to have a pre-tax net present value of approximately \$12.6 billion using a 10% discount rate, compared to \$12.3 billion in the prior year. The increase in the estimated discounted cash flows were primarily due to the higher condensate volumes and lower future development costs partially offset by declines in natural gas volumes and lower commodity price assumptions.

CAPITAL INVESTMENTS

	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Drilling and completions	\$ 132.5	\$ 148.9	(11)	\$ 171.0	(23)
Facilities and infrastructure	59.0	67.7	(13)	76.9	(23)
Land and other ⁽¹⁾	41.4	45.7	(9)	36.7	13
Total capital investments	\$ 232.9	\$ 262.3	(11)	\$ 284.6	(18)

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

	Year ended December 31,		
	2019	2018	% Change
Drilling and completions	\$ 707.8	\$ 1,037.0	(32)
Facilities and infrastructure	387.6	544.8	(29)
Land and other ⁽¹⁾	134.1	183.9	(27)
Total capital investments	\$ 1,229.5	\$ 1,765.7	(30)

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

During the year ended December 31, 2019, Seven Generations invested \$1.23 billion for continued development of its Kakwa River Project, a 30% decline compared to the prior year. The reduced capital investments in 2019 are a reflection of the lower commodity price environment and has allowed Seven Generations to maintain the Company's production profile of approximately 200 mboe/d and finance its capital investment program through internally generated funds flow. In the current commodity price environment, the Company has prioritized free cash flow generation and the return of capital to its shareholders or the reduction of net debt rather than investing in production growth. Capital investments were in line with the Company's original 2019 capital guidance of \$1.25 billion.

Drilling and Completions

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 disposal wells:

Nest Activity	Three months ended December 31,			Three months ended September 30,		Year ended December 31,		
	2019	2018	% Change	2019	% Change	2019	2018	% Change
Drilling ⁽¹⁾								
Horizontal wells rig released	20	19	5	20	—	78	91	(14)
Average measured depth (m)	5,782	6,010	(4)	5,979	(3)	5,966	5,735	4
Average horizontal length (m)	2,579	2,776	(7)	2,785	(7)	2,729	2,551	7
Average drilling days per well	26	28	(7)	25	4	28	27	4
Average drill cost per metre (\$) ⁽²⁾	526	560	(6)	502	5	545	607	(10)
Average well cost (\$ millions) ⁽²⁾	3.1	3.4	(9)	3.0	3	3.3	3.5	(6)
Completion ⁽¹⁾								
Wells completed	10	13	(23)	30	(67)	79	89	(11)
Average tonnes pumped per metre	1.7	1.9	(11)	2.1	(19)	2.0	2.3	(13)
Average cost per tonne (\$) ⁽²⁾	1,070	1,282	(17)	917	17	1,073	1,228	(13)
Average cost per lateral metre (\$) ⁽²⁾	1,850	2,350	(21)	1,953	(5)	2,131	2,718	(22)
Average well cost (\$ millions) ⁽²⁾	4.8	5.7	(16)	5.4	(11)	5.7	6.6	(14)
Total D&C cost per well (\$ millions) ⁽²⁾⁽³⁾	7.9	9.1	(13)	8.4	(6)	9.0	10.1	(11)
Wells brought on production	26	8	nm	15	73	83	91	(9)

(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. Drilling counts are based on rig release date and on production counts are based on the first production date after the wells are tied in to permanent facilities.

(2) Information provided is based on field estimates and is subject to change.

(3) The number of horizontal wells rig-released do not correspond to the number of wells completions in the table above. Accordingly, the total average D&C costs per well may differ from the actual D&C costs for any individual well.

During the three and 12 months ended December 31, 2019, per well drilling costs declined by 9% and 6%, respectively, compared to the same periods in the prior year. The declines in per well drilling costs were primarily due to lower service costs and improvements in drilling efficiencies from bottom hole assemblies, well construction designs, water recycling and waste management. Savings from drilling efficiencies were higher in the fourth quarter of 2019 relative to the first nine months of 2019 primarily due to non-productive time incurred on a few wells during the first half of the year and shorter well lengths on certain wells drilled in the fourth quarter of 2019.

During the three and 12 months ended December 31, 2019, completion costs per well decreased by 16% and 14%, respectively, compared to the same periods in 2018. The declines in per well completion costs were primarily due to lower average costs per tonne as a result of efficiencies gained, lower day rates, and lower intensities. Compared to the third quarter of 2019, average completion costs decreased by 11%, primarily due to shorter laterals and lower tonnages.

The Company continuously assesses and seeks to optimize the tonnage and stage counts for its completions in the various sub-regions of the Nest.

Facilities and Infrastructure

Seven Generations invested \$387.6 million on facilities and infrastructure in 2019 to support the Company's ongoing pad developments and to provide pipeline interconnectivity across the Kakwa River Project, in-line with the Company's 2019 capital budget.

Seven Generations expanded its infrastructure network in 2019 by connecting the southern Nest 3 development area to its existing field gathering system, which has provided the Company with additional optionality in the field. Construction of this 24 kilometres Nest 3 gathering system for condensate, raw gas and produced water was completed during the third quarter of 2019.

Land and Other

In the fourth quarter of 2019, the Company entered into an undeveloped Montney land swap transaction with a nearby third party operator to exchange approximately 20 net sections each of jointly held mineral rights across Seven Generations' Kakwa River Project. The land exchange transaction broadens the Company's contiguous footprint of undeveloped acreage and enhances future development capital efficiencies, driven by optimized lateral lengths, drilling orientations and reduced surface infrastructure requirements. The transaction also provides the Company with more control over the planned pace of development. Seven Generations recognized the acreages received at the carrying value of the acreage given up, resulting in no gain or loss in net income.

OPERATING RESULTS

Daily Sales Volumes

	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Sales Volumes ⁽¹⁾					
Condensate (mmbbl/d)	75.0	81.8	(8)	75.5	(1)
Natural gas (MMcf/d)	523.1	515.4	1	515.3	2
Other NGLs (mmbbl/d)	45.9	47.4	(3)	43.2	6
Total sales volumes (mboe/d)	208.1	215.1	(3)	204.6	2
Inventory build (draw)	—	(2.0)	(100)	—	—
Total production volumes (mboe/d)	208.1	213.1	(2)	204.6	2
Liquids percentage of production ⁽²⁾	58%	60%	(3)	58%	—
Condensate-to-gas ratio (bbls/MMcf)	143	155	(8)	147	(3)

(1) Excludes volumes that were purchased and re-sold in respect of the Company's transportation utilization and marketing activities. See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Liquids percentage is calculated on total production volumes.

Sales Volumes ⁽¹⁾	Year ended December 31,		
	2019	2018	% Change
Condensate (mmbbl/d)	74.8	76.4	(2)
Natural gas (MMcf/d)	503.0	490.5	3
Other NGLs (mmbbl/d)	44.4	44.4	—
Total sales volumes (mboe/d)	203.0	202.6	—
Liquids percentage of production ⁽²⁾	59%	60%	(2)
Condensate-to-gas ratio (bbls/MMcf)	149	156	(4)

(1) Excludes volumes that were purchased and re-sold in respect of the Company's transportation utilization and marketing activities. See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Liquids percentage is calculated on total production volumes.

Seven Generations' sales volumes relate to production from the Kakwa River Project that is delivered to the market. As at December 31, 2019, the Company had over 500 net horizontal Montney producing wells in the Kakwa River Project with an inventory of 52 wells at various stages of construction between drilling, completion and tie-in (December 31, 2018 – 420 wells producing and 49 wells under construction).

During the fourth quarter of 2019, Seven Generations' production averaged 208.1 mboe/d compared to 213.1 mboe/d during the same period in 2018. The decrease in production was primarily due to the Company's more level-loaded drilling and completion activities in 2019 from improved capital and operating efficiencies, compared to the prior year.

During the year ended December 31, 2019, the Company's production was relatively consistent with the prior year and in-line with the Company's 2019 budget. Execution of the Company's 2019 drilling and completion program was primarily intended to maintain production of approximately 200,000 boe/d on an annualized basis.

Seven Generations' production from the Kakwa River Project continues to deliver high liquids content. During the year ended December 31, 2019, liquids yields averaged 59% and had a condensate-to-gas ratio of 149 bbl/MMcf compared to 60% liquids and 156 bbl/MMcf during 2018. The decrease in the condensate-to-gas ratio was primarily due to a higher concentration of liquids produced from initial volumes on Nest 1 wells brought on stream in the fourth quarter of 2018 and a lower concentration of liquids produced from initial volumes on Nest 3 wells brought on stream in 2019.

Benchmark Prices

Average Monthly Benchmark Prices	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Oil – WTI (US\$/bbl)	\$ 56.96	\$ 58.81	(3)	\$ 56.45	1
Oil – WTI (C\$/bbl)	\$ 75.19	\$ 77.75	(3)	\$ 74.56	1
Condensate – CRW Pool (C\$/bbl)	\$ 69.78	\$ 60.32	16	\$ 68.78	1
Natural gas – NYMEX Henry Hub (US\$/MMBtu)	\$ 2.50	\$ 3.64	(31)	\$ 2.23	12
Natural gas – Chicago Citygate (US\$/MMBtu)	\$ 2.44	\$ 3.63	(33)	\$ 2.03	20
Natural gas – Dawn (US\$/MMBtu)	\$ 2.24	\$ 3.79	(41)	\$ 2.13	5
Natural gas – AECO 5A (C\$/GJ)	\$ 2.35	\$ 1.48	59	\$ 0.86	173
Average exchange rate – C\$ to US\$	1.320	1.322	—	1.320	—

Average Monthly Benchmark Prices	Year ended December 31,		
	2019	2018	% Change
Oil – WTI (US\$/bbl)	\$ 57.03	\$ 64.77	(12)
Oil – WTI (C\$/bbl)	\$ 75.69	\$ 83.94	(10)
Condensate – CRW Pool (C\$/bbl)	\$ 69.99	\$ 78.78	(11)
Natural gas – NYMEX Henry Hub (US\$/MMBtu)	\$ 2.63	\$ 3.09	(15)
Natural gas – Chicago Citygate (US\$/MMBtu)	\$ 2.56	\$ 3.02	(15)
Natural gas – Dawn (US\$/MMBtu)	\$ 2.40	\$ 3.12	(23)
Natural gas – AECO 5A (C\$/GJ)	\$ 1.67	\$ 1.42	18
Average exchange rate – C\$ to US\$	1.330	1.296	3

The majority of Seven Generations' condensate production is delivered and sold in Central Alberta through Pembina Pipeline's 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 changes in foreign exchange rates, transportation costs and quality differentials.

During the three and 12 months ended December 31, 2019, the average WTI benchmark price declined by 3% and 12%, respectively, compared to the same periods in the prior year. The decreases were primarily due to growth in North American crude oil production and reduced economic and demand growth expectations. Compared to the third quarter of 2019, the benchmark price for WTI increased moderately by 1% primarily due to tensions in the Middle East and positive speculation regarding international trade negotiations.

The CRW Pool price for liquids sales in Alberta is the primary reference price for condensate in Western Canada. During the fourth quarter of 2019, the CRW Pool price was 93% of the Canadian dollar equivalent WTI benchmark price, compared to 78% during the fourth quarter of 2018. Growth in Canadian oil sands production combined with constrained egress out of Western Canada and US refinery maintenance resulted in downward pressure on Canadian crude oil prices and widening liquids differentials during the fourth quarter of 2018. In response, the Alberta Government announced a temporary province-wide mandatory production curtailment for certain producers in order to ease the over-supply of Canadian oil. The curtailments took effect in the first quarter of 2019. Seven Generations was not mandated to restrict its production under the Province of Alberta's production curtailment initiative. As a result of the curtailment initiative and the return of US refinery capacity, pipeline constraints and apportionments have eased and differentials have improved in 2019.

Seven Generations sells approximately 75% 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 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 year ended December 31, 2019.

During the fourth quarter of 2019, the Chicago Citygate and Henry Hub benchmark prices were 33% and 31% lower, respectively, compared to the fourth quarter of 2018. Compared to the year ended December 31, 2018, these gas benchmarks both decreased by 15%. The decline in benchmark prices were primarily due to growth in natural gas supply across North America and lower seasonal demand from moderate winter weather most notably in the US Midwest. Increases in natural gas storage inventories and lower LNG export prices also contributed to the decline in benchmark natural gas prices.

Seven Generations delivers approximately 17% of its natural gas production to the Dawn, Ontario market on the TC Energy system. The decreases in the Dawn benchmark pricing during the three and 12 months ended December 31, 2019 were consistent with the declines in Henry Hub and Chicago Citygate benchmark prices. The Dawn benchmark price was, however, more than double the AECO 5A benchmark price in 2018 and 30% greater during 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. In 2019, the AECO 5A benchmark price traded at a substantial discount relative to other North American benchmark prices primarily due to limited economic transportation and egress solutions out of the basin, increasing domestic production and constrained access to local storage facilities. The AECO 5A benchmark increased \$1.49/GJ in the fourth quarter of 2019, compared to the third quarter of 2019, primarily due to improved access to local storage facilities and higher weather related demand.

The Company continues to pursue potential market access opportunities for its liquids and natural gas. Starting in the fourth quarter of 2019, Seven Generations began delivering natural gas on the GTN pipeline system to markets in the US Pacific Northwest.

Realized Prices

	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Condensate (\$/bbl) ⁽¹⁾	\$ 66.39	\$ 53.57	24	\$ 65.59	1
Natural gas (\$/Mcf) ⁽¹⁾	3.25	4.77	(32)	2.85	14
Other NGLs (\$/bbl) ⁽¹⁾	10.75	8.44	27	2.74	nm
Total (\$/boe) ⁽²⁾	\$ 34.48	\$ 33.66	2	\$ 31.97	8

(1) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Excludes the purchase and sale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.

	Year ended December 31,		
	2019	2018	% Change
Condensate (\$/bbl) ⁽¹⁾	\$ 66.76	\$ 71.63	(7)
Natural gas (\$/Mcf) ⁽¹⁾	3.41	3.98	(14)
Other NGLs (\$/bbl) ⁽¹⁾	6.34	12.21	(48)
Total (\$/boe) ⁽²⁾	\$ 34.44	\$ 39.33	(12)

(1) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Excludes the purchase and sale of condensate and natural gas in respect of the Company's transportation commitment utilization and marketing activities.

During the three months ended December 31, 2019, the Company's realized condensate price increased by 24% compared to the same period in the prior year, primarily due to lower condensate differentials in 2019 which were lower due to constrained egress capacity out of the basin during the period in 2018. For the year ended December 31, 2019, the Company's realized condensate prices declined by 7% compared to the prior year, primarily due to weaker average crude oil benchmark prices in 2019.

For the three and 12 months ended December 31, 2019, Seven Generations' realized natural gas price decreased by 32% and 14%, respectively, compared to the same periods in 2018, primarily due to declines in the Henry Hub and Chicago Citygate benchmark prices. Compared to the third quarter of 2019, the Company's realized natural gas price increased by 14%, consistent with the increases in the North American benchmark prices due to seasonal demand.

Seven Generations' product mix of other NGLs consists of approximately 40% ethane, 40% propane and 20% butane. Approximately 60% of the Company's other NGLs are sold in the US Midwest market and 40% are sold in the Alberta market.

During the three months ended December 31, 2019, the Company's realized price for other NGLs increased by 27% compared to the same period in the prior year. The increase in natural gas liquids prices were primarily due to higher propane demand. Realized other NGL prices decreased by 48% during the year December 31, 2019, compared to 2018, primarily due to lower overall propane and butane prices across North America as a result of growth in US liquids-rich natural gas production.

Liquids and Natural Gas Sales

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Condensate ⁽¹⁾	\$ 458.1	\$ 403.2	14	\$ 455.6	1
Natural gas ⁽¹⁾	156.6	225.7	(31)	135.3	16
Other NGLs ⁽¹⁾	45.4	36.8	23	10.9	nm
Liquids and natural gas sales ⁽²⁾	\$ 660.1	\$ 665.7	(1)	\$ 601.8	10
Liquids and natural gas sales per boe	\$ 34.48	\$ 33.66	2	\$ 31.97	8

(1) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Excludes the purchase and sale 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 further details.

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Condensate ⁽¹⁾	\$ 1,822.6	\$ 1,997.3	(9)
Natural gas ⁽¹⁾	626.4	712.6	(12)
Other NGLs ⁽¹⁾	102.8	197.8	(48)
Liquids and natural gas sales ⁽²⁾	\$ 2,551.8	\$ 2,907.7	(12)
Liquids and natural gas sales per boe	\$ 34.44	\$ 39.33	(12)

(1) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(2) Excludes the purchase and sale 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 further details.

Liquids and natural gas sales relate to the sale of condensate and liquids-rich natural gas from the Company's Kakwa River Project.

During the three months ended December 31, 2019, Seven Generations recognized \$660.1 million in liquids and natural gas sales, a decrease of \$5.6 million compared to the same period in the prior year. The decline was due to lower volumes of \$21.7 million, partially offset by higher realized prices of \$16.1 million.

For the year ended December 31, 2019, liquids and natural gas sales decreased by \$355.9 million compared to the same period in the prior year. The decrease was due to lower realized prices of \$361.6 million, partially offset by higher volumes of \$5.7 million.

Compared to the third quarter of 2019, liquids and natural gas sales increased by \$58.3 million for the fourth quarter of 2019 with higher realized prices of \$48.0 million and higher volumes of \$10.3 million.

Marketing Income

	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Sale of purchased liquids and natural gas	\$ 131.1	\$ 135.8	(3)	\$ 78.4	67
Less: cost of product purchases	(119.7)	(122.5)	(2)	(66.0)	81
Less: transportation expenses	(8.0)	(9.4)	(15)	(8.9)	(10)
Add: third party marketing income	—	—	—	0.1	(100)
Marketing income ⁽¹⁾	\$ 3.4	\$ 3.9	(13)	\$ 3.6	(6)
Marketing income per boe ⁽¹⁾	\$ 0.18	\$ 0.20	(10)	\$ 0.19	(5)

(1) See "Non-GAAP financial measures" in the Advisories and Guidance section of this MD&A.

	Year ended December 31,		
	2019	2018	% Change
Sale of purchased liquids and natural gas	\$ 400.3	\$ 406.6	(2)
Less: cost of product purchases	(335.3)	(332.7)	1
Less: transportation expenses	(43.5)	(46.0)	(5)
Add: third party marketing income	0.4	0.8	(50)
Marketing income ⁽¹⁾	\$ 21.9	\$ 28.7	(24)
Marketing income per boe ⁽¹⁾	\$ 0.30	\$ 0.39	(23)

(1) See "Non-GAAP financial measures" in the Advisories and Guidance section of this MD&A.

Marketing income relates to the purchase and sale of liquids and natural gas in order to utilize the Company's pipeline capacity or fulfill sales nominations, primarily on the Pembina and Alliance pipeline systems. Beginning in the fourth quarter of 2018, the Company also began purchasing and reselling natural gas along the NGPL pipeline 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.

During the year ended December 31, 2019, marketing income decreased by 24% compared to the prior year primarily due to narrower natural gas pricing differentials between Canadian supply and US demand markets, primarily in the US Midwest.

The purchase and sale of liquids and natural gas in respect of the Company's in-house marketing activities are not included within the presentation of sales volumes, realized prices or liquids and natural gas sale sections of this MD&A. The transportation expenses relating to pipeline tariffs for volumes that were purchased for sale and delivered to market as well as third party marketing income have also been excluded from the "Transportation, processing and other expenses" section.

Risk Management Contracts

(\$ millions, except per boe data)	Three months ended December 31,		Three months ended September 30,	
	2019	2018	2019	
Realized gain (loss)	\$ 10.5	\$ (31.2)	\$ 30.6	
Unrealized gain (loss)	(83.6)	395.3	44.1	
Risk management gain (loss)	\$ (73.1)	\$ 364.1	\$ 74.7	
Realized gain (loss) per boe	\$ 0.55	\$ (1.58)	\$ 1.63	

(\$ millions, except per boe data)	Year ended December 31,	
	2019	2018
Realized gain (loss)	\$ 35.9	\$ (98.2)
Unrealized gain (loss)	(92.9)	49.1
Risk management loss	\$ (57.0)	\$ (49.1)
Realized gain (loss) per boe	\$ 0.48	\$ (1.33)

Seven Generations continues to execute a consistent risk management program which is primarily designed to reduce revenue and cash flow volatility, help ensure there are sufficient cash flows to service debt obligations and fund a portion of the Company's capital investment program. The Company hedges liquids and natural gas pricing exposures and exchange rates through a rolling three year hedging program. Price targets are established at levels that are expected to provide a high degree of confidence in the Company's ability to internally fund the proposed capital programs. The Company hedges up to 65% of current production forecasts 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. 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.

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 contracts. The following table summarizes the changes in the value of risk management contracts during the year ended December 31, 2019:

(\$ millions)	Natural gas	Oil	Foreign exchange	Total
Derivative asset (liability) as at December 31, 2018	\$ 45.4	\$ 75.1	\$ (33.1)	\$ 87.4
Realization of derivative (gains) losses	(47.7)	4.1	7.7	(35.9)
Unrealized increase (decrease) in fair value	36.4	(120.3)	26.9	(57.0)
Derivative asset (liability) as at December 31, 2019	\$ 34.1	\$ (41.1)	\$ 1.5	\$ (5.5)

During the three months ended December 31, 2019, Seven Generations recognized unrealized derivative losses of \$83.6 million primarily due to an increase in oil and natural gas price futures in the fourth quarter of 2019 relative to the Company's derivative contract positions, partially offset by unrealized derivative gains on foreign exchange contracts. The increase in commodity price futures in the fourth quarter of 2019 were primarily due to tensions in the Middle East and positive market sentiment regarding international trade negotiations.

For the year ended December 31, 2019, the Company recognized unrealized derivative losses of \$92.9 million primarily due to an increase in oil price futures compared to the prior year, and the realization and unwinding of previously recognized derivative contract gains associated with natural gas hedges. These unrealized derivative losses were partially offset by unrealized derivative gains on new natural gas hedges due to lower futures pricing and foreign exchange gains as a result of improvements in the speculative value of the Canadian dollar relative to the US dollar.

During the third quarter of 2019, the Company recognized unrealized derivative gains of \$44.1 million, primarily due to declining oil and natural gas price futures in the third quarter of 2019 relative to the Company's derivative contract positions, partially offset by realized hedging gains.

During the three and 12 months ended December 31, 2018, Seven Generations recorded 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 as a result of US refinery turnarounds and rising crude oil inventories.

During the three and 12 months ended December 31, 2019, Seven Generations realized derivative gains of \$10.5 million and \$35.9 million, respectively, primarily due to depressed natural gas prices and lower crude oil benchmarks. Realized derivative losses of \$31.2 million and \$98.2 million during the same periods in 2018 were primarily due to higher average crude oil prices relative to the Company's lower fixed contract positions.

The Company had the following risk management contracts in place as at December 31, 2019:

Term ⁽¹⁾	C\$ WTI Collars		C\$ WTI Sold Puts		US\$ WTI Collars/Swaps		US\$ WTI Sold Puts	
	bbl/d	C\$/bbl	bbl/d	C\$/bbl	bbl/d	US\$/bbl	bbl/d	US\$/bbl
2020	8,500	\$57.06 – \$71.50	1,500	\$40.00	26,000	\$54.29 – \$58.46	3,750	\$40.00
2021	—	—	—	—	8,000	\$53.37 – \$58.59	1,750	\$40.00
2022	—	—	—	—	1,250	\$52.31	—	—

(1) Weighted average volumes and prices are presented.

Term ⁽¹⁾	Chicago Citygate Swaps		Chicago Basis Swaps		NYMEX Henry Hub Collars/Swaps		AECO 7A Collars/Swaps	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	GJ/d	C\$/GJ
2020	32,500	\$2.74	55,000	\$(0.21)	142,500	\$2.64 – \$2.74	10,000	\$2.13
2021	—	—	52,500	\$(0.17)	42,500	\$2.62 – \$2.96	—	—
2022	—	—	12,500	\$(0.08)	5,000	\$2.58 – \$3.05	—	—

(1) Weighted average volumes and prices are presented.

Term ⁽¹⁾	FX Swaps/Collars	
	US\$MM	C\$:US\$
2020	\$ 304.6	\$1.2951 – \$1.3051
2021	\$ 179.6	\$1.2969 – \$1.3114
2022	\$ 54.4	\$1.3191 – \$1.3292

(1) Weighted average figures are presented.

Royalty Expense

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Royalties	\$ 50.2	\$ 19.5	157	\$ 37.5	34
Royalties per boe	\$ 2.62	\$ 0.99	165	\$ 1.99	32
Effective royalty rate ⁽¹⁾	8%	3%	167	6%	33

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

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Royalties	\$ 168.8	\$ 99.2	70
Royalties per boe	\$ 2.28	\$ 1.34	70
Effective royalty rate ⁽¹⁾	7%	3%	133

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

Seven Generations pays royalties to the Province of Alberta in respect to the Company's production and sales volumes from its Kakwa River Project. Seven Generations' new wells in its 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, 2019, royalty expenses were \$50.2 million (8% of revenue) compared to \$19.5 million (3% of revenue) during the same period in the prior year. During the year ended December 31, 2019, royalty expenses were \$168.8 million (7% of revenue) compared to \$99.2 million (3% of revenue) during the prior year. The increase in royalty expenses were primarily due to a greater number of the Company's wells having fully utilized their incentive programs which carry reduced initial royalty rates. Royalty expenses also increased in 2019 due to higher royalty reference prices.

During the third quarter of 2019, royalty expenses were \$37.5 million (6% of revenue) compared to \$50.2 million (8% of revenue) during the fourth quarter of 2019. The increase in royalty expenses during the fourth quarter were primarily due to higher royalty reference prices.

Operating Expenses

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Water trucking and disposal	\$ 29.8	\$ 45.7	(35)	\$ 31.2	(4)
Equipment rental and maintenance	23.2	27.9	(17)	25.4	(9)
Staff and contractor costs	11.6	13.2	(12)	16.1	(28)
Chemicals and fuel	12.5	11.4	10	12.3	2
Property tax and other	7.8	5.6	39	5.6	39
Operating expenses	\$ 84.9	\$ 103.8	(18)	\$ 90.6	(6)
Operating expenses per boe	\$ 4.43	\$ 5.25	(16)	\$ 4.81	(8)

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Water trucking and disposal	\$ 112.3	\$ 159.3	(30)
Equipment rental and maintenance	105.7	129.0	(18)
Staff and contractor costs	58.6	51.4	14
Chemicals and fuel	51.1	43.4	18
Property tax and other	27.1	25.2	8
Operating expenses	\$ 354.8	\$ 408.3	(13)
Operating expenses per boe	\$ 4.79	\$ 5.52	(13)

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

During the three and 12 months ended December 31, 2019, operating expenses per boe declined by 16% and 13%, respectively, compared to the same periods in 2018. The declines in operating costs were primarily due to lower trucking and disposal costs as a result of the Company's water handling initiatives, including the development of a multi-well water disposal system and gathering infrastructure and the recycling of produced water for new completion activities. Seven Generations also had fewer workover activities and lower equipment rental costs due to a lower number of production testing packages utilized on new wells. Declines in operating expenses were partially offset by a higher consumption of fuel, additional staff and contractor costs to support ongoing operations and the ramp up of the Gold Creek facility which came on stream in the fourth quarter of 2018.

Compared to the third quarter of 2019, operating expenses per boe were 8% lower per boe during the fourth quarter of 2019 primarily due to lower staff and contractor costs and higher production from new wells on stream.

Transportation, Processing and Other

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Pipeline tariffs ⁽¹⁾	\$ 94.9	\$ 91.9	3	\$ 90.8	5
Processing	28.8	22.8	26	19.6	47
Trucking and other	10.6	25.2	(58)	11.2	(5)
Transportation, processing and other	\$ 134.3	\$ 139.9	(4)	\$ 121.6	10
Transportation, processing and other per boe	\$ 7.01	\$ 7.07	(1)	\$ 6.46	9

(1) Excludes pipeline tolls related to purchased volumes that are transported to market for sale (presented net of marketing income).

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Pipeline tariffs ⁽¹⁾	\$ 358.2	\$ 325.9	10
Processing	91.4	100.2	(9)
Trucking and other	46.3	65.7	(30)
Transportation, processing and other	\$ 495.9	\$ 491.8	1
Transportation, processing and other per boe	\$ 6.69	\$ 6.65	1

(1) Excludes pipeline tolls related to purchased volumes that are transported to market for sale (presented net of marketing income).

Seven Generations' transportation and processing expenses primarily relate to tolls on the Pembina Peace, NGTL, TC Energy, NGPL and Alliance pipeline systems. The Company delivers more than 80% of its condensate production to market via pipeline. The Company trucks a portion of its liquids volumes that are in excess of its 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's, 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.

Seven Generations' natural gas transportation capacity provides geographic diversification across North America. The Company delivers approximately 90% of its natural gas outside of Alberta to the US Midwest, US Pacific Northwest, Eastern Canada and to an LNG export facility off the US Gulf Coast in Louisiana.

During the three months ended December 31, 2019, transportation and processing expenses decreased by 4%, compared to the same period in 2018, primarily due to lower trucking rates, partially offset by higher fees for natural gas volumes flowing through third-party facilities and higher tolls on incremental transportation capacity on the NGTL, NGPL and GTN pipeline systems. Trucking costs were higher in the fourth quarter of 2018 primarily due to pipeline apportionments from capacity restrictions and higher condensate volumes from new wells on stream.

Transportation and processing expenses for the year ended December 31, 2019 increased moderately by 1% compared to the prior year, primarily due to growth in capacity on the Company's pipeline systems, partially offset by overall lower average processing fees during the year and lower trucking rates.

Compared to the third quarter of 2019, transportation and processing expenses per boe increased by 9% during the fourth quarter of 2019 primarily due to higher processing fees and repair and maintenance costs incurred with respect to natural gas volumes flowing through 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 delivery and receipt transportation and processing agreements:

	Destination	2020	2021	2022	2023	2024
Transportation						
Condensate						
Pembina (mbl/d)	Central, AB	50	58	58	58	58
Natural gas						
Alliance (MMcf/d) ⁽¹⁾	US Midwest	515	508	425	8	8
NGTL Receipt (MMcf/d)	Western Canada	449	560	567	567	544
NGTL Empress Delivery (MMcf/d)	Eastern Canada	80	80	67	—	—
TC Energy Delivery (MMcf/d)		77	77	77	77	77
NGTL A/BC Delivery (MMcf/d)	Pacific Northwest	58	92	92	92	92
Foothills (BC) Delivery (MMcf/d)		58	91	91	91	91
GTN (MMcf/d)		58	92	92	92	92
NGPL (MMcf/d)	US Gulf Coast	155	155	155	155	155
Other NGLs						
Pembina (mbl/d)	Edmonton, AB	23	26	26	26	26
Processing						
Pembina – natural gas (MMcf/d)	Alberta	200	200	200	200	200
Other NGLs (mbl/d)		38	38	38	38	24

(1) Seven Generations holds an option to extend the Company's Alliance transportation capacity beyond 2023.

During the second quarter of 2019, the Company entered into a transportation agreement with Keyera Partnership to deliver condensate and other NGLs along the proposed KAPS from the Kakwa River Project to the Fort Saskatchewan liquids hub. KAPS is being developed jointly by Keyera and SemCAMS Pipelines Limited Partnership. The pipeline is anticipated to commence operations during the first half of 2022, subject to certain conditions including regulatory approvals. Seven Generations has committed volumes to the project but the total commitment will not be finalized until the in-service date of the pipeline. The agreement carries a term of greater than 10 years.

During the first quarter of 2019, Seven Generations expanded the Company's transportation capacity on the NGPL pipeline from 100 MMcf/d to 155 MMcf/d. The additional capacity provides Seven Generations with greater exposure to US Gulf Coast LNG prices and enhances the Company's market optimization portfolio.

Depletion and Depreciation

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Depletion and depreciation	\$ 226.9	\$ 234.3	(3)	\$ 224.4	1
Depletion and depreciation per boe	\$ 11.85	\$ 11.85	—	\$ 11.92	(1)

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Depletion and depreciation	\$ 881.9	\$ 846.9	4
Depletion and depreciation per boe	\$ 11.90	\$ 11.46	4

Depletion and depreciation reflects the development cost of the Company's investments which are initially capitalized and then amortized to net income over their estimated useful lives. The Company's property, plant and equipment ("PP&E") is depleted using the unit-of-production method based on the estimated recoverable amount from 2P reserves. The depletion base consists of the historical net book value of capitalized costs, plus estimated future development costs required to develop the Company's estimated 2P reserves. Seven Generations also depreciates its major components, such as natural gas facilities, on a straight line basis over their useful lives.

During the three months ended December 31, 2019, depletion and depreciation decreased by 3%, compared to the same period in the prior year, primarily due to lower production. Depletion and depreciation increased by 4% during the year ended December 31, 2019, compared to the prior year, primarily due to higher depletion rates from an increase in the Company's depletable base and the commencement of depreciation of the Gold Creek facility which became operational late in the fourth quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Available Funding

(\$ millions)	December 31, 2019	December 31, 2018
Current assets	\$ 378.4	\$ 423.3
Current liabilities	(438.7)	(410.4)
Working capital	(60.3)	12.9
Adjusted for:		
Current portion of risk management assets	(24.7)	(83.9)
Current portion of risk management liabilities	36.0	16.9
Adjusted working capital ⁽¹⁾	(49.0)	(54.1)
Credit Facility capacity	1,400.0	1,400.0
Available funding ⁽¹⁾	\$ 1,351.0	\$ 1,345.9

(1) See "Non-GAAP financial measures" in the Advisories and Guidance section of this MD&A.

As at December 31, 2019, Seven Generations had available funding of C\$1.4 billion which primarily consisted of an undrawn senior secured credit facility of C\$1.4 billion (the “Credit Facility”). The Credit Facility is a covenant-based borrowing structure that expires in 2024 and has an accordion feature that provides the Company with the ability to access an incremental \$500.0 million of secured debt, subject to certain conditions. In the fourth quarter of 2019, the Credit Facility was amended primarily to extend the maturity date of the facility by one year to 2024 and to increase the accordion feature from \$300.0 million to \$500.0 million. The Credit Facility was also modified to include borrowing and default provisions with respect to the Company’s decommissioning obligations.

Borrowings under the Credit Facility incur interest at a market-based interest rate plus an applicable margin which varies depending on the Company’s Senior Secured Net Debt to Adjusted EBITDA ratio. Amounts drawn under the Credit Facility in 2019 had an effective annual interest rate of 3.5%. The Company elected to draw these amounts from the Credit Facility in US dollars, as permitted under the terms of the credit agreement. In conjunction with these draws of US dollar denominated cash, the Company entered into short-term cross-currency swaps to mitigate the exposure to foreign currency risk and reduce borrowing costs.

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 financial related 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
- AER liability management ratio (“LMR”) – cannot be less than 1.25 for a period of greater than 90 days
- AER abandonment and reclamation orders – cannot exceed the greater of \$110.0 million and 1.5% of the carrying value of the Company’s oil & gas assets if the orders have not been withdrawn or satisfied within prescribed timelines

For the purposes of the covenant calculations, Adjusted EBITDA is primarily 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 primarily consists of amounts drawn under the Credit Facility less cash and cash equivalents but may now also include the value of Seven Generations’ undiscounted non-producing decommissioning obligation liabilities if the Company’s LMR falls below 2.00. The LMR is determined by the AER and is calculated by dividing Seven Generations’ deemed assets by its deemed liabilities, values of which are assessed by the AER. The agreements in respect of the Credit Facility are available on the SEDAR website at www.sedar.com.

Seven Generations actively manages compliance obligations and any outstanding abandonment and reclamation orders issued under prescribed industry regulations through regular contact with the AER department, monitoring of the Company’s ongoing operational activities, addressing all compliance related audits or resulting directives, ensuring any reportable incidents are submitted in a timely manner and staying well-informed about changes to the regulatory environment. The Company’s LMR is actively monitored.

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

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Net income	\$ 82.6	\$ 245.4	(66)	\$ 85.1	(3)
Finance expense	36.5	30.8	19	36.4	—
Current and deferred income taxes	(5.0)	133.6	nm	41.9	nm
Stock-based compensation	4.4	5.2	(15)	4.2	5
Unrealized (gain) loss on risk management contracts	83.6	(395.3)	nm	(44.1)	nm
Foreign exchange (gain) loss on senior notes and other	(39.7)	109.5	nm	24.4	nm
Adjusted EBIT ⁽¹⁾	162.4	129.2	26	147.9	10
Depletion and depreciation	226.9	234.3	(3)	224.4	1
Adjusted EBITDA ⁽¹⁾	\$ 389.3	\$ 363.5	7	\$ 372.3	5
Adjusted EBITDA ⁽¹⁾ per boe	\$ 20.33	\$ 18.38	11	\$ 19.78	3

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company’s non-GAAP and additional GAAP measures.

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Net income	\$ 473.8	\$ 439.9	8
Finance expense	144.9	127.3	14
Current and deferred income taxes	16.2	233.0	(93)
Stock-based compensation	17.8	19.9	(11)
Unrealized (gain) loss on risk management contracts	92.9	(49.1)	nm
Foreign exchange (gain) loss on senior notes and other	(102.9)	169.6	nm
Adjusted EBIT ⁽¹⁾	\$ 642.7	940.6	(32)
Depletion and depreciation	881.9	846.9	4
Adjusted EBITDA ⁽¹⁾	\$ 1,524.6	\$ 1,787.5	(15)
Adjusted EBITDA ⁽¹⁾ per boe	\$ 20.58	\$ 24.18	(15)

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures.

As at December 31, 2019, the Company was in compliance with the covenants under the Credit Facility. The Senior Secured Net Debt to Adjusted EBITDA Ratio was (0.01):1, Adjusted EBITDA to Interest Expense Ratio was 11.35:1, the Company's LMR was 29.30 and there were no outstanding abandonment and reclamation orders.

The Company has an unsecured demand letter of credit facility of C\$45.0 million and an additional US\$25.0 million. As at December 31, 2019, C\$41.7 million and US\$20.6 million in letters of credit were issued and outstanding under the facility (December 31, 2018 – C\$39.4 million and US\$18.8 million). Letters of credit issued under the letter of credit facility do not impact the Company's borrowing capacity under the Credit Facility.

Indebtedness and Total Capitalization

(\$ millions)	December 31, 2019	December 31, 2018
US\$425 million 6.75% senior notes, due May 1, 2023	\$ 552.0	\$ 579.8
US\$450 million 6.875% senior notes, due June 30, 2023	584.5	613.9
US\$700 million 5.375% senior notes, due September 30, 2025	909.2	955.0
Senior notes principal	2,045.7	2,148.7
Adjusted working capital deficit ⁽¹⁾	49.0	54.1
Long-term portion of lease liabilities	4.6	4.0
Net debt ⁽¹⁾	2,099.3	2,206.8
Shareholders equity ⁽¹⁾	5,199.1	4,849.6
Total capitalization ⁽¹⁾	\$ 7,298.4	\$ 7,056.4

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been restated to conform with current period presentation.

The Company currently holds prepayment options on its 6.75% Notes and 6.875% Notes which carry a weighted average cost of 103.4% of the debt principal as at December 31, 2019. The cost of the prepayment options declines each year on specified anniversary dates of May 1st and June 30th, respectively, until reaching par in 2021.

Seven Generations also 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 exercising the prepayment option declines at each anniversary date until reaching par by September 30, 2023. Prior to September 30, 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 to September 30, 2020.

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, 2019 and the AIF dated February 26, 2020, which are available on SEDAR, for further details. The indentures under which the senior notes were issued are also available on SEDAR.

Finance Expense

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Interest on senior notes	\$ 32.4	\$ 32.4	—	\$ 32.2	1
Revolving credit facility and bank fees	2.4	1.5	60	2.2	9
Accretion of decommissioning and lease liabilities	1.0	1.2	(17)	1.1	(9)
Amortization of premiums and debt issuance costs	0.7	0.6	17	0.9	(22)
Finance costs	36.5	35.7	2	36.4	—
Capitalized borrowing costs	—	(4.9)	(100)	—	—
Finance expense	\$ 36.5	\$ 30.8	19	\$ 36.4	—
Finance expense per boe	\$ 1.91	\$ 1.56	22	\$ 1.93	(1)

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Interest on senior notes	\$ 129.1	\$ 126.0	2
Revolving credit facility and bank fees	8.7	6.6	32
Accretion of decommissioning and lease liabilities	4.5	4.5	—
Amortization of premiums and debt issuance costs	2.6	2.2	18
Finance costs	144.9	139.3	4
Capitalized borrowing costs	—	(12.0)	(100)
Finance expense	\$ 144.9	\$ 127.3	14
Finance expense per boe	\$ 1.96	\$ 1.72	14

The Company's finance expense in 2019 primarily relate to interest on its senior notes with an aggregate 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 and lease liabilities. 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, gross finance costs increased by 2% and 4% during the three and 12 months ended December 31, 2019, respectively. These increases were primarily due to higher interest expense from a higher average balance of Credit Facility draws and higher interest expense on the Company's US dollar denominated senior notes as a result of lower average values of the Canadian dollar relative to the US dollar in 2019.

Capitalized borrowing costs in 2018 relate to the construction of the Gold Creek facility, 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 borrowing costs for this facility.

Foreign Exchange Exposure

(\$ millions)	Three months ended December 31,		Three months ended September 30,	
	2019	2018	2019	2018
Unrealized foreign exchange gain (loss) on US senior notes	\$ 40.3	\$ (109.6)	\$ (24.7)	\$ (24.7)
Unrealized foreign exchange gain (loss) on US working capital	(0.6)	0.1	0.3	0.3
Realized foreign exchange gain (loss) on US transactions	(1.2)	5.2	1.3	1.3
Net foreign exchange gain (loss)	\$ 38.5	\$ (104.3)	\$ (23.1)	\$ (23.1)

(\$ millions)	Year ended December 31,	
	2019	2018
Unrealized foreign exchange gain (loss) on US senior notes	\$ 103.2	\$ (172.0)
Unrealized foreign exchange gain (loss) on US working capital	(0.3)	2.4
Realized foreign exchange gain (loss) on US transactions	(4.2)	3.3
Net foreign exchange gain (loss)	\$ 98.7	\$ (166.3)

Seven Generations' foreign exchange gains and losses primarily relate 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, 2019, a 10% increase in the value of the Canadian dollar relative to the US dollar would result in a gain of approximately \$204.6 million (10% decline – loss of \$204.6 million) relative to the amortized cost of the notes.

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

During the three months ended December 31, 2019, Seven Generations recognized an unrealized foreign exchange gain on the Company's senior notes of \$40.3 million due to a strengthening of the Canadian dollar, relative to the US dollar, from 1.324:1 to 1.299:1 (C\$:US\$). For the year ended December 31, 2019, the Company incurred an unrealized foreign exchange gain of \$103.2 million due to a strengthening Canadian dollar from 1:364:1 to 1.299:1. The Company recognized a foreign exchange loss of \$24.7 million in the third quarter of 2019 as the value of the Canadian dollar declined from 1.309:1 to 1.324:1 during the interquartile period.

For the year ended December 31, 2018, the Company incurred an unrealized foreign exchange loss on its senior notes of \$172.0 million due to a decline in the value of the Canadian dollar from 1.255:1 to 1.364:1.

Capital Management

Seven Generations' objective for managing capital is to maintain a strong balance sheet and available funding in order to provide financial liquidity to fund the capital budget, the return of capital to shareholders, the reduction of debt or future development growth. Management believes it has sufficient funding to meet the Company's foreseeable liquidity requirements. As at December 31, 2019, Seven Generations' earliest debt maturity date is May, 2023, and the Company also has \$1.4 billion of available credit under the Company's Credit Facility that matures in 2024.

Near-term development activities are anticipated to be funded by the Company's funds flow, cash on hand and draws under the Credit Facility. The 2020 capital program is approximately \$150 million less than the Company's 2019 capital program, reflective of improved capital efficiencies, moderating decline rates and a focus on per-share shareholder returns. The capital program focuses on maintaining current production levels and construction of key value-added infrastructure to support the Company's multi-year drilling inventory.

Seven Generations plans to prioritize any free cash flow generated during 2020 towards its NCIB program or reduction of net debt. Should stronger commodity prices lead to higher funds flow than forecasted, the Company will re-evaluate the allocation of additional funds that could include share repurchases, debt repayments and margin-enhancing infrastructure investments.

Seven Generations strives for a proportion of debt and equity which appropriately balances the level of risk being incurred through 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 EBITDA of less than 2.0. The ratio was 1.4 for the year ended December 31, 2019 (December 31, 2018 – 1.2).

Return on Capital Investments

The Company continued to deliver positive returns from the Kakwa River Project, generating a ROCE of 9.0% during the year ended December 31, 2019 (December 31, 2018 – 14.1%). Seven Generations' CROIC for the year ended December 31, 2019 was 14.0% compared to 19.1% in 2018. The year over year declines in the Company's ROCE and CROIC measures were primarily due to lower commodity prices in 2019.

The following table summarizes the calculation of the Company's ROCE and CROIC for the year ended December 31, 2019:

(\$ millions) ⁽¹⁾	12 months ended December 31,			12 months ended September 30,	
	2019	2018	% Change	2019	% Change
Net Debt ⁽²⁾	\$ 2,153.0	\$ 2,038.6	6	\$ 2,138.1	1
Shareholders Equity ⁽¹⁾	5,024.4	4,650.0	8	4,929.1	2
Total Capitalization ⁽²⁾	7,177.4	6,688.6	7	7,067.2	2
Adjusted EBIT ⁽²⁾	\$ 642.7	\$ 940.6	(32)	\$ 608.8	6
ROCE ⁽²⁾	9.0%	14.1%	(36)	8.6%	5
Average oil and gas assets	\$ 7,851.6	\$ 7,192.7	9	\$ 7,836.0	—
Add: Accumulated depreciation and depletion	3,048.1	2,182.3	40	2,818.3	8
Average gross oil and gas assets	10,899.7	9,375.0	16	10,654.3	2
Adjusted EBITDA ⁽²⁾	\$ 1,524.6	\$ 1,787.5	(15)	\$ 1,498.1	2
CROIC ⁽²⁾	14.0%	19.1%	(27)	14.1%	(1)

(1) Adjusted EBITDA, adjusted EBIT, net debt and shareholders equity are based on the 12-month trailing figures from the dates indicated. Average gross oil and gas assets, have been calculated using opening and closing balances of the 12-month trailing period.

(2) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been restated to conform with current period presentation.

Return of Capital

In the fourth quarter of 2018, Seven Generations' initiated an NCIB in response to a decline in the Company's share price and given management's assessment of the Company's intrinsic value relative to its current trading value. The Company believes that an NCIB will enhance value on a per-share basis based on current share prices.

Under the approved 2018/2019 NCIB program, the Company was allowed to purchase up to 30.4 million common shares until November 4, 2019. In the fourth quarter of 2019, the Company completed its existing NCIB program and received approvals to purchase up to an additional 23.8 million shares under a new NCIB program from November 11, 2019 to November 10, 2020.

The following table summarizes the Company's share repurchase activities in 2018 and 2019:

(\$ millions, except as noted)	Three months ended December 31,		Year ended December 31,		Inception to date ⁽²⁾
	2019	2018	2019	2018	2019
Shares repurchased	6.4	9.7	22.1	9.7	31.8
Weighted average cost (\$/share)	\$ 7.84	\$ 10.72	\$ 7.61	\$ 10.72	\$ 8.56
Cost of shares purchased	\$ 50.2	\$ 104.2	\$ 168.1	\$ 104.2	\$ 272.3
% of weighted average shares outstanding ⁽¹⁾	1.8%	2.7%	6.1%	2.7%	8.8%

(1) Calculated based on the Company's common shares outstanding as at October 30, 2018 of 362.2 million.

(2) As at December 31, 2019.

All of the Company's stock purchased under the NCIB is acquired at prevailing market prices and subsequently cancelled.

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, 2020:

As at (millions)	February 18, 2020
Common shares issued and outstanding	333.0
Convertible securities:	
Stock options	9.3
Performance warrants	0.6
Performance share units ("PSUs")	1.1
Restricted share units ("RSUs")	1.1
Deferred share units ("DSUs")	0.4

During the year ended December 31, 2019, the Company issued 4.5 million equity compensation units consisting of 2.5 million stock options and 2.0 million PSUs, RSUs and DSUs. Seven Generations also had 4.1 million equity compensation units exercised primarily relating to warrant and stock option grants issued in prior years and 3.6 million equity compensation units forfeited during 2019.

The primary non-market based vesting condition for all of the Company's stock-based compensation plans, other than DSUs, is continuous employment. DSUs are fully vested at the date of grant. The vesting of PSUs is also conditional on the satisfaction of certain market-based and/or non-market-based performance criteria as determined by the Company's Board of Directors. If Seven Generations satisfies the performance criteria, PSUs become eligible to vest and a pre-determined multiplier is applied to eligible PSUs.

As at December 31, 2019, the maximum number of common shares issuable pursuant to all of the Company's outstanding convertible securities combined was 13.1 million, assuming the highest performance multiplier available to all PSU tranches. For additional information regarding the Company's security-based compensation, refer to the consolidated financial statements and the most recent Information Circular, which are both available on SEDAR.

Commitments and Contingencies

The following table summarizes the Company's undiscounted future contractual cash outflows, as at December 31, 2019:

(\$ millions)	2020	2021	2022	2023	2024	Thereafter	Total
Firm transportation and processing commitments ⁽¹⁾	\$ 520.3	\$ 533.9	\$ 505.5	\$ 323.9	\$ 317.3	\$ 2,226.2	\$ 4,427.1
Senior notes ⁽²⁾	—	—	—	1,136.5	—	909.2	2,045.7
Interest on senior notes ⁽²⁾	126.3	126.3	126.3	81.4	48.9	36.7	545.9
Accounts payable and accrued liabilities	402.7	—	—	—	—	—	402.7
Risk management contract liabilities	36.0	1.8	0.3	—	—	—	38.1
Long-term portion of lease liabilities (undiscounted)	—	2.0	2.1	1.2	—	—	5.3
	\$ 1,085.3	\$ 664.0	\$ 634.2	\$ 1,543.0	\$ 366.2	\$ 3,172.1	\$ 7,464.8

(1) The timing and extent of certain firm transportation commitments are subject to certain conditions, including regulatory approvals.

(2) The value of future cash outflows associated with US dollar denominated contracts have been converted to Canadian dollars at the December 31, 2019 exchange rate of US\$1=C\$1.2988.

The senior notes, accounts payable and accrued liabilities, risk management contract liabilities and the long-term portion of lease liabilities are recognized on the Company's consolidated balance sheet. The firm transportation and processing commitments, interest on the senior notes and certain other contractual commitments are off-balance sheet arrangements in accordance with IAS 1 – Presentation of Financial Statements.

Following the adoption of IFRS 16 on January 1, 2019, Seven Generations recognized a lease liability on the consolidated balance sheet for the majority of the Company's non-cancellable lease arrangements, primarily consisting of office space commitments. The Company elected to apply the practical expedient exemption to scope-out non-cancellable low-value and short-term lease arrangements. Seven Generations has also elected to not recognize certain natural gas processing commitments that previously had not met the definition of a lease under IFRIC 4 Determining whether an Arrangement Contains a Lease ("IFRIC 4") at the inception of the contract. These out-of-scope contractual commitments continue to be reflected as off-balance sheet arrangements.

During the first quarter of 2019, Seven Generations entered into a third-party water disposal agreement with an undiscounted take-or-pay commitment of up to \$88.4 million over five years. The commitment under the contract is contingent upon the productivity of the disposal wells. The contract qualifies as a lease arrangement under IFRS 16 and is currently presented as a firm transportation and processing commitment in the table above. The commencement date of the contract is anticipated to occur in the first quarter of 2020 when the third party water disposal assets are expected to be ready for use. At that time, Seven Generations will recognize a discounted right-of-use asset and corresponding lease liability on the consolidated balance sheet for the discounted value of the minimum lease payments under the contract.

The Company is currently undergoing income tax audits in the normal course of business. While the final outcome of such audits cannot be predicted with certainty and could be material, 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.

The Company is involved in legal claims arising in the normal course of business. While the final outcome of such claims cannot be predicted with certainty and could be material, Seven Generations does not currently anticipate that these claims will have a material impact on the Company's consolidated financial position or results of operations.

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

Off-balance Sheet Sales Commitments

The Company enters into physical delivery contracts on the Alliance Pipeline to Chicago, Illinois, the NGPL pipeline to the US Gulf Coast, the TC Energy pipeline to Dawn, Ontario, the NGTL pipeline in Alberta and the GTN pipeline to the Pacific Northwest 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, 2019:

Average Daily Sales Volume Commitments	2020
Chicago Citygate Index (MMBtu/d) – Alliance	53,929
Chicago Citygate Basis (MMBtu/d) – Alliance	28,750
US Gulf Coast Basis (MMBtu/d) – NGPL	54,167
US Gulf Coast Index (MMBtu/d) – NGPL	28,333
Dawn Hub Index (MMBtu/d) – TC Energy	21,588
Malin Hub Index (MMBtu/d) – GTN	2,766

OTHER CORPORATE EXPENSES

General and Administrative (G&A)

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Personnel	\$ 11.2	\$ 10.6	6	\$ 11.8	(5)
Office costs, travel and other	3.1	5.2	(40)	2.9	7
Professional fees	0.7	0.7	—	0.7	—
Information technology costs	2.0	2.4	(17)	1.4	43
Gross G&A expenses	17.0	18.9	(10)	16.8	1
Capitalized salaries and benefits	(1.2)	(0.9)	33	(1.0)	20
G&A expenses	\$ 15.8	\$ 18.0	(12)	\$ 15.8	—
G&A per boe	\$ 0.83	\$ 0.91	(9)	\$ 0.84	(1)

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Personnel	\$ 45.4	\$ 36.0	26
Office costs, travel and other	11.8	13.8	(14)
Professional fees	4.0	3.4	18
Information technology costs	7.5	6.3	19
Gross G&A expenses	68.7	59.5	15
Capitalized salaries and benefits	(4.7)	(3.3)	42
G&A expenses	\$ 64.0	\$ 56.2	14
G&A per boe	\$ 0.86	\$ 0.76	13

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 relate to personnel involved directly with the development of the Kakwa River Project.

G&A expenses decreased by 12% during the three months ended December 31, 2019, compared to the same period in the prior year. The decrease was primarily due to the classification of lease payments in respect of Corporate office space as a financing activity in the 2019 consolidated financial statements following the adoption of IFRS 16 during the year ended December 31, 2019. For the year ended December 31, 2019, Seven Generations G&A expenses increased by 14% compared to the prior year, primarily due to higher staff and software costs incurred to support ongoing operational activities, partially offset by the exclusion of office lease payments from G&A expenses.

Stock-based Compensation

(\$ millions, except per boe data)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Gross stock-based compensation	\$ 5.9	\$ 6.9	(14)	\$ 5.7	4
Capitalized stock-based compensation	(1.5)	(1.7)	(12)	(1.5)	—
Stock-based compensation expense	\$ 4.4	\$ 5.2	(15)	\$ 4.2	5
Stock-based compensation per boe	\$ 0.23	\$ 0.26	(12)	\$ 0.22	5

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	% Change
Gross stock-based compensation	\$ 24.0	\$ 26.8	(10)
Capitalized stock-based compensation	(6.2)	(6.9)	(10)
Stock-based compensation expense	\$ 17.8	\$ 19.9	(11)
Stock-based compensation per boe	\$ 0.24	\$ 0.27	(11)

The Company's current stock-based compensation is comprised of stock options, PSUs and RSUs, granted primarily to employees, and DSUs for non-executive Directors. Capitalized stock-based compensation relates to personnel involved directly 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 includes estimates for expected life, stock price volatility and the probability of achieving certain market and non-market-based vesting conditions. A summary of these assumptions can be found in Notes 3 and 21 of the consolidated financial statements for the year ended December 31, 2019.

Stock-based compensation expense was \$4.4 million during the three months ended December 31, 2019, compared to \$5.2 million during the three months ended December 31, 2018. Compared to the year ended December 31, 2018, stock-based compensation expense declined from \$19.9 million to \$17.8 million during 2019. The declines in equity compensation were primarily due to forfeitures, lower award values on new grants and graded vesting declines on legacy issuances.

Income Tax Expense (Recovery)

(\$ millions)	Three months ended December 31,			Three months ended September 30,	
	2019	2018	% Change	2019	% Change
Current income tax expense	\$ 0.1	\$ 0.3	(67)	\$ —	nm
Deferred income tax expense (recovery)	(5.1)	133.3	nm	(41.9)	(88)
Income tax expense (recovery)	\$ (5.0)	\$ 133.6	nm	\$ (41.9)	(88)

(\$ millions)	Year ended December 31,		
	2019	2018	% Change
Current income tax expense (recovery)	\$ 0.2	\$ (0.4)	nm
Deferred income tax expense	16.0	233.4	(93)
Income tax expense	\$ 16.2	\$ 233.0	(93)

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

During the year ended December 31, 2019, the Company's income tax expense declined by 93% compared to the same period in the prior year, primarily due to lower funds flow and the impact of anticipated reductions in the provincial corporate income tax rate in future years.

The following tables reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 26.5% (2018 – 27%) for the periods indicated:

(\$ millions)	Three months ended December 31,		Three months ended September 30,	
	2019	2018	2019	2018
Net income before income taxes	\$ 77.6	\$ 379.0	\$ 127.0	\$ 379.0
Statutory income tax rate	26.5%	27%	26.5%	27%
Expected income tax expense	20.6	102.3	33.7	102.3
Adjustments related to the following:				
Change in current and deferred income tax rates	(15.2)	—	1.4	—
Non-deductible taxable portion of foreign exchange (gain) loss	(5.3)	14.8	3.3	14.8
Change in unrecognized deferred tax asset	(5.3)	14.8	3.3	14.8
Stock-based compensation	0.7	1.5	0.3	1.5
Other items	(0.5)	0.2	(0.1)	0.2
Income tax expense	\$ (5.0)	\$ 133.6	\$ 41.9	\$ 133.6

(\$ millions)	Year ended December 31,	
	2019	2018
Net income before income taxes	\$ 490.0	\$ 672.9
Statutory income tax rate	26.5%	27%
Expected income tax expense	129.9	181.7
Adjustments related to the following:		
Change in current and deferred income tax rates	(90.2)	—
Non-deductible taxable portion of foreign exchange (gain) loss	(13.6)	23.3
Change in unrecognized deferred tax asset	(13.6)	20.9
Stock-based compensation	3.3	5.9
Other items	0.4	1.2
Income tax expense	\$ 16.2	\$ 233.0

During the second quarter of 2019, the Alberta Government enacted new legislation to reduce the provincial corporate income tax rate from 12% to 8%. Under the new legislation, the tax rate declines by 1% each year over the next four taxation years, starting on July 1, 2019, resulting in a combined federal and provincial corporate tax rate of 23% by 2022.

Seven Generations anticipates that the majority of the Company's existing deferred income tax liabilities will reverse at an effective tax rate of approximately 23%. For the year ended December 31, 2019, Seven Generations recognized a deferred income tax recovery of \$90.2 million to reflect the decline in deferred provincial income taxes anticipated under the new legislation.

As at December 31, 2019, the Company had \$5.5 billion of tax pools available for future deduction, including \$1.0 billion available for immediate deduction against taxable income (December 31, 2018 – \$5.6 billion and \$0.6 billion, respectively). Non-capital loss tax pools begin to expire after 2035.

SELECTED QUARTERLY INFORMATION

The following tables summarize selected consolidated financial information for the Company for the preceding 12 quarters:

(\$ millions, except per share amounts, production and unit prices)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	YE 2019
FINANCIAL					
Funds flow ⁽¹⁾	353.2	340.5	355.3	338.8	1,387.8
Funds flow per boe ⁽¹⁾	18.45	18.09	19.35	19.07	18.73
Per share – diluted	1.05	0.98	1.00	0.95	3.98
Free cash flow ⁽²⁾	120.3	55.9	44.2	(62.1)	158.3
Per share – diluted	0.36	0.16	0.12	(0.17)	0.45
Net income (loss)	82.6	85.1	295.3	10.8	473.8
Per share – diluted	0.24	0.25	0.83	0.03	1.36
Adjusted net income ⁽¹⁾	89.7	78.5	96.8	84.0	349.0
Per share – diluted	0.27	0.23	0.27	0.24	1.00
Revenues	669.6	718.0	795.5	546.3	2,729.4
CROIC (%) ⁽¹⁾	14.0%	14.1%	16.2%	17.7%	14.0%
ROCE (%) ⁽¹⁾	9.0%	8.6%	11.1%	12.8%	9.0%
OPERATING					
Sales volumes ⁽²⁾					
Condensate (mmbbl/d)	75.0	75.5	75.9	72.7	74.8
Natural gas (MMcf/d)	523.1	515.3	489.6	483.6	503.0
Other NGLs (mmbbl/d)	45.9	43.2	44.3	44.1	44.4
Total (mboe/d)	208.1	204.6	201.8	197.4	203.0
Liquids %	58%	58%	60%	59%	59%
Realized prices					
Condensate (\$/bbl)	\$ 66.39	\$ 65.59	\$ 71.91	\$ 63.00	\$ 66.76
Natural gas (\$/Mcf)	3.25	2.85	3.29	4.32	3.41
Other NGLs (\$/bbl)	10.75	2.74	4.19	7.46	6.34
Total (\$/boe)	34.48	31.97	35.95	35.44	34.44
Royalties	(2.62)	(1.99)	(2.19)	(2.30)	(2.28)
Operating expenses	(4.43)	(4.81)	(5.00)	(4.93)	(4.79)
Transportation, processing and other	(7.01)	(6.46)	(6.64)	(6.65)	(6.69)
Operating netback before the following	20.42	18.71	22.12	21.56	20.68
Realized hedging gain (loss)	0.55	1.63	0.04	(0.34)	0.48
Marketing income ⁽¹⁾⁽³⁾	0.18	0.19	0.07	0.77	0.30
Operating netback ⁽¹⁾ (\$/boe)	\$ 21.15	\$ 20.53	\$ 22.23	\$ 21.99	\$ 21.46
Balance sheet					
Capital investments:					
Drilling and completions	132.5	171.0	172.9	231.4	707.8
Facilities and infrastructure	59.0	76.9	119.5	132.2	387.6
Land and other	41.4	36.7	18.7	37.3	134.1
Total capital investments	232.9	284.6	311.1	400.9	1,229.5
Total assets	8,437.4	8,454.8	8,318.8	8,228.5	8,437.4
Available funding ⁽¹⁾	1,351.0	1,277.2	1,288.3	1,280.9	1,351.0
Senior notes	2,030.2	2,069.3	2,044.1	2,086.5	2,030.2
Net debt ⁽¹⁾	2,099.3	2,213.7	2,178.6	2,229.9	2,099.3
Credit Facility draws outstanding	—	55.6	—	—	—
Repurchase of common shares (\$)	50.2	73.8	44.1	—	168.1
Weighted average shares outstanding – basic	336.5	345.9	351.9	353.0	346.8
Weighted average shares outstanding – diluted	337.9	347.0	353.9	355.6	348.5

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been adjusted to conform to current period presentation.

(2) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(3) Marketing income is comprised of all purchases, sale of revenues and transportation tariffs in respect of liquids and natural gas marketing activities. These components 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 2018	Q3 2018	Q2 2018	Q1 2018	YE 2018
FINANCIAL					
Funds flow ⁽¹⁾	336.2	522.5	434.0	379.5	1,672.2
Funds flow per boe ⁽¹⁾	16.99	25.84	25.49	22.46	22.61
Per share – diluted	0.93	1.43	1.19	1.04	4.60
Net income (loss)	245.4	196.4	(24.6)	22.7	439.9
Per share – diluted	0.68	0.54	(0.07)	0.06	1.21
Adjusted net income ⁽¹⁾	66.3	208.3	169.6	129.4	573.6
Per share – diluted	0.18	0.57	0.47	0.36	1.58
Revenues	1,146.8	809.0	560.4	653.7	3,169.9
CROIC (%) ⁽¹⁾	19.1%	20.5%	18.8%	18.1%	19.1%
ROCE (%) ⁽¹⁾	14.1%	15.9%	13.2%	11.5%	14.1%
OPERATING					
Sales volumes ⁽²⁾					
Condensate (mmbbl/d)	81.8	87.3	69.0	67.3	76.4
Natural gas (MMcf/d)	515.4	511.3	461.3	473.3	490.5
Other NGLs (mmbbl/d)	47.4	47.3	41.2	41.5	44.4
Total (mboe/d)	215.1	219.8	187.1	187.7	202.6
Liquids %	60%	61%	59%	58%	60%
Realized prices					
Condensate (\$/bbl)	\$ 53.57	\$ 79.26	\$ 81.67	\$ 73.39	\$ 71.63
Natural gas (\$/Mcf)	4.77	3.65	3.79	3.54	3.98
Other NGLs (\$/bbl)	8.44	14.02	13.39	13.33	12.21
Total (\$/boe)	33.66	42.99	42.42	38.19	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)	(6.24)	(6.65)
Operating netback before the following	20.35	29.43	28.53	25.10	25.82
Realized hedging gain (loss)	(1.58)	(1.79)	(1.04)	(0.78)	(1.33)
Marketing income ⁽¹⁾⁽³⁾	0.20	0.28	0.53	0.62	0.39
Operating netback ⁽¹⁾ (\$/boe)	\$ 18.97	\$ 27.92	\$ 28.02	\$ 24.94	\$ 24.88
Balance sheet					
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
Total assets	8,119.5	8,074.0	8,028.4	7,620.3	8,119.5
Available funding ⁽¹⁾	1,345.9	1,379.4	1,210.3	1,312.6	1,345.9
Senior notes	2,129.8	2,020.3	2,054.3	2,011.1	2,129.8
Net debt ⁽¹⁾	2,206.8	2,062.5	2,266.9	2,121.5	2,206.8
Credit Facility draws outstanding	—	—	131.7	—	—
Repurchase of common shares (\$)	\$ 104.2	\$ —	\$ —	\$ —	\$ 104.2
Weighted average shares outstanding – basic	359.2	361.9	358.4	354.9	358.6
Weighted average shares outstanding – diluted	362.3	365.7	364.7	363.5	363.9

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been adjusted to conform to current period presentation.

(2) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(3) Marketing income is comprised of all purchases, sale of revenues and transportation tariffs in respect of liquids and natural gas marketing activities. These components 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					
Funds flow ⁽¹⁾	402.0	288.3	244.6	272.4	1,207.3
Funds flow per boe ⁽¹⁾	22.15	17.04	16.27	19.77	18.90
Per share – diluted	1.10	0.79	0.67	0.75	3.31
Net income (loss)	83.1	85.7	178.1	215.6	562.5
Per share – diluted	0.23	0.24	0.49	0.59	1.54
Adjusted net income ⁽¹⁾	128.6	63.4	59.5	74.8	326.3
Per share – diluted	0.35	0.17	0.16	0.21	0.90
Revenues	652.3	563.7	608.8	629.8	2,454.6
CROIC (%) ⁽¹⁾	17.9%	16.4%	18.8%	18.7%	17.9%
ROCE (%) ⁽¹⁾	11.0%	9.2%	11.0%	10.9%	11.0%
OPERATING					
Sales volumes ⁽²⁾					
Condensate (mmbbl/d)	70.0	64.5	59.0	51.6	61.3
Natural gas (MMcf/d)	493.4	453.2	409.6	384.5	435.5
Other NGLs (mmbbl/d)	45.1	43.9	37.9	37.4	41.1
Total (mboe/d)	197.3	183.9	165.2	153.1	175.0
Liquids %	58%	59%	59%	58%	58%
Realized prices					
Condensate (\$/bbl)	\$ 67.95	\$ 54.95	\$ 58.28	\$ 63.84	\$ 61.28
Natural gas (\$/Mcf)	3.53	3.46	4.09	4.36	3.84
Other NGLs (\$/bbl)	18.30	15.18	11.45	12.45	14.56
Total (\$/boe)	37.13	31.43	33.58	35.52	34.45
Royalties	(1.18)	(0.86)	(0.62)	(1.22)	(0.97)
Operating expenses	(5.69)	(5.43)	(6.24)	(4.99)	(5.60)
Transportation, processing and other	(6.43)	(6.47)	(5.88)	(5.39)	(6.09)
Operating netback before the following	23.83	18.67	20.84	23.92	21.79
Realized hedging gain (loss)	0.38	0.84	0.12	(0.52)	0.25
Marketing income ⁽¹⁾⁽³⁾	0.65	0.27	0.43	0.17	0.39
Operating netback ⁽¹⁾ (\$/boe)	\$ 24.86	\$ 19.78	\$ 21.39	\$ 23.57	\$ 22.43
Balance sheet					
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 ⁽¹⁾	1,467.4	1,419.0	1,587.1	1,540.9	1,467.4
Senior notes	1,956.4	1,998.8	2,041.9	2,092.1	1,956.4
Net debt ⁽¹⁾	1,869.8	1,928.2	1,800.5	1,597.6	1,869.8
Weighted average shares – basic	354.7	354.4	353.4	350.6	353.3
Weighted average shares – diluted	363.9	364.0	365.1	363.1	364.4

(1) Refer to the Advisories and Guidance section of this MD&A for additional information regarding the Company's non-GAAP and additional GAAP measures. Certain comparative figures have been adjusted to conform to current period presentation.

(2) See "Note Regarding Product Types" in the Advisories and Guidance section of this MD&A.

(3) Marketing income is comprised of all purchases, sale of revenues and transportation tariffs in respect of liquids and natural gas marketing activities. These components 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.

Seven Generations' production volumes increased from 2017 to 2018 primarily due to the Company bringing 194 wells on production during those years. Since 2018, the Company has elected to sustain current production levels in pursuit of free cash flow generation instead of production growth. New wells brought on stream in 2018 and 2019 have offset natural well declines on existing wells.

The Company has recognized significant interquartile fluctuations in revenue over the past three years primarily due to commodity price changes as well as 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 and changes in realized commodity prices. 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 has continued to see positive funds flow despite a volatile commodity prices. The Company's funds flow has also experienced volatility primarily due to the commodity price environment.

Changes to net income (loss) in comparative quarterly periods from 2017 to 2019 is primarily due to variations in adjusted net income from commodity price volatility, unrealized hedging gains and losses and the impact of changes in foreign exchange rates on the Company's US dollar denominated senior notes.

Total capital investments have fluctuated primarily due to the cyclical timing of ongoing investments in drilling and infrastructure development. Seven Generations balance sheet has remained strong, with total assets increasing proportionately higher relative to the Company's net debt.

For additional information regarding the Company's 2019 financial results, refer to the other sections within this MD&A. Additional information regarding the 2017, 2018, and 2019 financial results can be found in the Company's previous MD&As.

ADVISORIES AND GUIDANCE

Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with IFRS requires Seven Generations to make significant judgments, estimates and assumptions that impact 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, 2019. There were no changes to Seven Generations' critical accounting policies and estimates during the year ended December 31, 2019, other than for the modified retrospective adoption of IFRS 16 Leases on January 1, 2019 which is discussed in further detail below.

IFRS 16 – Leases

On January 1, 2019, Seven Generations adopted the new accounting standard IFRS 16. IFRS 16 replaces IAS 17 Leases, IFRIC 4, the accounting for onerous lease liabilities which were previously measured under IAS 37 Provisions ("IAS 37") and other related IFRS interpretations. IFRS 16 prescribes a single recognition and measurement model for lease contracts and requires the recognition of a right-of-use asset and corresponding lease liability for most leases, including subleases.

Seven Generations elected to adopt IFRS 16 using the modified retrospective approach (simplified method) by recognizing an opening balance sheet adjustment for the Company's discounted right-of-use assets and corresponding lease liabilities as at January 1, 2019. Accordingly, there was no opening adjustment to retained earnings and the comparative 2018 consolidated statements of comprehensive income and cash flows have not been restated to reflect the accounting presentation prescribed under IFRS 16.

At the date of transition, Seven Generations recognized a lease liability of \$9.2 million in respect of long-term minimum commitments associated with corporate office lease arrangements under IFRS 16. The net balance sheet impact on transition was \$5.2 million due to the derecognition of a \$4.0 million onerous lease provision for underutilized office space previously recognized on the balance sheet under IAS 37, now recognized under IFRS 16. Under previous IFRS standards, office lease arrangements were recognized as general and administrative expenses as incurred. Seven Generations is the lessee for substantially all in-scope office lease arrangements.

The following table summarizes the opening balance sheet adjustment for the adoption of IFRS 16 as at January 1, 2019:

Opening Balance Sheet	December 31, 2018 (previous IFRS)	Adoption of IFRS 16	January 1, 2019 (new IFRS)
Oil and natural gas assets	\$ 7,652.1	\$ 5.2	\$ 7,657.3
Accounts payable and accrued liabilities	(393.5)	(2.5)	(396.0)
Other long-term liabilities	\$ (194.2)	\$ (2.7)	\$ (196.9)

Seven Generations has elected to apply the practical expedient exemption to scope-out non-cancellable low-value and short-term lease arrangements. The Company has also elected to not recognize contractual arrangements that previously had not met the definition of a lease under IFRIC 4 at the inception of the contract. These out-of-scope contractual arrangements continue to be recognized in net income as incurred.

At the inception of a contract, Seven Generations assesses if an agreement contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For all in-scope lease arrangements, a right-of-use asset and corresponding lease liability is initially recognized at the commencement date and measured at the net present value of all future non-cancellable lease payments. The lease payments are discounted using the rate implicit in the lease unless that rate is not readily determined, in which case, the Company's incremental borrowing rate is utilized. The estimated lease term consists of all non-cancellable periods under the contract and includes periods covered by an extension or termination option if Seven Generations is reasonably certain that it will exercise the option.

Right-of-use assets are depreciated to net income over the term of the contract using the straight line method. The depreciation of right-of-use assets that are utilized in respect of development activities is initially capitalized to PP&E and then depleted to net income over the remaining life of the developed assets once they are ready for use in the manner intended by management. Lease liabilities are accreted upwards toward their settlement value over the expected life of the contract in order to reflect the passage of time. Lease payments reduce the lease liability and are primarily reflected as a financing activity in the consolidated statement of cash flows. Right-of-use assets and lease liabilities are remeasured at each reporting period to reflect any contract modifications or reassessments that impact the remaining cash outflows under the contract.

Non-GAAP Financial Measures

This MD&A includes certain meaningful performance measures commonly used in the oil and natural gas industry that are not defined under IFRS, consisting of "adjusted net income", "adjusted net income per boe", "adjusted net income per diluted share", "operating netback", "funds flow per boe", "funds flow per diluted share", "free cash flow", "marketing income", "marketing income per boe", "adjusted EBIT", "CROIC", "ROCE", "adjusted working capital" and "available funding". The performance measures presented in this MD&A should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS and should be read in conjunction with the consolidated financial statements. Readers are cautioned that these non-GAAP measures do not have any standardized meanings 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. Refer to the Operational and Financial Highlights sections, Operating Results and Liquidity and Capital Resources section in this MD&A for additional details.

Adjusted Net Income

Adjusted net income is defined as net income, excluding unrealized gains and losses on financial instruments, realized foreign exchange gains and losses on debt repayments, deferred income tax impacts from changes in tax rates, 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. Adjusted net income per boe reflects adjusted net income on a per boe basis, which is calculated by dividing adjusted net income by the Company's total production. Adjusted net income per diluted share reflects adjusted net income on a per share basis, which is calculated by dividing adjusted net income by the Company's weighted average shares outstanding and the dilutive effect of outstanding equity compensation units during the period. Adjusted net income is used by Seven Generations and others as a performance measure that provides comparability of financial results between periods by excluding highly variable and non-operating related items such as unrealized gains or losses on financial instruments.

Previously, Seven Generations' adjusted net income performance measure was referred to as operating income. In the fourth quarter of 2019, Seven Generations elected to revise the name of this non-GAAP measure in order to better describe the nature of the metric which is a derivative of the Company's consolidated net income. The Company also wanted to avoid any confusion over terminology with the Company's operating netback performance measure, the calculation of which is not comparable to the calculation of adjusted net income. The value of the adjusted net income performance measure reported in previous periods was unaffected by this name change.

Operating Netback and 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. Funds flow per boe reflects funds flow on a per boe basis, which is calculated by dividing funds flow by the Company's total production. 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. Operating netback and funds flow per boe are utilized by Seven Generations and others to assess the profitability of the Company's liquids and natural gas assets and to compare results to prior periods or to peers by isolating for the impact of changes in production volumes.

Free Cash Flow

Free cash flow is calculated as funds flow less capital investments that occurred within the same reporting period. During the three months ended December 31, 2019, free cash flow was \$120.3 million, calculated as funds flow of \$353.2 million less capital investments of \$232.9 million. During the year ended December 31, 2019, free cash flow was \$158.3 million, calculated as funds flow of \$1,387.8 million less capital investments of \$1,229.5 million. This performance measure is utilized by Seven Generations and others to determine the amount of cash that is available to repurchase shares, repay debt, reinvest in the business or return to shareholders using cash generated from business operations. The Company did not generate free cash flow during the years ended December 31, 2018, 2017, 2016, 2015 or 2014.

Marketing Income

Marketing income is calculated as liquids and natural gas sales in respect of products that were purchased for sale plus third party marketing income, net of the cost of the product purchases and associated transportation, processing and other expenses. This performance measure allows Seven Generations 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. Marketing income per boe reflects marketing income on a per boe basis, which is calculated by dividing marketing income by the Company's total production. Isolating marketing income also allows the Company to present the results of upstream operating netback components separately from marketing activities. Users of the MD&A can reconcile the operating results of the Kakwa River Project to the income statement in the consolidated financial statements by adding the individual components of marketing income to their respective accounts.

Adjusted EBIT

Adjusted EBIT is calculated as net income before interest and income taxes, adjusted for certain non-cash and extraordinary items primarily consisting of unrealized gains and losses from financial instruments. Adjusted EBIT is utilized by the Company to calculate the ROCE performance measure. Adjusted EBIT is similar to the Adjusted EBITDA performance measure other than for the inclusion of depletion and depreciation expenses. Refer to the additional GAAP measures section below for additional details.

CROIC & ROCE

CROIC is determined by dividing adjusted EBITDA by the average carrying value of the Company's oil and natural gas assets, excluding accumulated depletion and depreciation. ROCE is determined by dividing adjusted EBIT by the Company's total capitalization which consists of net debt and shareholders equity. The CROIC and ROCE measures allow Seven Generations and others to evaluate the Company's capital investing efficiency and ability to generate profitable returns by measuring earnings relative to the capital employed in the business.

Previously, the Company calculated ROCE by dividing adjusted EBIT by the average carrying value of the Company's total assets less current liabilities. In the fourth quarter of 2019, the denominator in the performance measure was amended to be total capitalization. The revised performance measure is similar to the previous measure, other than for primarily the exclusion of the Company's deferred income tax, decommissioning obligation liabilities, deferred issuance costs and deferred premiums in the denominator. Seven Generations elected to revise the ROCE calculation in order to better align the formula such that the Company's earnings are compared to the carrying value of third party cash financing sources and retained earnings that provide capital for use in the business.

The following table summarizes the changes made to the Company's ROCE calculation for the periods indicated:

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	2017
ROCE (previous methodology)	8.2%	12.9%	9.8%
ROCE (revised methodology)	9.0%	14.1%	11.0%
Impact of change to presentation of ROCE	0.8%	1.2%	1.2%

Adjusted Working Capital and Available Funding

Available funding is comprised of adjusted working capital and the undrawn component 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. Adjusted working capital is included within the non-GAAP measure because a surplus of adjusted working capital will result in a future net cash inflow to the business which can be used for future funding and a deficiency of adjusted working capital will result in a future net cash outflow which will require a future draw from the Company's existing funding opportunities in order to settle the short-term liabilities in excess of current assets. The available funding measure allows management and other users to evaluate the Company's short term liquidity.

Additional GAAP Measures

Certain performance measures have been included in Seven Generations' consolidated financial statements as they are relevant to the users' understanding of the Company's business, performance results and financial condition. Specifically, Seven Generations' "net debt", "total capitalization" and "adjusted EBITDA" measures have been included in *Note 15 – Capital Management*. The Company has also presented "funds flow" in the consolidated cash flow statement. Accordingly, these performance measures are additional GAAP measures and are not considered non-GAAP measures within this MD&A.

Readers are cautioned that these additional GAAP measures do not have any standardized meanings 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. Refer to the Operational and Financial Highlights sections, Operating Results and Liquidity and Capital Resources section in this MD&A for additional details.

Funds Flow

Funds flow is comprised of cash provided by operating activities, excluding the impact of changes in non-cash working capital. The Company utilizes funds flow as a measure of operational performance and cash flow generating capability. Funds flow also 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 from cash provided by operating activities, the funds flow measure provides a meaningful metric for Management and others by establishing a clear link between the Company's cash flows, income statement and operating netbacks from the business. Funds flow is presented in the Company's cash flow statement in the consolidated financial statements.

Funds flow per boe reflects funds flow on a per boe basis and is calculated by dividing funds flow by the Company's total production. Funds flow per diluted share reflects funds flow on a per share basis and is calculated by dividing funds flow by the Company's weighted average shares outstanding and the dilutive effect of outstanding equity compensation units during the period.

Previously, Seven Generations' funds flow performance measure was referred to as adjusted funds flow and was calculated as cash provided by operating activities excluding the impact of changes in non-cash operating working capital, decommissioning obligation investments, transaction costs on acquisitions and prepaid processing fees on third-party facilities. In the fourth quarter of 2019, the performance measure was renamed to funds flow and the calculation was revised to consist of cash provided by operating activities, excluding the impact of changes in non-cash working capital. The change to the funds flow measure was completed in order to simplify the calculation, include the impact of certain recurring expenses of the Company and align with the regulatory guidance.

The change to the calculation did not have a material impact to the Company's funds flow. The following table summarizes the change in funds flow methodology for the selected periods indicated:

(\$ millions, except per boe data)	Year ended December 31,					
	2019	2018	2017	2016	2015	2014
Adjusted funds flow (previous methodology)	\$ 1,386.9	\$ 1,674.2	\$ 1,228.3	\$ 740.0	\$ 414.6	\$ 327.9
Funds flow (revised methodology)	1,387.8	1,672.2	1,207.3	732.6	414.6	291.8
Impact of change to presentation of funds flow	\$ 0.9	\$ (2.0)	\$ (21.0)	\$ (7.4)	\$ –	\$ (36.1)

Seven Generations previously utilized adjusted funds flow as the primary measure for managing capital. Starting in the fourth quarter of 2019, Seven Generations elected to utilize adjusted EBITDA as the primary measure for managing its capital in order to better align with the metrics utilized by the Company's lenders and other capital providers. Adjusted EBITDA is similar to adjusted funds flow, other than for primarily the exclusion of financing expenses.

Adjusted EBITDA

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 primarily relating to unrealized gains and losses on financial instruments. Seven Generations utilizes adjusted EBITDA as a measure of operational performance and cash flow generating capability. Adjusted EBITDA impacts the level and extent of funding for capital projects investments or returning capital to shareholders. This measure is also consistent with the adjusted EBITDA formula prescribed under the Company's Credit Facility and allows Seven Generations and others to evaluate the impact of the Company's earnings on its financial covenants and assess its ability to fund financing expenses and other obligations. The Company utilizes Adjusted EBITDA to calculate the CROIC performance measure.

Net Debt

Net debt is calculated as the current and long-term portions of the Company's debt and lease liabilities less adjusted working capital. Long-term debt for the senior unsecured notes is calculated as the principal amount outstanding converted to Canadian dollars at the closing exchange rate for the period and excludes unamortized premiums and debt issue costs (held at amortized cost). Net debt is an important measure used by Management to assess the Company's liquidity by incorporating long-term debt, lease liabilities and working capital.

Following the adoption of IFRS 16 on January 1, 2019, Seven Generations began including the lease liability in the net debt measure in order to provide users with a better understanding of the Company's long-term financing arrangements. The table on the following page summarizes the impact of the change to the net debt measure:

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	2017
Net debt (previous methodology)	\$ 2,094.7	\$ 2,202.8	\$ 1,866.4
Net debt (revised methodology)	2,099.3	2,206.8	1,870.4
Impact of change to presentation of net debt	\$ 4.6	\$ 4.0	\$ 4.0

Total Capitalization

Total capitalization consists of net debt and the carrying value of the Company's shareholders equity. Total capitalization is utilized by Seven Generations and others to analyze balance sheet strength, liquidity and composition. The Company also utilizes total capitalization to calculate the ROCE performance measure. The total capitalization measure previously consisted of net debt and the market capitalization value of the Company's publicly traded common shares. Starting in fourth quarter of 2019, Seven Generations elected to instead utilize the net book value of the Company's shareholders equity in order to better align the total capitalization measure with the figures that are presented in the consolidated balance sheets. The total capitalization measure was also update to reflect the changes to the net debt measure discussed above. The following table summarizes the impact of the change to the total capitalization measure:

(\$ millions, except per boe data)	Year ended December 31,		
	2019	2018	2017
Total capitalization (previous methodology)	\$ 5,085.8	\$ 6,131.7	\$ 8,173.0
Total capitalization (revised methodology)	5,199.1	4,849.6	4,450.4
Impact of change to presentation of total capitalization	\$ 113.3	\$ (1,282.1)	\$ (3,722.6)

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 President & 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.

During the year ended December 31, 2019, Seven Generations added internal control procedures for reporting leases under the new IFRS 16 accounting standard.

The CEO and the CFO have also designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") 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.

Under the supervision of the CEO and the CFO, Seven Generations conducted an evaluation of the operating effectiveness of the Company's DC&P and ICFR as at December 31, 2019. Based on this evaluation, the officers concluded that as of December 31, 2019, Seven Generations maintained effective DC&P and ICFR.

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;
- potential impacts of climate change on the Company's operations;
- 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 and processing arrangements;
- the export and sale of natural gas to the United States;
- 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 which could be 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 area;
- unforeseen title defects;
- Indigenous 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;
- changes in the interpretation and enforcement of applicable laws and regulations;
- political changes;
- reassessment by taxing and royalty authorities of the Company's prior transactions and filings;
- 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 Canadian 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;
- 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-GAAP measures;
- breach of agreements 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; plans to maintain a strong balance sheet and pursue investments that will contribute to free cash flow and earn full-cycle returns across the entire commodity price cycle, with focused capital deployment on high return opportunities; the ability to capture premium prices from diverse markets for the Company’s production by establishing ample gathering, processing and transportation capacity; expected increase in free cash flow as we continue to leverage past investments and pursue new innovations and moderate production declines; continuous improvement expected; the expected boundary of high deliverability condensate-rich locations in the western portion of the Nest 2 area, which was previously considered part of the Wapiti area; the number of locations expected to have a Nest 2 type-curve production profile, which were previously expected to have a Wapiti type curve production profile; expected reserve life index; the number of years expected to drill the company’s core drilling inventory; the company’s continued focus on improving safety performance; the premium to be received through the arrangement with Énergir and the use thereof; the objectives of the 7G Sustainability Fund; and the planned release of the company’s annual sustainability report in March 2020; the ability to strengthen the company’s business through difficult circumstances like depressed commodity pricing, market access constraints and challenging capital markets; the expectation that maintaining the Company’s current production profile will moderate corporate decline rates and help drive free cash flow that will allow the Company to continue returning capital to shareholders or reduce net debt; the purchase of shares under the NCIB; the belief that the NCIB will help enhance per-share value given the Company’s current share price; planned sources and uses of funds; the forward-looking information contained under the heading “2020 Outlook & 2019 Review”, including the Company’s expected production, the number of wells to be drilled and brought on production, forecast expenses, and the Company’s planned capital investments and allocation of capital; expected income tax; the Company’s anticipated transportation and processing capacity; hedge targets; threshold rates of return on capital expected in connection with the Company’s hedging program based upon projected well performance and capital efficiencies; expectation that a third party propane dehydration and polypropylene facility will commence operations in the fourth quarter of 2021; the anticipated commencement of operations on the Key Access Pipeline System in the first half of 2022, subject to certain conditions including regulatory approvals; the expectation that near-term development activities will be funded by the Company’s funds flow, cash on hand and draws under the Credit Facility; the Company’s targeted trailing 12-month ratio of net debt to adjusted EBITDA of less than 2.0 times; tax pools available for future tax deductions; the Company’s objective of managing capital to maintain a strong balance sheet and available funding in order to provide financial liquidity to fund the capital budget, the return of capital to shareholders, the reduction of debt or future development growth. In addition to the foregoing, information and statements in this MD&A relating to reserves and the net present value of future net revenue from such 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 and/or sold based upon certain forecast prices and costs, as evaluated by the Company’s qualified independent reserves evaluator.

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; the impact of the company’s focus on responsible development and stakeholder service; the ability of the company’s proved plus probable reserves to support future activity and anchor domestic and export energy projects; the company’s expectations that its corporate decline rates will continue to moderate in 2020; 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 changes; 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; potential impacts of climate change on the Company's operations; 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 and processing arrangements; the export and sale of natural gas to the United States; 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 area; unforeseen title defects; Indigenous 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 Canadian 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 and royalty 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 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.

Note Regarding Product Types

This MD&A includes references to total average daily production, condensate production, other NGL production, natural gas production and liquids production. Other NGLs refers to all natural gas liquids, except for condensate, which is reported separately. Natural gas refers to conventional natural gas and shale gas combined. Liquids refers to condensate and other NGLs combined. The following table is intended to provide supplemental information about the product type composition for each of the production figures that are provided in this MD&A:

	Condensate (mmbbl/d)	Other NGLs (mmbbl/d)	Shale Gas (MMcf/d)	Conventional Natural Gas (MMcf/d)	Total (mboe/d)
Three months ended					
March 31, 2017	51.6	37.4	341.9	42.6	153.1
June 30, 2017	59.0	37.9	382.0	27.6	165.2
September 30, 2017	64.5	43.9	422.3	30.9	183.9
December 31, 2017	70.0	45.1	469.1	24.3	197.3
March 31, 2018	67.3	41.5	425.4	47.9	187.7
June 30, 2018	69.0	41.2	428.8	32.5	187.1
September 30, 2018	87.3	47.3	479.8	31.5	219.8
December 31, 2018	81.8	47.4	480.9	34.5	215.1
March 31, 2019	72.7	44.1	447.3	36.3	197.4
June 30, 2019	75.9	44.3	455.6	34.0	201.8
September 30, 2019	75.5	43.2	480.5	34.8	204.6
December 31, 2019	75.0	45.9	492.4	30.7	208.1
Year ended					
December 31, 2017	61.3	41.1	404.2	31.3	175.0
December 31, 2018	76.4	44.4	454.0	36.5	202.6
December 31, 2019	74.8	44.4	469.1	33.9	203.0

This MD&A also makes reference to Company's forecasted total average daily production of 200 – 205 mboe/d for 2020. Seven Generations expects that approximately 34% – 38% of that production will be comprised of condensate, 37% – 41% will be comprised of shale gas, 22% will be comprised of other NGLs and 3% will be comprised of conventional natural gas.

Note Regarding Oil and Gas Metrics

This document contains certain metrics, including barrels of oil equivalent (“boe”) and reserve life index, 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.

Note Regarding Drilling Locations

There is no certainty that the company will drill any of its identified drilling opportunities or drilling locations and there is no certainty that such locations will result in additional reserves or production. The drilling locations on which the company will actually drill wells, including the number and timing thereof, will be dependent upon a number of factors, which may include the availability of funding, regulatory approvals, oil and natural gas prices and costs, actual drilling results and the additional reservoir information that is obtained.

Independent Reserves Evaluation

Estimates of the Company’s reserves and the present value of future net revenue from such reserves, as at December 31, 2019, are based upon the report that was prepared by McDaniel & Associates Consultants Ltd. (“McDaniel”), evaluating the Company’s oil, natural gas and NGL reserves, dated February 26, 2020. Estimates of the Company’s reserves and the present value of future net revenue from such reserves, as at December 31, 2018, are based upon the report that was prepared by 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. 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 and the annual information form for the year ended December 31, 2018, which are available on SEDAR.

Certain Oil and Gas Terms

Certain terms used in this MD&A 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.

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 investment (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.

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.

reserve life index has been calculated by dividing the total proved and probable resource volumes by 2019 full year average production.

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; and,
- in relation to wells, the total number of wells 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 area in which the Company has an interest multiplied by the working interest owned by the Company.

Other Definitions

In this document there are references to “sustaining capital”. This term does not have any standardized meaning and therefore should not be used to make comparisons to similar measures presented by other entities. “Sustaining capital” refers to capital expenditures including drilling, completions, equipping, tie-in and other expenditures required to maintain production from existing facilities at current levels.

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

Abbreviations

Terms and abbreviations that are used in this MD&A that are not otherwise defined herein are provided below:

MEASUREMENTS	
1P	proved
2P	proved plus probable
bbl or bbls	barrel or barrels
bcf	billions of cubic feet
boe	barrels of oil equivalent ⁽¹⁾
d	day
GJ	gigajoules
km	kilometres
m	metres
m³	cubic metres
mbbl	thousands of barrels
mboe	thousands of barrels of oil equivalent ⁽¹⁾
Mcf	thousand cubic feet
MMBtu	million British thermal units
MMcf	million cubic feet
Other NGLs	butane, propane and ethane extracted from the natural gas stream
PDP	Proved developed producing
\$, C\$ or CAD	Canadian dollars
\$MM	millions of dollars
US\$ or USD	United States dollars
nm	not meaningful information
Q1	first quarter ended March 31 st
Q2	second quarter ended June 30 th
Q3	third quarter ended September 30 th
Q4	fourth quarter ended December 31 st
YE	year-end
YTD	year to date

(1) 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.

FINANCIAL & BUSINESS ENVIRONMENT

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
AER	Alberta Energy Regulator
AIF	Annual Information Form for the year ended December 31, 2019, dated February 26, 2020
Alliance	the Alliance Pipeline
BC	British Columbia
CDP	CDP Worldwide (formerly, the Carbon Disclosure Project)
condensate	Pentanes Plus (C5+) separated at field level and C5+ separated from the other NGL mix at the facility level
CROIC	cash return on invested capital
CRW Pool	Enbridge's Condensate Blend Pool
DSU	Deferred Share Units
D&D	depletion and depreciation
ESG	environment, social and governance factors
D&C	drilling and completion
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes depreciation and amortization
Free cash flow	Funds flow generated that is in excess of total capital investments made during the same period
FX	Foreign exchange
GTN	Gas Transmission Northwest LLC
G&A	general and administrative
HH	Henry Hub
IAS 37	International Accounting Standard 37 – Provisions
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS 16	International Financial Reporting Standard 16 – Leases
KAPS	Key Access Pipeline System
Keyera	Keyera Corp. and its affiliates
LNG	liquefied natural gas
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
Other 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
Pembina	Pembina Pipeline Corporation and its affiliates
Plains	Plains Midstream Canada ULC and its affiliates
PP&E	Property, plant and equipment
PSU	Performance Share Units
ROCE	return on capital employed
RSU	Restricted Share Units
SEDAR	System for Electronic Document Analysis and Retrieval (www.sedar.com)
super pads	the Company's decentralized field conditioning plants that separate field condensate and natural gas
TC Energy	TransCanada Pipelines Limited
TRIF	Total Recordable Incident Frequency
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

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 subsidiary (together, the “Company”) as at December 31, 2019 and 2018, 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, 2019 and 2018;
- 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 express 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 26, 2020

CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

As at	Notes	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents	5	\$ 9.6	\$ 78.1
Accounts receivable	6	306.2	237.3
Risk management contracts	8	24.7	83.9
Deposits and prepaid expenses		37.9	24.0
		378.4	423.3
Risk management contracts	8	7.9	44.1
Oil and natural gas assets	7	8,051.1	7,652.1
		8,437.4	8,119.5
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		402.7	393.5
Risk management contracts	8	36.0	16.9
		438.7	410.4
Risk management contracts	8	2.1	23.7
Senior notes	10	2,030.2	2,129.8
Other long-term liabilities	11	248.8	194.2
Deferred income taxes	12	518.5	511.8
		3,238.3	3,269.9
Equity			
Share capital	13	3,614.8	3,813.8
Contributed surplus		185.2	110.5
Retained earnings		1,399.1	925.3
		5,199.1	4,849.6
		\$ 8,437.4	\$ 8,119.5

Commitments and contingencies (Note 16)

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, 2019	December 31, 2018
Revenues			
Liquids and natural gas sales	17	\$ 2,952.1	\$ 3,314.3
Royalties expense		(168.8)	(99.2)
		2,783.3	3,215.1
Risk management contracts			
Realized gain (loss)	8	35.9	(98.2)
Unrealized gain (loss)	8	(92.9)	49.1
		3.1	3.9
Other income			
		2,729.4	3,169.9
Expenses			
Operating expenses	18	354.8	408.3
Transportation, processing and other	19	539.4	537.0
Product purchases	17	335.3	332.7
Depletion and depreciation	7	881.9	846.9
Finance expense	20	144.9	127.3
General and administrative		64.0	56.2
Stock-based compensation	21	17.8	19.9
Foreign exchange (gain) loss		(98.7)	166.3
Loss on associate		—	2.4
		2,239.4	2,497.0
Income before taxes			
		490.0	672.9
Income Taxes			
Current income tax expense (recovery)	12	0.2	(0.4)
Deferred income tax expense	12	16.0	233.4
		16.2	233.0
Net income and comprehensive income			
		\$ 473.8	\$ 439.9
Net income per share			
Basic	14	\$ 1.37	\$ 1.23
Diluted	14	\$ 1.36	\$ 1.21

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

For the year ended	Notes	December 31, 2019	December 31, 2018
Operating activities			
Net income and comprehensive income		\$ 473.8	\$ 439.9
Items not affecting cash:			
Depletion and depreciation	7	881.9	846.9
Unrealized (gain) loss on risk management contracts	8	92.9	(49.1)
Unrealized foreign exchange (gain) loss		(102.9)	169.6
Deferred income tax expense	12	16.0	233.4
Stock-based compensation	21	17.8	19.9
Non-cash finance expenses and other	2	8.6	14.5
Reclamation expenditures	11	(0.3)	(2.9)
Funds flow	2	1,387.8	1,672.2
Changes in non-cash working capital	23	(42.9)	124.1
Cash provided by operating activities		1,344.9	1,796.3
Financing activities			
Draws on credit facility	9	593.8	220.4
Repayment of credit facility draws	9	(593.8)	(224.6)
Purchase of common shares	13	(168.1)	(104.2)
Lease payments	11	(2.7)	—
Exercise of equity compensation units	21	19.7	36.8
Changes in non-cash working capital	23	(8.9)	6.0
Cash used in financing activities		(160.0)	(65.6)
Investing activities			
Investments in oil and natural gas assets	7	(1,229.5)	(1,765.7)
Changes in non-cash working capital	23	(23.9)	(52.6)
Cash used in investing activities		(1,253.4)	(1,818.3)
Foreign exchange gain on cash held in foreign currencies		—	0.4
Decrease in cash and cash equivalents		(68.5)	(87.2)
Cash and cash equivalents, beginning of year		78.1	165.3
Cash and cash equivalents, end of year		\$ 9.6	\$ 78.1

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, 2019	December 31, 2018
Share capital			
Balance, beginning of year		\$ 3,813.8	\$ 3,864.4
Exercise of equity compensation units	21	40.0	54.4
Purchase of common shares	13	(239.0)	(105.0)
Balance, end of year		3,614.8	3,813.8
Contributed surplus			
Balance, beginning of year		110.5	100.6
Stock-based compensation	21	24.1	26.7
Exercise of equity compensation units	21	(20.3)	(17.6)
Purchase of common shares	13	70.9	0.8
Balance, end of year		185.2	110.5
Retained earnings			
Balance, beginning of year		925.3	485.4
Net income and comprehensive income		473.8	439.9
Balance, end of year		\$ 1,399.1	\$ 925.3
Total shareholders equity, beginning of year		\$ 4,849.6	\$ 4,450.4
Total shareholders equity, end of year		\$ 5,199.1	\$ 4,849.6

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2019 and 2018

(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”) is incorporated under the *Canada Business Corporations Act* and commenced operations in 2008. Seven Generations is a low supply-cost energy producer dedicated to stakeholder service, responsible development and generating strong returns from condensate and liquids-rich natural gas from the Company’s 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 (“TSX”) under the symbol “VII”. These consolidated financial statements were approved and authorized by Seven Generations’ Board of Directors on February 26, 2020.

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 statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2018, other than for the modified retrospective adoption of IFRS 16 Leases (“IFRS 16”) on January 1, 2019 (Note 3 – Leases).

These consolidated financial statements consist of the financial records 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 millions of Canadian dollars unless noted otherwise. References to “US\$” relate to United States dollars.

In the consolidated statement of cash flows, certain 2018 comparative figures have been reclassified to conform with current period presentation. The funds flow subtotal has also been included in the 2019 cash flow statement which consists of cash provided by operating activities, excluding the impact of changes in non-cash working capital. The comparative 2018 consolidated cash flow statement has been updated to include this funds flow subtotal.

During the year ended December 31, 2019, Seven Generations revised certain performance measures utilized by the Company for purposes of managing its capital. Comparative 2018 figures have been updated to conform with the current year performance measures utilized by the Company (Note 15).

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 and includes land acquisition costs, geological and geophysical activities, drilling expenditures and costs incurred for the completion and testing of exploration wells. Seven Generations 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 activities, 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 exist when proved reserves are present 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 achieved. 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 Seven Generations’ PP&E is depleted using the unit-of-production method relative to the Company’s estimated total recoverable proved plus probable reserves. For the purposes of the depletion calculation, 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 E&E and 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 primarily consist of cash and cash equivalents, accounts receivable, risk management contracts, 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 (FV) 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.

The following table summarizes the Company’s financial instrument measurement approach and fair value hierarchy:

Financial Instrument	Fair Value Hierarchy	Classification & Measurement
Cash and cash equivalents	Level 1	FV through profit and loss
Accounts receivable	Level 3	Amortized cost
Risk management contracts	Level 2	FV 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 capitalized along with the host financial instrument and are amortized to net income over the life of the instrument.

Any impairment of financial assets is determined by assessing and measuring the expected credit losses of the instruments at each reporting period. Seven Generations measures expected credit losses using a lifetime expected loss allowance model 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 and recognize bad debt expenses. When measuring expected credit losses, the Company considers a variety of factors including: evidence of the debtor's financial condition, history of collections, the term of the receivable and any changes in economic conditions.

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 12 months of the balance sheet date.

Revenue

Revenue primarily relates to the sale of condensate, natural gas and natural gas liquids ("NGLs") in Canada and the United States from the Company's Kakwa River Project production. Seven Generations also purchases these products for resale in order to utilize the Company's pipeline capacity or fulfill sales nominations. The products are classified and presented in the consolidated financial statements based on the physical characteristics of the hydrocarbons at the time of sale. Liquids extracted from the natural gas are presented as NGLs except for pentanes plus extracted which are presented together with condensate sales. Revenues from liquids, natural gas and NGLs sales are presented net of third-party royalty interests on the consolidated income statement.

Seven Generations measures revenue from the sale of condensate, natural gas and NGLs at the amount the Company expects to receive which is based on an agreed upon transaction volume and price with the customer. Seven Generations recognizes revenue in the period when the following conditions have been satisfied: title and physical possession of the commodities have transferred, the significant risks and rewards of ownership of the products have been conveyed and there is a present right to payment. In most cases, revenue is recognized when the hydrocarbons are delivered to the customer. Payment terms with the Company's customers are generally within 30 days following the month of product delivery.

Seven Generations periodically enters into fixed-volume, index-based physical commodity delivery contracts with varying lengths of term. 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 and are considered own-use sales contracts that are not recorded at fair value in the financial statements. At each reporting period, these revenue contracts are off-balance sheet arrangements and carry unsatisfied or partially unsatisfied performance obligations for the Company which generally consists of outstanding volume delivery commitments.

Included in revenues are realized and unrealized gains and losses from the Company's risk management contracts which are remeasured at fair market value at each reporting period (see financial instruments accounting policy and Note 9). The Company also earns interest income primarily on its cash and cash equivalent balances held.

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 amount of the Company's CGUs are primarily estimated using discounted cash flows from the Company's proved plus probable reserves (Level 3 valuation).

Provisions

Provisions are liabilities that are recognized when Seven Generations has a present legal or constructive obligation as a result of a past event and it is probable that the Company 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 the Company's oil and natural gas assets. Decommissioning obligations are measured at the present value of the expected future inflated cash outflows 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

Seven Generations' income taxes primarily relate to deferred income taxes recognized in respect of the Company's earnings, which are anticipated in future years under the Income Tax Act (Canada). Seven Generations also incurs current income tax expenses and recoveries primarily relating to foreign-sourced income earned by the Company's US subsidiary. Income taxes are recognized in the statements of comprehensive income, except when they relate to share capital or development incentive tax credits, in which case, the taxes are recognized directly in shareholders equity and PP&E, respectively.

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 income tax assets and liabilities are recognized on temporary differences between the current 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

Seven Generations 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 the Company. Outstanding performance warrants were issued prior to the Company's initial public offering in 2014 pursuant to the Amended and Restated Shareholder Agreement that was effective while Seven Generations was a private company.

Awards are initially measured at fair value at the date of grant and are expensed over their vesting periods under the terms of the 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 PSUs, RSUs and DSUs are primarily based on the Company's share price at the date of grant. Upon exercise, certain stock-based compensation plans allow the holder of an award to receive cash or common shares at the Company's discretion. As at December 31, 2019, all of Seven Generations' plans were accounted for as equity-settled share-based compensation arrangements based on their anticipated settlement option. When equity compensation units are exercised or released, the consideration received, together with the expense previously recognized as contributed surplus, is recorded as an increase to share capital. In the fourth quarter of 2019, the Company created a new DSU plan which will be a cash-settled share-based compensation arrangement for any DSUs granted after January 1, 2020.

The primary non-market vesting condition for all of the Company's stock-based compensation plans, other than DSUs, is continuous employment. An estimated forfeiture rate is applied to the valuation of the 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 are also granted with certain other vesting conditions which are determined by the Company's Board of Directors. If the Company satisfies these performance criteria, a pre-determined adjustment factor is applied to the vested PSUs at the end of the performance period. The fair value of the PSUs at the date of grant is initially adjusted to reflect the probability of these possible outcomes. The stock-based compensation expense attributable to performance factors that are dependent upon market conditions are not subsequently adjusted for actual results. The stock-based compensation expense attributable to performance factors that are dependent upon non-market conditions are subsequently adjusted for actual results.

Leases

On January 1, 2019, Seven Generations adopted the new accounting standard IFRS 16. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), the accounting for onerous lease liabilities which were previously measured under IAS 37 Provisions ("IAS 37") and other related IFRS interpretations. IFRS 16 prescribes a single recognition and measurement model for lease contracts and requires the recognition of a right-of-use asset and corresponding lease liability for most leases, including subleases.

Seven Generations elected to adopt IFRS 16 using the modified retrospective approach (simplified method) by recognizing an opening balance sheet adjustment for the Company's discounted right-of-use assets and corresponding lease liabilities as at January 1, 2019. Accordingly, there was no opening adjustment to retained earnings and the comparative 2018 consolidated statements of comprehensive income and cash flows have not been restated to reflect the accounting presentation prescribed under IFRS 16.

At the date of transition, Seven Generations recognized a lease liability of \$9.2 million in respect of long-term minimum commitments associated with corporate office lease arrangements under IFRS 16. The net balance sheet impact on transition was \$5.2 million due to the derecognition of a \$4.0 million onerous lease provision for underutilized office space previously recognized on the balance sheet under IAS 37, now recognized under IFRS 16 (Note 10). Under previous IFRS standards, office lease arrangements were recognized as general and administrative expenses as incurred. Seven Generations is the lessee for substantially all in-scope office lease arrangements.

The following table summarizes the opening balance sheet adjustment for the adoption of IFRS 16 as at January 1, 2019:

Opening Balance Sheet	December 31, 2018	Adoption of IFRS 16	January 1, 2019
Oil and natural gas assets	\$ 7,652.1	\$ 5.2	\$ 7,657.3
Accounts payable and accrued liabilities	(393.5)	(2.5)	(396.0)
Other long-term liabilities	\$ (194.2)	\$ (2.7)	\$ (196.9)

Seven Generations has elected to apply the practical expedient exemption to scope-out non-cancellable low-value and short-term lease arrangements. The Company has also elected to not recognize contractual arrangements that previously had not met the definition of a lease under IFRIC 4 at the inception of the contract. These out-of-scope contractual arrangements continue to be recognized in net income as incurred.

At the inception of a contract, Seven Generations assesses if an agreement contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For all in-scope lease arrangements, a right-of-use asset and corresponding lease liability is initially recognized at the commencement date and measured at the net present value of all future non-cancellable lease payments. The lease payments are discounted using the rate implicit in the lease unless that rate is not readily determined, in which case, the Company's incremental borrowing rate is utilized. The estimated lease term consists of all non-cancellable periods under the contract and includes periods covered by an extension or termination option if Seven Generations is reasonably certain that it will exercise the option.

Right-of-use assets are depreciated to net income over the term of the contract using the straight line method. The depreciation of right-of-use assets that are utilized in respect of development activities is initially capitalized to PP&E and then depleted to net income over the remaining life of the developed assets once they are ready for use in the manner intended by management. Lease liabilities are accreted upwards toward their settlement value over the expected life of the contract in order to reflect the passage of time. Lease payments reduce the lease liability and are primarily reflected as a financing activity in the consolidated statement of cash flows. Right-of-use assets and lease liabilities are remeasured at each reporting period to reflect any contract modifications or reassessments that impact the remaining cash outflows under the contract.

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 that are purchased for cancellation under a normal course issuer bid. The net book value of common shares purchased in excess of the amount paid for the shares is recognized as contributed surplus. Any amount paid for common shares purchased in excess of their net book value reduces contributed surplus to the extent that it was created as a result of the Company's previous share purchases, with any remaining amount 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 only include 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 outstanding in-the-money equity compensation units been exercised.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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 occurs during the sale of condensate, natural gas and NGLs. The determination of the Company's income tax and royalty amounts require 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 require judgment. 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 is subject to change.

Estimates and Assumptions

Amounts recorded for depletion of oil and natural gas assets rely on estimates and assumptions regarding proved plus 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 a level of measurement uncertainty. The useful life of the Company's major facilities are subject to judgment for the purposes of calculating depreciation of major components.

The Company's provision for decommissioning liabilities is based on estimates and assumptions regarding current legal requirements, future costs to settle the provisions and the expected timing of the 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, non 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 value that will be realized upon settlement of the financial instruments.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2019, Seven Generations held cash and cash equivalents of \$9.6 million (December 31, 2018 – \$78.1 million) and the Company's cash investments earned interest at a weighted average annual rate of 1.42% (December 31, 2018 – 2.29%). As at December 31, 2019, the credit risk associated with Seven Generations' cash was considered low as the balances were held with three large Canadian chartered banks.

6. ACCOUNTS RECEIVABLE

As at	December 31, 2019	December 31, 2018
Liquids and natural gas sales	\$ 282.0	\$ 203.2
Royalty recoveries	17.0	28.4
Joint venture billings and other	4.8	5.2
Risk management contract settlements	2.4	0.5
Accounts receivable ⁽¹⁾	\$ 306.2	\$ 237.3

(1) Comparative figures have been reclassified to conform with current period presentation.

As at December 31, 2019, collection risk on Seven Generations' outstanding accounts receivable balances was considered low given the Company's history of collections and greater than 90% of the Company's accounts receivables were held with investment – grade counterparties. There were no material amounts past due as at December 31, 2019.

7. 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, 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
Additions ⁽¹⁾	0.9	1,219.2	9.4	1,229.5
Non-cash capitalized costs ⁽²⁾	—	47.2	—	47.2
Initial recognition of right-of-use assets (Note 3,11)	—	—	5.3	5.3
Balance at December 31, 2019	351.5	11,132.3	56.8	11,540.6
Accumulated depletion and depreciation				
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
Amortization of prepaid processing expenses	—	—	1.1	1.1
Depletion and depreciation	—	877.9	4.0	881.9
Balance at December 31, 2019	\$ 5.8	\$ 3,467.8	\$ 15.9	\$ 3,489.5
Net book value				
Balance at December 31, 2018	\$ 344.8	\$ 7,276.0	\$ 31.3	\$ 7,652.1
Balance at December 31, 2019	\$ 345.7	\$ 7,664.5	\$ 40.9	\$ 8,051.1

(1) Seven Generations capitalized employee costs of \$13.8 million during the year ended December 31, 2019 (December 31, 2018 – \$11.5 million).

(2) For the year ended December 31, 2019, non-cash capitalized costs consisted of \$50.3 million decommissioning obligation assets and \$6.2 million of stock-based compensation partially offset by \$9.3 million of tax credits (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).

As at December 31, 2019, \$353.5 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, 2018 – \$344.8 million).

In the fourth quarter of 2019, Seven Generations identified indicators of impairment as a result of declines in the forecasted commodity prices utilized in the 2019 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 from proved plus probable reserves. The following table summarizes the benchmark price forecast included in the Company's 2019 reserve report:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
WTI (US\$/bbl)	61.00	63.75	66.18	67.91	69.48	71.07	72.68	74.24	75.73	77.24	+2% per year
Henry Hub (US\$/MMBtu)	2.62	2.87	3.06	3.17	3.24	3.32	3.39	3.45	3.53	3.60	+2% per year
US\$ to C\$	0.760	0.770	0.785	0.785	0.785	0.785	0.785	0.785	0.785	0.785	0.785

The forecasted realized prices in the reserve report are adjusted for the Company's historical price differentials. Discounted after-tax cash flows in the impairment test utilized a two percent inflation rate and a discount rate of 10%. As at December 31, 2019, the recoverable value of the Kakwa River Project exceeded its carrying value and no impairment was identified.

8. 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 estimated fair market value of Seven Generations' outstanding risk management contracts as at December 31, 2019:

As at	December 31, 2019	December 31, 2018
Natural gas	\$ 34.1	\$ 45.4
Oil	(41.1)	75.1
Foreign exchange	1.5	(33.1)
Net risk management contract asset (liability)	\$ (5.5)	\$ 87.4

Seven Generations' risk management contracts are subject to master netting agreements that create the legal right to settle the instruments on a net basis. The following table provides a summary of the financial instruments that are subject to offsetting agreements in the Company's consolidated balance sheets:

As at	December 31, 2019			December 31, 2018		
	Asset	Liability	Net	Asset	Liability	Net
Balance sheet classification						
Current asset	\$ 36.0	\$ (11.3)	\$ 24.7	\$ 84.3	\$ (0.4)	\$ 83.9
Long-term asset	14.7	(6.8)	7.9	46.9	(2.8)	44.1
Current liability	16.1	(52.1)	(36.0)	—	(16.9)	(16.9)
Long-term liability	7.5	(9.6)	(2.1)	—	(23.7)	(23.7)
Net position	\$ 74.3	\$ (79.8)	\$ (5.5)	\$ 131.2	\$ (43.8)	\$ 87.4

Seven Generations believes that the credit risk associated with the Company's risk management contract assets is low as the instruments are all held with large Canadian and US financial institutions. The Company's risk management contracts consisted of the following positions as at December 31, 2019:

Term ⁽¹⁾	C\$ WTI Collars		C\$ WTI Sold Puts		US\$ WTI Collars/Swaps		US\$ WTI Sold Puts	
	bbl/d	C\$/bbl	bbl/d	C\$/bbl	bbl/d	US\$/bbl	bbl/d	US\$/bbl
2020	8,500	\$57.06 – \$71.50	1,500	\$40.00	26,000	\$54.29 – \$58.46	3,750	\$40.00
2021	—	—	—	—	8,000	\$53.37 – \$58.59	1,750	\$40.00
2022	—	—	—	—	1,250	\$52.31	—	—

(1) Weighted average volumes and prices are presented.

Term ⁽¹⁾	Chicago Citygate Swaps		Chicago Basis Swaps		NYMEX Henry Hub Collars/Swaps		AECO 7A Collars/Swaps	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	GJ/d	C\$/GJ
2020	32,500	\$2.74	55,000	\$(0.21)	142,500	\$2.64 – \$2.74	10,000	\$2.13
2021	—	—	52,500	\$(0.17)	42,500	\$2.62 – \$2.96	—	—
2022	—	—	12,500	\$(0.08)	5,000	\$2.58 – \$3.05	—	—

(1) Weighted average volumes and prices are presented.

Term ⁽¹⁾	FX Swaps/Collars	
	US\$MM	C\$:US\$
2020	\$304.6	\$1.2951 – \$1.3051
2021	\$179.6	\$1.2969 – \$1.3114
2022	\$54.4	\$1.3191 – \$1.3292

(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 are added to a collar to create a three-way collar whereby if the market price settles below the sold put price, Seven Generations receives the floating market price plus the difference between the fixed floor price and the sold put price.

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, 2019:

As at December 31, 2019	Gain (Loss)
10% increase in oil prices	\$ (102.7)
10% decrease in oil prices	94.8
10% increase in gas prices	(19.2)
10% decrease in gas prices	19.5
10% increase in US\$ to C\$ exchange rate	(66.2)
10% decrease in US\$ to C\$ exchange rate	\$ 67.4

9. CREDIT FACILITY

As at December 31, 2019, Seven Generations held an undrawn \$1.4 billion senior secured credit facility (the "Credit Facility"). The Credit Facility is a covenant-based borrowing structure that expires in 2024 and has an accordion feature that provides the Company with the ability to access an incremental \$500.0 million of secured debt, subject to certain conditions. In the fourth quarter of 2019, the Credit Facility was amended primarily to extend the maturity date of the facility by one year to 2024 and to increase the accordion feature from \$300.0 million to \$500.0 million. The Credit Facility was also modified to include borrowing and default provisions with respect to the Company's decommissioning obligations.

During the year ended December 31, 2019, US\$448.0 million in non-cumulative amounts drawn under the Credit Facility utilized to fund ongoing operations were fully repaid by the end of the year. Borrowings under the Credit Facility incur interest at a market – based interest rate plus an applicable margin which varies depending on the Company's Senior Secured Net Debt to Adjusted EBITDA ratio. Amounts drawn under the Credit Facility in 2019 had an effective annual interest rate of 3.5%. The Company elected to draw these amounts from the Credit Facility in US dollars, as permitted under the terms of the credit agreement. In conjunction with these draws of US dollar denominated cash, the Company entered into short-term cross-currency swaps to mitigate the exposure to foreign currency risk and reduce borrowing costs.

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 financial related 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
- AER liability management ratio ("LMR") – cannot be less than 1.25 for a period of greater than 90 days
- AER abandonment and reclamation orders – cannot exceed the greater of \$110.0 million and 1.5% of the carrying value of the Company's oil & gas assets if the orders have not been withdrawn or satisfied within prescribed timelines

For the purposes of the covenant calculations, Adjusted EBITDA is primarily 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 primarily consists of amounts drawn under the Credit Facility less cash and cash equivalents but may now also include the value of Seven Generations' undiscounted non-producing decommissioning obligation liabilities if the Company's LMR falls below 2.00. The LMR is determined by the Alberta Energy Regulator ("AER") and is calculated by dividing Seven Generations' deemed assets by its deemed liabilities, values of which are assessed by the AER.

As at December 31, 2019, the Company was in compliance with the covenants under the Credit Facility. The Senior Secured Net Debt to Adjusted EBITDA Ratio was (0.01):1, Adjusted EBITDA to Interest Expense Ratio was 11.35:1, the Company's LMR was 29.30 and there were no outstanding abandonment and reclamation orders.

The Company has an unsecured demand letter of credit facility of C\$45.0 million and an additional US\$25.0 million. As at December 31, 2019, C\$41.7 million and US\$20.6 million in letters of credit were issued and outstanding under the facility (December 31, 2018 – C\$39.4 million and US\$18.8 million). Letters of credit issued under the letter of credit facility do not impact the Company's borrowing capacity under the Credit Facility.

10. SENIOR NOTES

As at	December 31, 2019	December 31, 2018
US\$425 million 6.75% senior notes, due May 1, 2023	\$ 552.0	\$ 579.8
US\$450 million 6.875% senior notes, due June 30, 2023	584.5	613.9
US\$700 million 5.375% senior notes, due September 30, 2025	909.2	955.0
Senior notes principal	2,045.7	2,148.7
Less: unamortized debt issue costs	(18.8)	(23.3)
Plus: unamortized premium	3.3	4.4
Senior notes ⁽¹⁾	\$ 2,030.2	\$ 2,129.8

(1) The US dollar senior notes were translated into Canadian dollars at the period end exchange rate of US\$1=C\$1.2988 (December 31, 2018 – US\$1=C\$1.3642).

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, 2019, the fair value of the Company's senior notes was C\$2,092.7 million (December 31, 2018 – C\$2,054.1 million).

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

For the year ended	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 2,129.8	\$ 1,956.4
Impact of foreign exchange (gains) losses on senior notes	(103.0)	172.8
Impact of amortized debt issue costs and premiums ⁽¹⁾	3.4	0.6
Balance, end of year	\$ 2,030.2	\$ 2,129.8

(1) Comparative figures have been reclassified to conform with current period presentation.

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

	US\$700 million 5.375% senior notes ⁽¹⁾	US\$425 million 6.75% senior notes ⁽²⁾	US\$450 million 6.875% senior notes ⁽³⁾
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 or thereafter	100.0%	100.0%	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 30, 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 price of 104.031% plus the present value of interest that would otherwise be payable from the redemption date through September 30, 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.

Subject to certain exceptions and qualifications, the senior unsecured notes have no financial covenants but limit Seven Generations' 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.

Seven Generations is exposed to foreign exchange rate fluctuations on the principal value and interest payments in respect of the Company's senior notes. As at December 31, 2019, a 10% increase to the value of the Canadian dollar relative to the US dollar would result in a gain of approximately \$204.6 million (10% decline – loss of \$204.6 million).

11. OTHER LONG-TERM LIABILITIES

As at	December 31, 2019	December 31, 2018
Decommissioning liabilities	\$ 244.2	\$ 190.2
Lease liabilities (Note 3)	7.1	4.0
	\$ 251.3	\$ 194.2
Presented as:		
Accounts payable and accrued liabilities	\$ 2.5	\$ —
Other long-term liabilities	\$ 248.8	\$ 194.2

Decommissioning Liabilities

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 190.2	\$ 194.2
Liabilities incurred	27.2	23.9
Change in discount rates and other	16.7	(0.2)
Accretion (Note 20)	4.0	4.5
Change in estimate	6.4	(29.3)
Reclamation expenditures	(0.3)	(2.9)
Balance, end of year	\$ 244.2	\$ 190.2

Seven Generations' decommissioning liabilities reflect the estimated cost to dismantle, abandon, reclaim and remediate the Company's oil and natural gas assets in the Kakwa River Project at the end of their useful lives. As at December 31, 2019, the total estimated undiscounted, uninflated cash flows required to settle the Company's decommissioning liabilities was approximately \$231.9 million (December 31, 2018 – \$201.3 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, 2019, the Company utilized a risk free rate of 1.8% (December 31, 2018 – 2.2%) and an inflation rate of 2.0% (December 31, 2018 – 2.0%).

Lease Liabilities

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 4.0	\$ 3.8
De-recognition of lease provision under IAS 37 (Note 3)	(4.0)	—
Initial recognition of lease liability under IFRS 16 (Note 3)	9.2	—
Liabilities incurred	0.1	—
Lease payments	(2.7)	(1.0)
Change in estimate	—	1.1
Accretion (Note 19)	0.5	0.1
Balance, end of year	\$ 7.1	\$ 4.0

Following the adoption of IFRS 16 on January 1, 2019, Seven Generations derecognized its onerous lease provision of \$4.0 million previously valued under IAS 37 in respect of under-utilized office space and recognized a lease liability of \$9.2 million for all office lease commitments.

As at December 31, 2019, the estimated undiscounted cash flows required to settle the Company's lease liabilities were approximately \$7.9 million (January 1, 2019 – \$10.5 million) and are anticipated to be incurred within the next five years. As at December 31, 2019, the Company utilized a weighted average incremental borrowing rate of 6.1% (January 1, 2019 – 6.0%).

During the years ended December 31, 2019, Seven Generations incurred expenses relating to low-value, short term lease commitments and variable operating costs in respect of non-cancellable lease liabilities of less than \$5.0 million.

12. INCOME TAXES

Changes in the Company's deferred tax balances during the year ended December 31, 2019 were as follows:

As at	December 31, 2017	Movement	December 31, 2018	Movement	December 31, 2019
Property, plant and equipment	\$ 465.1	\$ 145.0	\$ 610.1	\$ 100.6	\$ 710.7
Non-capital losses	(121.9)	68.2	(53.7)	(65.1)	(118.8)
Decommissioning liabilities	(52.4)	1.0	(51.4)	(4.9)	(56.3)
Unrealized foreign exchange losses	(20.0)	(22.7)	(42.7)	18.2	(24.5)
Risk management contracts	10.3	10.2	20.5	(23.1)	(2.6)
Financing costs	(20.9)	10.1	(10.8)	9.6	(1.2)
Tax credits and other	(7.0)	0.7	(6.3)	(10.0)	(16.3)
	253.2	212.5	465.7	25.3	491.0
Unrecognized deferred tax asset	25.2	20.9	46.1	(18.6)	27.5
Deferred income tax liability	\$ 278.4	\$ 233.4	\$ 511.8	\$ 6.7	\$ 518.5

As at December 31, 2019, Seven Generations had an unrecognized deferred tax asset of \$27.5 million related to \$24.5 million in capital losses and \$3.0 million in equity investment losses.

During the year ended December 31, 2019, all changes in the Company's deferred income tax liability were reflected in net income other than for certain incentive tax credits earned in respect of development activities that were recognized directly in PP&E:

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 511.8	\$ 278.4
Deferred income taxes recognized in net income	16.0	233.4
Recognition of incentive tax credits in PP&E	(9.3)	—
Balance, end of year	\$ 518.5	\$ 511.8

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 26.5% (2018 – 27%) for the years ended December 31, 2019:

For the year ended	December 31, 2019	December 31, 2018
Net income (loss) before income taxes	\$ 490.0	\$ 672.9
Statutory income tax rate	26.5%	27%
Expected income tax expense	129.9	181.7
Adjustments related to the following:		
Change in current and deferred income tax rates	(90.2)	—
Non-deductible taxable portion of foreign exchange (gain) loss	(13.6)	23.3
Change in unrecognized deferred tax asset	(13.6)	20.9
Stock-based compensation	3.3	5.9
Other items	0.4	1.2
Income tax expense	\$ 16.2	\$ 233.0
Consisting of:		
Current income tax expense (recovery)	\$ 0.2	\$ (0.4)
Deferred income tax expense	\$ 16.0	\$ 233.4

During the second quarter of 2019, the Alberta Government enacted new legislation to reduce the provincial corporate income tax rate from 12% to 8%. Under the new legislation, the tax rate declines by 1% each year over the next four taxation years, starting on July 1, 2019, resulting in a combined federal and provincial corporate tax rate of 23% by 2022.

Seven Generations anticipates that the majority of the Company's existing deferred income tax liabilities will reverse at an effective tax rate of approximately 23%. For the year ended December 31, 2019, Seven Generations recognized a deferred income tax recovery of \$90.2 million to reflect the decline in deferred provincial income taxes anticipated under the new legislation.

As at December 31, 2019, the Company had \$5.5 billion of tax pools available for future deduction, including \$1.0 billion available for immediate deduction against taxable income (December 31, 2018 – \$5.6 billion and \$0.6 billion, respectively). Non-capital loss tax pools begin to expire after 2035.

13. 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, 2019		December 31, 2018	
	Number (millions)	Amount (\$)	Number (millions)	Amount (\$)
For the year ended				
Balance, beginning of year	352.6	\$ 3,813.8	354.7	\$ 3,864.4
Purchase of common shares	(22.1)	(239.0)	(9.7)	(105.0)
Exercise of equity compensation units	4.2	19.7	7.6	36.8
Transfer from contributed surplus on exercise of equity compensation	—	20.3	—	17.6
Balance, end of year	334.7	\$ 3,614.8	352.6	\$ 3,813.8

During the fourth quarter of 2018, Seven Generations received approval from the TSX to purchase the Company's outstanding common shares through a normal course issuer bid ("NCIB"). Under the NCIB, the Company was allowed to purchase up to 30.4 million common shares until November 4, 2019. In the fourth quarter of 2019, the Company received approvals to purchase up to an additional 23.8 million shares under a new NCIB program by November 10, 2020.

All of the Company's stock purchased under the NCIB was acquired at prevailing market prices and 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. During the year ended December 31, 2019, the Company purchased an additional 22.1 million shares for cancellation at an average of \$7.61 per common share before transaction costs.

The weighted average carrying value of the Company's shares purchased for cancellation was \$10.81/share (December 31, 2018 – \$10.82/share) and was derecognized from share capital.

14. PER SHARE AMOUNTS

	December 31, 2019	December 31, 2018
For the year ended		
Weighted average number of common shares – basic	346.8	358.6
Dilutive effect of outstanding equity compensation units	1.7	5.3
Weighted average number of common shares – diluted	348.5	363.9

15. CAPITAL MANAGEMENT

Seven Generations' objective for managing capital is to maintain a strong balance sheet and available funding in order to provide financial liquidity to fund the capital budget, the return of capital to shareholders, the reduction of debt or future development growth.

Management believes it has sufficient funding to meet the Company's foreseeable liquidity requirements. As at December 31, 2019, Seven Generations' earliest debt maturity date is May, 2023, and the Company also has \$1.4 billion of available credit under the Company's Credit Facility that matures in 2024 (Note 9). Near-term development activities and any common share repurchases or debt repayments are anticipated to be funded by the Company's funds flow, cash on hand and draws under the Credit Facility (Note 9).

Seven Generations strives for a proportion of debt and equity which appropriately balances the level of risk being incurred through 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 EBITDA of less than 2.0. The ratio was 1.4 for the year ended December 31, 2019 (December 31, 2018 – 1.2). The tables on the following pages summarize the Company's net debt, total capitalization and Adjusted EBITDA as at and for the year ended December 31, 2019.

As at	December 31, 2019	December 31, 2018
Senior notes principal (Note 10)	\$ 2,045.7	\$ 2,148.7
Long-term portion of lease liabilities (Note 3,11)	4.6	4.0
Current assets	(378.4)	(423.3)
Current liabilities	438.7	410.4
	2,110.6	2,139.8
Current portion of risk management assets (Note 8)	24.7	83.9
Current portion of risk management liabilities (Note 8)	(36.0)	(16.9)
Net debt	2,099.3	2,206.8
Shareholders equity	5,199.1	4,849.6
Total capitalization	\$ 7,298.4	\$ 7,056.4

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

Following the adoption of IFRS 16 on January 1, 2019, Seven Generations began including the lease liability in the net debt measure in order to provide users with a better understanding of the Company's long-term financing arrangements. The total capitalization measure previously included the market capitalization value of the Company's publicly traded common shares. Starting in fourth quarter of 2019, Seven Generations elected to instead utilize the net book value of the Company's shareholders equity in order to better align the total capitalization measure with the figures that are presented in the consolidated balance sheets. The 2018 comparative figures have been adjusted to conform with this current period presentation.

For the year ended	December 31, 2019	December 31, 2018
Net income	\$ 473.8	\$ 439.9
Finance expense	144.9	127.3
Current and deferred income taxes	16.2	233.0
Depletion and depreciation	881.9	846.9
Stock-based compensation	17.8	19.9
Unrealized (gain) loss on risk management contracts	92.9	(49.1)
Foreign exchange (gain) loss on senior notes and other	(102.9)	169.6
Adjusted EBITDA	\$ 1,524.6	\$ 1,787.5

Seven Generations utilizes adjusted EBITDA as a measure of operational performance and cash flow generating capability. Adjusted EBITDA impacts the level and extent of funding for capital projects investments or returning capital to shareholders. This measure is also consistent with the adjusted EBITDA formula prescribed under the Company's Credit Facility and allows Seven Generations and others to evaluate the impact of the Company's earnings on its financial covenants and assess its ability to fund financing expenses and other obligations.

Seven Generations previously utilized adjusted funds flow as the primary measure for managing capital. Starting in the fourth quarter of 2019, Seven Generations elected to utilize adjusted EBITDA as the primary measure for managing its capital in order to better align with the metrics utilized by the Company's lenders and other capital providers. Adjusted EBITDA is similar to adjusted funds flow, other than for primarily the exclusion of financing expenses. Adjusted funds flow has been renamed to funds flow and now comprises of cash provided by operating activities, excluding the impact of changes in non-cash working capital. Funds flow has been presented in the consolidated statement of cash flows for the year ended December 31, 2019.

Net debt, total capitalization and adjusted EBITDA are not standardized measures and may not be comparable with the calculation of similar measures by other companies.

16. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's undiscounted future contractual cash outflows as at December 31, 2019:

(\$ millions)	2020	2021	2022	2023	2024	Thereafter	Total
Firm transportation and processing commitments ⁽¹⁾	\$ 520.3	\$ 533.9	\$ 505.5	\$ 323.9	\$ 317.3	\$ 2,226.2	\$ 4,427.1
Senior notes ⁽²⁾	—	—	—	1,136.5	—	909.2	2,045.7
Interest on senior notes ⁽²⁾	126.3	126.3	126.3	81.4	48.9	36.7	545.9
Accounts payable and accrued liabilities	402.7	—	—	—	—	—	402.7
Risk management contract liabilities	36.0	1.8	0.3	—	—	—	38.1
Long-term portion of lease liabilities (undiscounted)	—	2.0	2.1	1.2	—	—	5.3
	\$ 1,085.3	\$ 664.0	\$ 634.2	\$ 1,543.0	\$ 366.2	\$ 3,172.1	\$ 7,464.8

(1) The timing and extent of certain firm transportation commitments are subject to certain conditions, including regulatory approvals.

(2) The value of future cash outflows associated with US dollar denominated contracts have been converted to Canadian dollars at the December 31, 2019 exchange rate of US\$1=C\$1.2988.

The senior notes, accounts payable and accrued liabilities, risk management contract liabilities and the long-term portion of lease liabilities are recognized on the Company's consolidated balance sheet. The firm transportation and processing commitments, interest on the senior notes and certain other contractual commitments are off-balance sheet arrangements in accordance with IAS 1 – Presentation of Financial Statements.

Following the adoption of IFRS 16 on January 1, 2019, Seven Generations recognized a lease liability on the consolidated balance sheet for the majority of the Company's non-cancellable lease arrangements, primarily consisting of office space commitments. The Company elected to apply the practical expedient exemption to scope-out non-cancellable low-value and short-term lease arrangements. Seven Generations has also elected to not recognize certain natural gas processing commitments that previously had not met the definition of a lease under IFRIC 4 at the inception of the contract. These out-of-scope contractual commitments continue to be reflected as off-balance sheet arrangements.

During the first quarter of 2019, Seven Generations entered into a third-party water disposal agreement with an undiscounted take – or-pay commitment of up to \$88.4 million over five years. The commitment under the contract is contingent upon the productivity of the disposal wells. The contract qualifies as a lease arrangement under IFRS 16 and is currently presented as a firm transportation and processing commitment in the table above. The commencement date of the contract is anticipated to occur in the first quarter of 2020 when the third party water disposal assets are expected to be ready for use. At that time, Seven Generations will recognize a discounted right-of-use asset and corresponding lease liability on the consolidated balance sheet for the discounted value of the minimum lease payments under the contract.

The Company is currently undergoing income tax audits in the normal course of business. While the final outcome of such audits cannot be predicted with certainty and could be material, 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.

The Company is involved in legal claims arising in the normal course of business. While the final outcome of such claims cannot be predicted with certainty and could be material, Seven Generations does not currently anticipate that these claims will have a material impact on the Company's consolidated financial position or results of operations.

17. LIQUIDS AND NATURAL GAS SALES

For the year ended	December 31, 2019	December 31, 2018
Sales by product		
Condensate	\$ 2,002.1	\$ 2,200.2
Natural gas	842.7	916.3
NGLs	107.3	197.8
Liquids and natural gas sales	\$ 2,952.1	\$ 3,314.3
Sales by country		
Canada	\$ 2,182.0	\$ 2,541.8
United States	\$ 770.1	\$ 772.5
Sales by activity		
Production from the Kakwa River Project	\$ 2,551.8	\$ 2,907.7
Sale of purchased product	\$ 400.3	\$ 406.6

Seven Generations' sale of purchased product, less the cost of product purchased and applicable transportation tolls, reflects the net profit margin earned in respect of the Company's marketing activities. The following table summarizes the cost of the liquids and natural gas purchased for sale during the year ended December 31, 2019:

	December 31, 2019	December 31, 2018
For the year ended		
Condensate	\$ 184.1	\$ 209.4
Natural gas	146.9	123.3
NGLs	4.3	—
Product purchases	\$ 335.3	\$ 332.7

Included in transportation, processing and other expenses is \$43.1 million of transportation tolls incurred for products purchased for sale during the year ended December 31, 2019 (December 31, 2018 – \$45.2 million) (Note 19).

The following table summarizes the average daily volumes the Company has committed to deliver on a term contract basis as at December 31, 2019:

	2020
Average daily sales volume commitments	
Chicago Citygate Index (MMBtu/d) – Alliance	53,929
Chicago Citygate Basis (MMBtu/d) – Alliance	28,750
US Gulf Coast Basis (MMBtu/d) – NGPL	54,167
US Gulf Coast Index (MMBtu/d) – NGPL	28,333
Dawn Hub Index (MMBtu/d) – TC Energy	21,588
Malin Hub Index (MMBtu/d) – GTN	2,766

18. OPERATING EXPENSES

	December 31, 2019	December 31, 2018
For the year ended		
Water trucking and disposal	\$ 112.3	\$ 159.3
Equipment rental and maintenance	105.7	129.0
Staff and contractor costs	58.6	51.4
Chemicals and fuel	51.1	43.4
Property tax and other	27.1	25.2
Operating expenses	\$ 354.8	\$ 408.3

19. TRANSPORTATION, PROCESSING AND OTHER EXPENSES

	December 31, 2019	December 31, 2018
For the year ended		
Pipeline tariffs	\$ 401.7	\$ 371.9
Processing	91.4	100.2
Trucking and other	46.3	64.9
Transportation, processing and other	\$ 539.4	\$ 537.0

During the years ended December 31, 2019, the Company incurred \$43.1 million of transportation tolls on product purchased for sale and is included within the table above (December 31, 2018 – \$45.2 million) (Note 17).

20. FINANCE EXPENSE

	December 31, 2019	December 31, 2018
For the year ended		
Interest on senior notes	\$ 129.1	\$ 126.0
Revolving credit facility and bank fees	8.7	6.6
Accretion of decommissioning and lease liabilities (Note 11)	4.5	4.5
Amortization of premiums and debt issuance costs	2.6	2.2
Finance costs	144.9	139.3
Capitalized borrowing costs	—	(12.0)
Finance expense	\$ 144.9	\$ 127.3

Capitalized borrowing costs in 2018 relate to borrowed funds invested to build the Company's wholly-owned gas processing facility in the Gold Creek area at the Kakwa River Project. 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 finance expenses related to that investment.

21. STOCK-BASED COMPENSATION

The following table summarizes the Company's outstanding equity compensation units as at December 31, 2019:

	December 31, 2019			December 31, 2018		
	Units (millions)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (years)	Units (millions)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (years)
Stock options	9.5	\$ 17.27	6.7	11.4	\$ 18.16	5.4
PSUs and RSUs	2.2	—	1.6	1.1	—	3.2
DSUs	0.4	—	—	0.3	—	—
Performance warrants	0.6	11.61	0.9	3.1	8.92	1.1
Units outstanding	12.7	\$ 13.40	5.3	15.9	\$ 14.69	4.6

(a) Stock Options

	December 31, 2019	December 31, 2018
For the year ended		
Balance, beginning of year	11.4	12.4
Granted	2.5	2.3
Exercised	(1.5)	(2.2)
Forfeited and expired	(2.9)	(1.1)
Balance, end of year	9.5	11.4

The Company's stock option grants are generally fully exercisable for common shares after three years and expire ten years after the date of grant. The following table summarizes the weighted-average inputs and output of the Black Scholes pricing model during the year ended December 31, 2019 and 2018:

For the year ended	December 31, 2019	December 31, 2018
Inputs:		
Average share price (\$/unit)	9.3	15.5
Risk-free interest rate (%)	1.6	2.1
Expected life (years)	5.0	5.0
Expected forfeiture rate (%)	5.0	5.0
Expected volatility (%)	40.0	35.0
Expected dividend yield (%)	—	—
Output:		
Fair value of options granted (\$/unit)	3.5	5.4

The following table summarizes the stock options outstanding and exercisable as at December 31, 2019:

Exercise Price (\$)	Outstanding		Exercisable	
	Number of Options (millions)	Weighted Average Remaining Life (years)	Number of Options (millions)	Weighted Average Remaining Life (years)
5.50 – 11.00	2.6	8.2	0.3	0.7
11.01 – 15.50	2.2	7.3	1.2	6.5
15.51 – 18.00	1.8	3.3	1.5	2.6
18.01 – 25.50	1.5	7.3	0.9	7.2
25.51 – 31.00	1.4	6.7	1.4	6.7
	9.5	6.7	5.3	5.2

(b) Performance Share Units and Restricted Share Units

For the year ended	December 31, 2019	December 31, 2018
Balance, beginning of year	1.1	1.1
Granted	1.8	0.5
Exercised	(0.6)	(0.4)
Forfeited	(0.1)	(0.1)
Balance, end of year	2.2	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 grants generally vest annually over a three year period. The weighted average fair value of PSUs and RSUs granted during the year ended December 31, 2019 was \$9.25 per unit.

To value the performance factors related to the 2019 PSU grants that are dependent upon market conditions, the Company utilized a probability adjustment factor of 1.0, which assumes that Seven Generations will be within the 50th percentile of its pre-determined peer group based on relative total shareholder return at the respective vesting dates. The stock-based compensation expense attributable to market – based performance factors is not subsequently adjusted for actual results.

To value the performance factors related to the 2019 PSU grants that are dependent upon non-market conditions, Seven Generations initially utilized a probability adjustment factor of 1.0 which assumes the Company's performance will be consistent with baseline performance targets that have been established. The stock-based compensation expense attributable to non-market based performance factors is subsequently adjusted for actual results.

During the year ended December 31, 2019, actual market adjustment factors on vested units ranged from 0.50 – 1.33 (December 31, 2018 – 0.69 – 1.80).

(c) 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 shares calculated at the date of such payment. DSUs granted under the DSU Plan vest immediately upon grant. As at December 31, 2019, there were 0.4 million DSUs outstanding (December 31, 2018 – 0.3 million). In the fourth quarter of 2019, the Company created a new DSU plan that will be a cash-settled share-based compensation arrangement for all DSU grants issued after January 1, 2020.

(d) Performance Warrants

As at December 31, 2019, the Company had 0.6 million performance warrants issued and outstanding with a weighted average exercise price of \$11.61 per share (December 31, 2018 – 3.1 million outstanding at \$8.92 per share). During the year ended 1.9 million performance warrants were exercised at a weighted average price of \$5.82 per share and 0.6 million were forfeited or expired.

22. RELATED PARTY TRANSACTIONS

Seven Generations' related parties primarily consist of the Company's directors and officers. Amounts paid to directors and officers for the year ended December 31, 2019 were as follows:

For the year ended	December 31, 2019	December 31, 2018
Stock-based compensation	\$ 13.1	\$ 11.6
Salaries, benefits and other short-term compensation	7.2	6.2
Termination and retirement benefits ⁽¹⁾	0.3	1.2
	\$ 20.6	\$ 19.0

(1) In 2018, 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.

23. CHANGES IN NON-CASH WORKING CAPITAL

For the year ended	December 31, 2019	December 31, 2018
Accounts receivable	\$ (68.9)	\$ 65.4
Deposits and prepaid expenses	(13.9)	(5.2)
Accounts payable and accrued liabilities	9.2	16.2
	(73.6)	76.4
Changes in current portion of other long-term liabilities	(2.5)	—
Unrealized foreign exchange gain in non-cash working capital	0.4	1.1
	\$ (75.7)	\$ 77.5
Relating to:		
Operating activities	\$ (42.9)	\$ 124.1
Financing activities	\$ (8.9)	\$ 6.0
Investing activities	\$ (23.9)	\$ (52.6)
Other cash flow information		
Cash interest paid	\$ 137.4	\$ 132.1
Cash taxes paid	\$ 0.1	\$ 1.1

CORPORATE INFORMATION

Management

Marty Proctor

President & Chief Executive Officer

Derek Aylesworth

Chief Financial Officer

David Holt

Chief Operating Officer

Karen Nielsen

Chief Development Officer

Kyle Brunner

Vice President, General Counsel & Corporate Secretary

Lynne Chrumka

Vice President, Geosciences & Land

Chris Feltin

Vice President, Corporate Planning & Development

Jordan Johnsen

Vice President, Operations & Engineering

Kevin Johnston

Vice President, Finance & Controller

Brian Newmarch

Vice President, Capital Markets & Stakeholder Engagement

Charlotte Raggett

Vice President, Midstream Business Development

Pam Ramotowski

Vice President, Human Resources

Directors

Mark Monroe

Chairman

Marty Proctor

President & Chief Executive Officer

Leontine Atkins**Avik Dey****Harvey Doerr****Paul Hand****Dale Hohm****Ronnie Irani****Bill McAdam****M. Jacqueline Sheppard**

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Banks

Royal Bank of Canada

Credit Suisse AG, Toronto Branch

Bank of Montreal

Canadian Imperial Bank of Commerce

National Bank of Canada

The Bank of Nova Scotia

The Toronto-Dominion Bank

ATB Financial

Fédération des Caisses Desjardins Du Québec

JP Morgan Chase Bank, N.A., Toronto Branch

Wells Fargo Bank, N.A., Canadian Branch

China Construction Bank, Toronto Branch

Barclays Bank PLC

Auditors

PricewaterhouseCoopers LLP

Independent Evaluators

McDaniel & Associates Consultants Ltd.

Stock Symbol

VII

Toronto Stock Exchange



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