ATHABASCA
OIL CORPORATION

Consolidated Financial Statements

December 31, 2015

FOCUSED | EXECUTING | DELIVERING

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Athabasca Oil Corporation**

We have audited the accompanying consolidated financial statements of Athabasca Oil Corporation, which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Athabasca Oil Corporation, as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Calgary, Canada
March 10, 2016

CONSOLIDATED BALANCE SHEETS

As at ($ Thousands)	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	$ 559,487	$ 531,475
Short-term investments (Note 4)	—	47,618
Accounts receivable (Note 13)	25,601	32,117
Income tax receivable (Note 11)	2,215	9,579
Prepaid expenses and other	11,164	10,582
Inventory	8,910	—
Current portion of derivative asset (Note 13)	5,382	930
Short-term Promissory Note (Note 5)	133,892	450,000
	746,651	1,082,301
Long-term Promissory Note (Note 5)	—	133,892
Long-term portion of derivative asset (Note 13)	57,202	11,708
Other long-term assets	3,044	3,747
Property, plant and equipment (Note 6, 8)	1,856,136	2,103,334
Exploration and evaluation assets (Note 7, 8)	799,409	962,821
	$ 3,462,442	$ 4,297,803
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 12)	$ 54,707	$ 168,500
Current portion of long-term debt (Note 10)	3,068	2,597
	57,775	171,097
Long-term debt (Note 10)	838,205	786,649
Provisions (Note 12)	84,322	68,949
Deferred income tax liability (Note 11)	—	106,922
	980,302	1,133,617
SHAREHOLDERS' EQUITY		
Common shares (Note 15)	2,005,770	1,984,134
Contributed surplus	147,290	154,201
Retained earnings	329,080	1,025,851
	2,482,140	3,164,186
	$ 3,462,442	$ 4,297,803

Commitments and contingencies (Note 21)

See accompanying notes to the consolidated financial statements.

Approved by the Board:

(signed)

Thomas Buchanan
Chairman

(signed)

Marshall McRae
Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Year ended ($ Thousands, except per share amounts)	December 31, 2015	December 31, 2014
REVENUE		
Petroleum and natural gas sales	$ 83,848	$ 127,487
Interest income and other	12,516	11,929
Midstream revenue	1,970	2,667
Royalties	(1,312)	(15,497)
Total revenue	97,022	126,586
EXPENSES		
Cost of diluent	10,408	—
Operating	62,007	36,221
Transportation and marketing	8,363	(298)
General and administrative (Note 18)	32,529	48,461
Restructuring and other charges (Note 19)	22,908	10,468
Stock-based compensation (Note 16)	9,460	9,413
Financing and interest (Note 20)	40,037	28,407
Depletion and depreciation (Note 6)	72,629	82,427
Impairment loss (Note 8)	636,732	161,065
Exploration expense	1,728	—
Total expenses	896,801	376,164
Revenue less Expenses	(799,779)	(249,578)
OTHER INCOME (EXPENSES)		
Foreign exchange (loss), net	(49,235)	(15,704)
Derivative gain, net (Note 13)	53,891	12,694
Loss on Provisions (Note 12)	(8,375)	—
Loss on sale of assets (Note 5)	(1,650)	(38,751)
Loss before income taxes	(805,148)	(291,339)
INCOME TAXES		
Deferred income tax recovery (Note 11)	(108,377)	(64,171)
Loss before the following	(696,771)	(227,168)
Equity loss on investments	—	(390)
Net loss and comprehensive loss	$ (696,771)	$ (227,558)
BASIC LOSS PER SHARE (Note 17)	$ (1.73)	$ (0.57)
DILUTED LOSS PER SHARE (Note 17)	$ (1.73)	$ (0.57)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended ($ Thousands)	December 31, 2015	December 31, 2014
COMMON SHARES (Note 15)		
Balance, beginning of period	$ 1,984,134	$ 1,970,186
Exercise of stock options and RSUs	21,636	13,948
Balance, end of period	2,005,770	1,984,134
CONTRIBUTED SURPLUS		
Balance, beginning of period	154,201	150,362
Stock-based compensation (Note 16)	14,507	16,692
Exercise of stock options and RSUs	(21,418)	(12,853)
Balance, end of period	147,290	154,201
RETAINED EARNINGS		
Balance, beginning of period	1,025,851	1,253,409
Net loss	(696,771)	(227,558)
Balance, end of period	329,080	1,025,851
TOTAL SHAREHOLDERS' EQUITY	$ 2,482,140	$ 3,164,186

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended ($ Thousands)	December 31, 2015	December 31, 2014
OPERATING ACTIVITIES		
Net loss	$ (696,771)	$ (227,558)
Items not affecting cash		
Stock-based compensation	9,460	9,413
Net non-cash financing and interest	9,549	3,485
Depletion and depreciation	72,629	82,427
Impairment	636,732	161,065
Deferred income tax recovery	(108,377)	(64,171)
Equity loss on investment	—	390
Unrealized foreign exchange loss	49,121	15,353
Unrealized (gain) on Derivative (Note 13)	(49,946)	(12,638)
Long-term portion of non-cash restructuring charges	6,879	—
Loss on sale of assets	1,650	38,751
Income tax credits received (Note 11)	1,698	6,797
Reclamation expenditures (Note 12)	(3,481)	(1,756)
Changes in non-cash working capital (Note 23)	3,031	6,619
	(67,826)	18,177
FINANCING ACTIVITIES		
Proceeds from Term Loan	—	236,675
Repayment of long-term debt	(2,921)	(1,281)
Proceeds from exercised equity incentives (Note 16)	218	1,094
	(2,703)	236,488
INVESTING ACTIVITIES		
Proceeds on sale of investments (Note 5)	450,000	601,304
Proceeds on sale of assets	1,788	59,974
Additions to property, plant and equipment (Note 6)	(278,754)	(578,725)
Additions to exploration and evaluation assets (Note 7)	(12,913)	(48,133)
Contributions to assets held for sale and investments (Note 5)	—	(8,120)
(Increase) decrease in short-term investments (Note 4)	47,618	(23,823)
Changes in non-cash working capital (Note 23)	(109,198)	(24,662)
	98,541	(22,185)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,012	232,480
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	531,475	298,995
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 559,487	$ 531,475

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended December 31, 2015.

(Tabular amounts expressed in thousands of Canadian dollars, except where otherwise noted)

1. NATURE OF BUSINESS

Athabasca Oil Corporation (“Athabasca” or the “Company”) is an exploration and production company developing Light and Thermal Oil resource plays in the Western Canadian Sedimentary Basin in Alberta, Canada. Athabasca was incorporated on August 23, 2006, under the laws governing the Province of Alberta. The domicile of the Company is 1200, 215 - 9th Avenue SW, Calgary, Alberta. The Company is publicly traded on the Toronto Stock Exchange (“TSX”) under the symbol “ATH”. These consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2016.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at their estimated fair value. The consolidated financial statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2014. There were no changes to the Company’s operating segments during the period. General and administrative expenses for the year ended December 31, 2014, have been reduced by $10.5 million from those presented in prior periods to reflect Athabasca's decision to separately present costs incurred as part of the Company's cost structure reductions throughout 2014 and 2015 as restructuring and other charges. Depletion, depreciation and impairment for the year ended December 31, 2014, has been reduced by $161.1 million and presented as impairment loss to reflect Athabasca's decision to separately present these costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements reflect the activities of the Company and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated upon consolidation. The Company accounted for its investment in the Dover joint arrangement as an equity investment up to the date of sale in accordance with IAS 28 Investments in Associates. Management had made an assessment under IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements and determined that Athabasca did not control or jointly control its interests in the Dover joint arrangement as Athabasca did not have exposure to the majority of associated benefits or risks.

The Dover joint arrangement was an investment in which the Company had significant influence, as the Company held a 40% interest in the joint arrangement up until August 29, 2014 at which point the remaining interest was sold. The arrangement was accounted for as a long-term investment using the equity method of accounting whereby the carrying value of the investment was increased or decreased for the Company's percentage of net income or loss, reduced by dividends paid to the Company, and increased or decreased to reflect the Company's share of capital transactions. Refer to Note 5 for additional information.

Joint Arrangements

Athabasca undertakes certain business activities through joint arrangements. A joint arrangement is established under contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to use estimates, judgments and assumptions. These judgments and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the applicable reporting period. These estimates relate to unsettled transactions and events as of the date of the consolidated financial statements and may differ from actual results as future confirming events occur. Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the year in which the estimates are revised. Changes in the Company's accounting estimates and judgments could have a significant impact on net income.

Prior to the closing of the sale of Dover on August 29, 2014, valuation of the Dover Put Option included estimates as to the expected timing and probability of regulatory approval as well as the probability of the Company exercising the option. Judgment was also applied in determining the appropriate discount rate to be used in the valuation and additional costs to be incurred prior to closing. At each reporting date the fair value of the Dover Put Option was assessed based on the most recent information with regards to the estimates discussed above. The accretion of the time value of money was recognized through interest income and any unrealized gains or losses were recognized through net income.

Included in the carrying value of property, plant and equipment are accumulated depletion, depreciation and impairment charges that are determined, in part, by utilizing estimates based on Athabasca's reserves, resources and land acreage values. The estimates of reserves and resources include estimates of the recoverable volumes of oil, gas and bitumen, future commodity prices and future costs required to develop and produce the assets. Reserve and resource estimates and future cash flows could be revised either upwards or downwards based on updated information from drilling and operating results as well as changes to future commodity price estimates and changes to the anticipated timing of project development. The rates used to discount future cash flows are based on judgment of economic and operating factors. Changes in these factors could increase or decrease the discount rate which may result in material changes to the estimated recoverable amount of the assets. Estimates also include the anticipated timing and cash flows associated with future capital carry receivable (Note 24). Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the estimated recoverability of contingent resources, technology uncertainty and the ability to finance exploration and evaluation projects, where technical feasibility and commercial viability has not yet been determined.

The provision for decommissioning obligations is based upon numerous assumptions including the ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. Actual costs and cash outflows could differ from the estimates as a result of changes in any of the above noted assumptions.

The provision for the office lease is based upon numerous assumptions including inflation factors, credit-adjusted discount rates, actual settlement amounts and estimates of future recoveries. Actual costs and cash outflows could differ from the estimates as a result of changes in any of the above noted assumptions.

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing and likelihood of reversal of temporary differences between the accounting and tax bases of assets and liabilities. The provision for income taxes is based on Athabasca's interpretation of the tax legislation and regulations which is also subject to change. Athabasca recognizes a tax provision when a payment to tax authorities is considered more likely than not. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the standards which may result in a material increase or decrease in the Company's provision for income taxes. As at December 31, 2015, Athabasca elected to not recognize deductible temporary differences in respect of income tax assets from non-capital losses (Note 11).

The Company is using a derivative financial instrument to manage risks related to its US dollar denominated debt. The fair value of the derivative is determined using valuation models which require assumptions concerning the amount of timing of future cash flows, discount rates and foreign exchange rates. Athabasca's assumptions rely on external observable market data and data obtained from third parties. The resulting fair value estimates may not be indicative of the amount realized or settled in current market transactions and as such are subject to measurement uncertainty.

Stock-based compensation includes volatility, option life and forfeiture rates which are based on management's assumptions and estimates.

The Company evaluates the carrying value of its inventory at the lower of cost and net realizable value. The net realizable value is estimated based on anticipated current market prices that Athabasca would expect to receive from the sale of its inventory.

All of these estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods and have a significant impact on net income.

Segment Reporting

The Company's operating segments are determined based on differences in the nature of their operations, products sold, economic characteristics, regulatory environments and management responsibility. Operating segments have been aggregated based on similar characteristics as follows:

- Light Oil - includes the Company's assets, liabilities and operating results for the exploration, development and production of unconventional oil, natural gas and natural gas liquids located in various regions in the province of Alberta.

- Thermal Oil - includes the Company's assets, liabilities and operating results for the exploration, development and production of bitumen from sand and carbonate rock formations located in the Athabasca region of Northern Alberta.

Segment results, assets and liabilities include items directly attributable to a segment and those items that can be allocated on a reasonable basis. Unallocated items are comprised mainly of corporate assets, head office expenses, interest income, finance and interest expense, and income tax assets and liabilities. There were no changes to the Company's operating segments during the year. Segmented information is presented in Note 9.

Financial Instruments

All financial instruments are initially recognized at fair value on the consolidated balance sheet. The Company has classified each financial instrument into the following categories: "held-for-trading"; "loans and receivables"; "held-to-maturity" and "other financial assets or liabilities." Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held-for-trading financial instruments are recognized in the statement of loss. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial Assets and Liabilities	Classification
Cash and cash equivalents	Held-for-trading
Short-term investments	Held-for-trading
Derivative asset	Held-for-trading
Accounts receivable	Loans and receivables
Income tax receivable	Loans and receivables
Promissory Notes	Held-to-maturity
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Transaction costs for all financial assets and liabilities are expensed as incurred, with the exception of long-term debt. Transaction costs related to long-term debt are included in the initial fair value and the instruments are carried at amortized cost using the effective interest rate method. The fair value of Athabasca's long-term debt is derived from quoted prices provided by financial institutions or derived from quoted prices on debt instruments with similar credit risk and yield profiles.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Athabasca's loans and receivables are comprised of accounts receivable and income tax receivable. These have been recognized at the amount expected to be received less any required discount to reduce their value to fair value.

Derivative financial instruments are used by the Company to manage risks related to its US dollar denominated debt. All derivatives have been classified at fair value though income or loss. Derivative financial instruments are included on the balance sheet and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement of derivatives are shown separately on the income statement in the period in which they arise.

At each reporting date, the Company assesses whether there are any indicators that its financial assets are impaired. An impairment loss is only recognized if there is evidence of impairment and the loss event has an impact on future cash flow and can be reliably estimated.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and investments in money market instruments with an initial maturity date of three months or less. Short-term investments consist of investments in money market instruments with an initial maturity date of more than three months but a maturity date of less than twelve months as at the balance sheet date.

Inventory

Inventory consists of crude oil products and warehouse consumables. The carrying value of inventory includes all direct expenditures required to bring the inventory to its present location and condition, including transportation expenses. Athabasca values its inventory using the weighted average cost method and inventory is held at the lower of cost and net realizable value at each reporting period. If the carrying value exceeds the net realizable value, a write-down is recognized. A change in circumstance could result in a reversal of the write-down for inventory that remains on hand in a subsequent period.

Exploration and Evaluation ("E&E") Assets

Costs of exploring for and evaluating oil and gas activities, including lease acquisition costs, exploratory drilling to delineate resource formations, geological and geophysical costs, engineering, licensing and regulatory fees, carrying charges on non-productive assets and employee salaries and stock-based compensation directly related to exploration and evaluation activities are initially capitalized. E&E costs do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, these costs are expensed directly to the statement of income as they are incurred.

Tangible assets acquired and utilized to develop an E&E asset are recorded as part of the cost of the E&E asset. When a tangible asset is disposed of in the E&E phase the proceeds of the assets sold are de-recognized from the E&E asset pool with no gain or loss recognized.

E&E assets are carried at cost until both the technical feasibility and commercial viability of extracting a mineral resource is established. Technical feasibility and commercial viability of unconventional petroleum and natural gas activities is considered achieved when proved reserves are determined to exist and the Company has received approval to proceed with commercial development by its Board of Directors. The technical feasibility and commercial viability of Thermal Oil activities is considered to be achieved when proved reserves are determined to exist and the Company has received approvals to proceed with commercial development by its Board of Directors and regulatory authorities. Upon technical feasibility and commercial viability being established, E&E assets are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

If the technical feasibility and commercial viability cannot be proved or if an impairment is recognized, subsequent expenditures are no longer capitalized and will be recognized as exploration expense.

Property, Plant and Equipment ("PP&E")

Items of PP&E are measured using historical cost less any accumulated impairment losses. The initial cost of an asset comprises its purchase price, any cost directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. Included in PP&E are assets that have been transferred from E&E upon the establishment of commercial viability and technical feasibility. Once Athabasca's projects are available for use in the manner intended by management, they will either be depleted or depreciated over their useful life depending on the nature of the asset.

Light Oil assets that are ready for use in the manner intended by management have been depleted using the unit-of-production method based on the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Depreciation of Light Oil Infrastructure assets is calculated using the straight-line method over the estimated useful life of the assets, which range from three to fifty years.

During the third quarter of 2015, Athabasca began recognizing depletion and depreciation of Hangingstone project ("Project 1"). The central processing facilities are depreciated on a unit-of-production basis over the total productive capacity of the facility. The supporting infrastructure is depreciated using a straight-line basis over the estimated useful life of the components. The producing oil sands properties, including estimated future development costs, are depleted using the unit-of-production method based on estimated proved reserves.

Depreciation of corporate assets is calculated using the straight-line method over the estimated useful life of the asset, ranging from one to five years. Refer to Note 9 for depletion and depreciation charges for each division.

Impairment

E&E and PP&E assets are tested for impairment at the cash-generating unit ("CGU") level at each reporting date when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is determined as the greater of the CGU's value in use ("VIU") and fair value less costs to sell ("FVLCTS"). CGUs are not larger than an operating segment. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. FVLCTS is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable parties, less the costs to dispose of the CGU.

The calculations identified above require the use of estimates and assumptions and are subject to changes as new information becomes available. Factors that are subject to change include estimates of future commodity prices, expected production volumes, land values, quantity of reserves and resources, discount rates, and future development and operating costs. Changes in assumptions used in determining the recoverable amount could have a material affect on the carrying value of the related E&E and PP&E assets and CGU's.

Capitalized Borrowing Costs

The proportion of borrowing costs that relates to qualifying assets is capitalized per IAS 23 *Borrowing Costs*. A qualifying asset is an asset that has probable future economic benefit and necessarily takes a substantial period of time to get ready for its intended use. Athabasca capitalized borrowing costs associated with its sanctioned Project 1 assets until the third quarter of 2015 when the project was deemed ready for use in the manner intended by management. Athabasca's Thermal Oil E&E assets have not yet proven commercial viability and technical feasibility and are, therefore, not qualifying assets. Athabasca's Light Oil PP&E assets are not qualifying assets because they do not take a substantial period of time to get ready for their intended use.

Provisions and Decommissioning Obligations

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The Company’s oil and gas activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized to the corresponding asset. Decommissioning obligations are measured at the present value of management’s best estimate of expenditure required to settle the obligation. The present value is determined using risk-adjusted expenditure estimates and the Company’s credit-adjusted risk-free discount rate. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in discount rates. The increase in the obligation due to the passage of time is recognized as a finance cost whereas changes due to revisions in the estimated future cash flows and discount rate are capitalized. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

Revenue Recognition

Revenue earned from the sale of petroleum and natural gas products is recognized when title passes from Athabasca to the customer. Midstream revenues are recognized in the period the product is delivered and the service provided. Royalty expenses are recognized as production is incurred. Interest income on cash equivalents and short-term investments are recorded as incurred. For outstanding investments that mature in future periods, revenue is accrued up to and including the final day of the applicable reporting period based on the terms and conditions of the individual instruments. Incidental revenues are recognized in net income as incurred.

Income Taxes

Income tax is comprised of current and deferred tax. Income tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable (receivable) on the taxable income (loss) for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and does not affect profit, other than temporary differences that arise in shareholder’s equity. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are not recognized until such time that it is more likely than not that the related tax benefit will be realized. Athabasca also recognizes deferred tax liabilities on temporary differences associated with investments in subsidiaries unless the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Scientific Research & Experimental Development credits are recognized as a reduction of PP&E and E&E assets when the research program is approved by the Canada Revenue Agency or is a continuation of a previously approved program.

Stock-based Compensation

The Company’s stock-based compensation plans for employees, directors, and consultants consist of stock options, restricted share units, performance share units and deferred share units ("DSUs"). Other than the DSUs, all of the stock-based compensation plans are equity settled. The fair value of the equity settled awards are initially measured using the Black-Scholes model. The fair value is recorded as stock-based compensation over the vesting period with a corresponding amount reflected in contributed surplus. The stock-based compensation fair value is determined using an estimated forfeiture rate, volatility, risk free rate and instrument life. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

The DSUs are a cash-settled plan. DSUs are expensed immediately upon grant and a liability is recognized. The liability is revalued at each reporting date based on the Company's closing share price.

For employees who are working on specific capital projects, the stock-based compensation is allocated to E&E or PP&E assets. For the remainder of employees, the compensation is expensed.

Per Share Amounts

Basic income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per share reflects the potential dilution that would occur if dilutive securities were exercised or released from trust. To determine the dilutive effect of its dilutive instruments, the Company assumes that proceeds received from the exercise of "in-the-money" equity instruments are used to repurchase common shares. In any period in which there is a loss, per share amounts are calculated excluding potentially dilutive securities.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of the contract. Leases which transfer substantially all the risks and rewards of ownership to Athabasca are classified as finance leases. Finance leases are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments and are depreciated over the shorter of the estimated useful life of the asset and the lease term. Other leases are classified as operating leases and payments are recognized as an expense in the period incurred. Lease inducement costs are initially capitalized and amortized to net income over the lease term. As at December 31, 2015, Athabasca does not have any finance leases.

Commitments and contingencies

Athabasca discloses its financial commitments, yet to be incurred, based on the minimum contractual costs at the reporting date. Contingent assets and liabilities are not recognized in the financial statements. Disclosure of contingent liabilities is provided only when the possibility of an outflow of a resource embodying economic benefits is other than remote. Contingent assets are disclosed if a future economic benefit is probable.

Foreign Currency Translation

Transactions in foreign currencies are translated into the functional currency using the exchange rate on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of loss.

Future Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 15: Revenue from Contracts with Customers

The International Accounting Standards Board (IASB) issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. This IFRS replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements

IFRS 16: Leases

The IASB issued its new Lease Standard on January 13, 2016. This new IFRS requires that, for lessees, former operating leases will now be capitalized and recognized on the balance sheet (exceptions for short-term leases and low-value assets are provided). Lease assets and liabilities will be initially measured at the present value of the unavoidable lease payments and amortized over the lease term. Lessor accounting remains consistent with current IFRS standards. Two transition methods are available under IFRS 16: full retrospective and cumulative catch-up. The latter method is similar in principle to the modified retrospective approach under IFRS 15. A significant amount of transition relief is permitted under the cumulative catch-up method, but will require additional disclosure information. The effective date will be for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted, but only if IFRS 15 - *Revenue from Contracts with Customers* is also applied. The Company is currently evaluating the impact of adopting IFRS 16 on the consolidated financial statements

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate any of its assets.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is currently evaluating the impact of adopting IFRS 10 and IAS 28 on the consolidated financial statements

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	Initial Term (Days)	Interest Rates (%)		Amount ($)
AS AT DECEMBER 31, 2015				
Cash	—	0.20 - 1.10	$	480,619
Cash equivalents	63 - 70	1.05 - 1.08		78,868
				559,487
Short-term investments				—
TOTAL			$	559,487
AS AT DECEMBER 31, 2014				
Cash	—	0.50 – 1.50	$	436,286
Cash equivalents	54 - 56	1.44 – 1.45		95,189
				531,475
Short-term investments	183	1.53		47,618
TOTAL			$	579,093

5. SALE OF DOVER

Initial sale of assets to PetroChina and sale of MacKay River

On February 10, 2010, the Company entered into a series of agreements pursuant to which, among other things, for $1.90 billion, a wholly owned subsidiary of PetroChina International Investment Company Limited (Phoenix Energy Holdings Limited ("Phoenix")) acquired 100% of the shares of a corporation which held a 60% working interest in the Company's MacKay River and Dover oil sands projects (the "PetroChina Transaction"). The PetroChina Transaction also included Put/Call Options over the Company's remaining 40% working interest in the MacKay River oil sands project and the Dover oil sands projects. The MacKay River Put Option was exercised in 2011 and closing of the sale occurred in 2012.

Valuation of the Dover Put Option

In 2012, Athabasca was required to value its put option under the Put/Call Option Agreement in respect of the Dover oil sands project (the "Dover Put Option") given greater clarity around regulatory approval and potential exercise of the option. The initial fair value was determined to be the anticipated residual of the gross proceeds from the Dover Put Option, adjusted for estimated closing costs, over the anticipated carrying value of the Dover investment at the time of exercise, discounted for the duration to the expected transaction closing date using a risk-free rate given PetroChina's investment grade credit rating. The initial fair value of the Dover Put Option was adjusted for the probability of receipt of regulatory approval and the estimated probability of exercise. The valuation of the Dover Put Option resulted in an unrealized gain of $374.6 million being recognized in net income in 2012. For the year ended December 31, 2013, Athabasca recognized an unrealized loss of $52.0 million in net income offset by $5.6 million for the time value of money accretion. Time value of money accretion for the twelve months ended December 31, 2014 was $3.3 million and was recognized in interest income. Regulatory approval for the Dover oil sands project was received on April 16, 2014, triggering Athabasca's right to exercise the Dover Put Option, which it did on April 17, 2014.

Thermal abandonment claims

Athabasca recognized a net loss of $38.7 million during the twelve months ended December 31, 2014, primarily related to transaction costs of $49.0 million in respect of the settlement of certain claims made by Phoenix relating to future abandonment costs associated with petroleum and natural gas wells located in the Dover and MacKay River areas. The net loss incurred was partially offset by the de-recognition of certain decommissioning obligation liabilities previously recognized by Athabasca and working capital and other adjustments associated with the closing of the sale of the Dover investment.

Sale of Dover

On August 29, 2014, Athabasca closed the sale of its wholly owned subsidiary, AOC (Dover) Energy Inc., which held the Company's 40% interest in the Dover oil sands project, to Phoenix for a net purchase price of $1,183.9 million, excluding working capital adjustments of $2.3 million of which $1.0 million was recognized in the first quarter of 2015.

At closing, Athabasca received a cash payment of $600.0 million, as well as three interest bearing Promissory Notes (the "Promissory Notes") issued by Phoenix for the remaining $583.9 million of the net purchase price.

As at	December 31, 2015	December 31, 2014
March 2, 2015 Promissory Note	$ —	$ 300,000
August 28, 2015 Promissory Note	—	150,000
August 29, 2016 Promissory Note	133,892	133,892
	$ 133,892	$ 583,892
Presented as:		
Short-term Promissory Note	$ 133,892	$ 450,000
Long-term Promissory Note	$ —	$ 133,892

On March 2, 2015, the first Promissory Note matured and Athabasca received cash proceeds of $302.5 million, comprised of $300.0 million principal and accrued interest of $2.5 million. On August 28, 2015, the second Promissory Note matured and Athabasca received cash proceeds of $152.6 million, comprised of $150.0 million principal and accrued interest of $2.6 million.

The remaining Promissory Note is unconditional, secured by irrevocable, standby letter of credit issued by HSBC Bank Canada and bears interest at a rate of 1.72%. The Promissory Note has been classified as held-to-maturity.

6. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

BALANCE, DECEMBER 31, 2013	$	1,598,205
PP&E expenditures		578,725
Non-cash capitalized costs(1)		11,694
Depletion and depreciation		(82,427)
Disposals		(2,863)
BALANCE, DECEMBER 31, 2014	$	2,103,334
PP&E expenditures		278,754
Transfer from E&E to PP&E		3,110
Non-cash capitalized costs(1)		3,298
Depletion and depreciation		(72,629)
Impairment loss (Note 8)		(456,100)
Disposals		(3,631)
BALANCE, DECEMBER 31, 2015	$	1,856,136

(1) Non-cash PP&E expenditures include capitalized stock-based compensation, decommissioning obligation assets, land swap additions and non-cash interest and financing.

PP&E consists of the following:

Net book value (As at)		December 31, 2015		December 31, 2014
PP&E at cost	$	2,686,202	$	2,401,040
Accumulated depletion and depreciation		(283,273)		(210,644)
Impairment loss (Note 8)		(456,100)		—
Disposals		(90,693)		(87,062)
TOTAL PP&E	$	1,856,136	$	2,103,334

As at December 31, 2015, $218.6 million (December 31, 2014, $1,278 million) of PP&E was not subject to depletion or depreciation as the underlying oil and gas assets were not ready for use in the manner intended by management. The decrease in PP&E not subject to depletion or depreciation from December 31, 2014 was primarily due to the determination that Project 1 was ready for operations on August 1, 2015.

7. EXPLORATION AND EVALUATION ("E&E") ASSETS

BALANCE, DECEMBER 31, 2013	$	1,124,530
E&E expenditures		48,133
Non-cash capitalized costs(1)		10,506
Recognition of SR&ED tax credits		(2,172)
Impairment loss (Note 8)		(161,065)
Disposals		(57,111)
BALANCE, DECEMBER 31, 2014	$	962,821
E&E expenditures		13,431
Transfer from E&E to PP&E		(3,110)
Non-cash capitalized costs(1)		7,417
Recognition of SR&ED tax credits		(518)
Impairment loss (Note 8)		(180,632)
BALANCE, DECEMBER 31, 2015	$	799,409

(1) Non-cash E&E expenditures include capitalized stock-based compensation and decommissioning obligation assets.

8. IMPAIRMENT

At each financial reporting date, the Company considers potential indicators of impairment for both its Light Oil and Thermal Oil Divisions. This assessment includes an analysis of current market conditions and activities as well as a review of future development plans and pending land expiries for each of the Company's assets.

In the fourth quarter of 2015, Athabasca identified indicators of impairment over all its oil and gas assets primarily as a result of continued weakness of commodity pricing, recent federal and provincial government initiatives surrounding climate change and pipeline development which could impact the long-term development of Thermal Oil projects and the Murphy Transaction (Note 24). In response, Athabasca performed an impairment test on each of its CGUs. The impairment tests resulted in an impairment loss of the Company's Light Oil Development CGU (defined below) and the Dover West exploration CGU.

Athabasca combines E&E and PP&E assets that are in the same CGU together for the purposes of testing for impairment. The Company uses fair value less costs of disposal to calculate the recoverable amount of its CGUs. The recoverable amounts of the CGUs are estimated based on after-tax discounted cash flows from the Company's Proved plus Probable Reserves (Level 3), Contingent Resources (Level 3) and relevant sales transactions and trading multiples in the industry on assets and companies with similar geologic and geographic characteristics. Future cash flows are estimated using a two percent inflation rate and a discount rate of 10% based on the nature of the properties included in the CGU and the extent of future funding and development risk.

A significant change to discounted cash flow assumptions, including forecasted price assumptions, cost estimates, recovery rates and discount rates, could have a material impact on these fair value estimates. Valuation metrics implied by future transactions could also have a material impact on the Company's estimate of recoverable amounts. The following table summarizes the price forecast used in the Company's discounted cash flow estimates:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Thereafter
WTI (US$/bbl)	$ 44.00	$ 52.00	$ 58.00	$ 64.00	$ 70.00	$ 75.00	$ 80.00	$ 85.00	$ 87.88	$ 89.63	+2.0%/yr
WCS (C$/bbl)	$ 42.26	$ 51.20	$ 55.39	$ 60.84	$ 66.18	$ 70.00	$ 75.88	$ 81.41	$ 84.90	$ 86.60	+2.0%/yr
Edmonton Par (C$/bbl)	$ 55.86	$ 64.00	$ 68.39	$ 73.75	$ 78.79	$ 82.35	$ 88.24	$ 94.12	$ 96.48	$ 98.41	+2.0%/yr
AECO (C$/Mmcf)	$ 2.76	$ 3.27	$ 3.45	$ 3.63	$ 3.81	$ 3.90	$ 4.10	$ 4.30	$ 4.50	$ 4.60	+2.0%/yr
FX (CAD:USD)	1.38	1.33	1.29	1.25	1.21	1.18	1.18	1.18	1.18	1.18	1.18

Light Oil Division

The Light Oil Division consists of the Greater Kaybob and Greater Placid areas (collectively the "Light Oil Development CGU") as well as other exploration acreage located in northwest Alberta (collectively the "Light Oil Exploration areas").

For the year ended December 31, 2015, Athabasca determined that the Light Oil Development CGU's carrying value of $1.23 billion exceeded its estimated recoverable value of $770.0 million and the Company recognized an impairment loss of $456.7 million. The recoverable value of the CGU was determined based on the fair value of the assets implied by the pending Murphy Transaction (Note 24) for which Athabasca entered into a purchase and sale agreement during the first quarter of 2016. The recoverable value of the CGU includes estimates based on the anticipated timing and discount rates of cash flows associated with the capital carry receivable.

For the year ended December 31, 2014, Athabasca recognized an impairment loss of $74.4 million representing the full carrying value of the CGU in its Light Oil Exploration areas. During 2014, Athabasca also recognized $27.8 million of land expires in the Light Oil Exploration areas, bringing the total Light Oil expiration and impairment charges in 2014 to $102.2 million.

Thermal Oil Division

The Thermal Oil Division consists of the Hangingstone, Dover West, Birch and Grosmont CGUs located in the Athabasca region of northern Alberta.

For the year ended December 31, 2015, Athabasca determined that the Dover West CGU's carrying value of $474.6 million exceeded its estimated recoverable value of $294.6 million and the Company recognized an impairment loss of $180.0 million. The recoverable value of the CGU was based on comparable third party market transactions. There were no impairments of the Hangingstone or Birch CGUs.

For the year ended December 31, 2014, Athabasca recognized an impairment loss of $53.5 million representing the full carrying value of the CGU in its Grosmont exploration area. During 2014, Athabasca also relinquished $5.3 million in non-commercial Grosmont leases bringing the total Thermal Oil relinquishment and impairment charges in 2014 to $58.8 million.

9. SEGMENTED INFORMATION

Segmented capital expenditures

Athabasca's total capital expenditures by segment are as follows:

Capital expenditures	December 31, 2015	December 31, 2014
LIGHT OIL		
Property, plant and equipment	$ 175,977	$ 195,033
Exploration and evaluation(1)	—	4,905
	175,977	199,938
THERMAL OIL		
Property, plant and equipment	101,237	373,739
Exploration and evaluation(1)	12,913	43,228
Assets held for sale (Note 5)	—	8,120
	114,150	425,087
CORPORATE		
Corporate assets and other PP&E	1,540	9,953
TOTAL CAPITAL SPENDING(2) (3)	$ 291,667	$ 634,978

(1) Due to the recognition of a full impairment loss in the Light Oil Exploration and Grosmont CGUs for the year ended December 31, 2014 any future spending in these CGUs will be expensed as incurred as exploration expense. For the year ended December 31, 2015, $0.5 million of tax credits are included as a reduction of the E&E capital expenditures.

(2) Excludes non-cash capitalized costs consisting of capitalized stock-based compensation, decommissioning obligation assets, land swap additions and non-cash interest and financing.

(3) Includes capitalized staff costs for the year ended December 31, 2015, of $17.6 million (December 31, 2014 - $42.3 million) and cash capitalized interest for the year ended December 31, 2015, of $35.9 million (December 31, 2014 - $44.5 million).

Segmented assets

Athabasca's total assets by segment are as follows:

Net book value (As at)	December 31, 2015	December 31, 2014
LIGHT OIL		
Property, plant and equipment	$ 779,457	$ 1,120,896
Exploration and evaluation	1,084	2,632
	780,541	1,123,528
THERMAL OIL		
Property, plant and equipment	1,067,991	971,627
Exploration and evaluation	798,325	960,189
	1,866,316	1,931,816
CORPORATE		
Current assets	746,651	1,082,301
Long-term Promissory Note	—	133,892
Long-term portion of derivative asset	57,202	11,708
Other long-term assets	3,044	3,747
Property, plant and equipment	8,688	10,811
	815,585	1,242,459
TOTAL ASSETS	$ 3,462,442	$ 4,297,803

Segmented operating results

Athabasca's operating results by segment are as follows:

	Light Oil		Thermal Oil		Consolidated	
Year ended December 31,	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
SEGMENT REVENUES						
Petroleum and natural gas sales	$ 62,547	$ 127,487	$ 21,301	$ —	$ 83,848	$ 127,487
Midstream revenue	1,970	2,667	—	—	1,970	2,667
Other Income	—	—	—	3,511	—	3,511
Royalties	(1,189)	(15,497)	(123)	—	(1,312)	(15,497)
	63,328	114,657	21,178	3,511	84,506	118,168
SEGMENT EXPENSES & OTHER						
Cost of diluent	—	—	10,408	—	10,408	—
Operating expense	28,902	36,221	33,105	—	62,007	36,221
Transportation and marketing expense (recovery)	498	(298)	7,865	—	8,363	(298)
Depletion and depreciation	60,645	73,848	7,967	—	68,612	73,848
Impairment	456,732	102,244	180,000	58,821	636,732	161,065
Exploration expense	748	—	980	—	1,728	—
Loss on sale of assets	1,486	92	164	38,659	1,650	38,751
Equity loss on investments	—	—	—	390	—	390
	549,011	212,107	240,489	97,870	789,500	309,977
Segment (loss)	$ (485,683)	$ (97,450)	$ (219,311)	$ (94,359)	$ (704,994)	$ (191,809)
CORPORATE						
Interest income and other					12,516	8,418
Financing and interest					(40,037)	(28,407)
General and administrative					(32,529)	(48,461)
Restructuring and other charges					(22,908)	(10,468)
Stock-based compensation					(9,460)	(9,413)
Depreciation					(4,017)	(8,579)
Foreign exchange (loss), net					(49,235)	(15,704)
Derivative gain, net					53,891	12,694
Loss on Provisions					(8,375)	—
Deferred income tax recovery					108,377	64,171
NET LOSS AND COMPREHENSIVE LOSS					$ (696,771)	$ (227,558)

10. INDEBTEDNESS

As at	December 31, 2015	December 31, 2014
Senior Secured Second Lien Notes (a)	$ 550,000	$ 550,000
Senior Secured Term Loans (b)[(1)]	306,759	259,719
Debt issuance costs	(31,644)	(30,804)
Amortization of debt issuance costs	16,158	10,331
TOTAL LONG-TERM DEBT	$ 841,273	$ 789,246
Presented as:		
Current portion of long-term debt	$ 3,068	$ 2,597
Long-term debt	$ 838,205	$ 786,649

(1) As at December 31, 2015 the US dollar denominated Senior Secured Term Loan of US$221.6 million was translated into Canadian dollars at the period end exchange rate of US$1.00 = C$1.3840. As at December 31, 2014, the US dollar denominated Senior Secured Term Loan of US$223.9 million was translated into Canadian dollars at the period end exchange rate of US$1.00 = C$1.1601.

a) Senior Secured Second Lien Notes

On November 19, 2012, Athabasca issued Senior Secured Second Lien Notes (the "Notes") in an aggregate principal amount of $550 million. The Notes bear interest at a rate of 7.50% per annum and have a term of five years maturing on November 19, 2017. Interest payments are required semi-annually on May 19 and November 19 of each year. These notes are secured by a second priority security interest on all present and after acquired property of the Company. Subject to certain exceptions and qualifications the Notes contain certain covenants that limit the Company's ability to, among other things: incur additional indebtedness; create or permit liens to exist and make certain restricted payments, dispositions and transfers of assets. The Notes do not include any financial covenants.

Athabasca has the option to redeem the Notes at a price of 103.75% and 100.00% in the 12-month periods beginning November 19, 2015 and 2016, respectively. Debt issuance costs associated with the transaction were initially capitalized and are amortized to net income (loss) over the life of the Notes using the effective interest rate method.

As at December 31, 2015, Athabasca was in compliance with all of the Notes covenants.

b) Senior Secured Term Loans

On May 7, 2014, Athabasca entered into a credit agreement providing for a US$225 million term loan (the "Term Loan"), which was fully funded at closing, plus an additional US$50 million committed delayed draw term loan, which the Company may draw at its option at any time up until May 7, 2016, subject to compliance with certain conditions precedent and covenants (collectively the "Term Loans"). Borrowings on drawn amounts under the Term Loans bear interest at a floating rate based on LIBOR plus 7.25%, subject to a LIBOR floor of 1.00%. The Company incurs standby fees on the undrawn portion of the US$50 million delayed draw term loan equal to 1.00% per annum. The Term Loans will amortize in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount with the balance payable on May 7, 2019, or on May 19, 2017 if the Company has not redeemed or refinanced the Notes prior to that date. The Term Loans are secured by a first priority security interest on all present and after acquired property of the Company.

Athabasca has the option to redeem the Term Loan at a price of 102% for the 12-month period beginning May 7, 2015, 101% for the 12-month period beginning May 7, 2016 and at par thereafter.

The Term Loans are subject to substantially the same restrictive covenants as the Notes and certain additional restrictive covenants including: hedging restrictions; certain business operating requirements; a requirement to maintain a minimum ratio of adjusted consolidated net tangible assets ("ACNTA") to total debt of 3.5 times; and, beginning with the March 31, 2015 quarter-end, if the aggregate of the Company's unrestricted cash, cash equivalents and short-term investments do not exceed the amount of outstanding total debt, the Company must maintain a minimum ratio of the present value of proved reserves, discounted at 10%, to net first lien debt of 1.5 times.

ACNTA consists of the aggregate of the present value of the Company's Proved plus Probable Reserves (discounted at 10%), Athabasca's net working capital, the carrying value of the Promissory Note, the carrying value of equity investments and the carrying value of oil and gas assets without Proved plus Probable Reserves assigned in the Company's consolidated balance sheet. Total debt consists of the aggregate of the Company's Notes and Term Loan. Net First Lien Debt is defined as the carrying value of the Term Loan less the Company's cash, cash equivalents and short-term investments.

As at December 31, 2015, Athabasca's ACNTA to total debt ratio was 4.2 times and the Company had a net first lien cash position of $252.7 million. As at December 31, 2015, the Company was in compliance with all of the covenants related to the Term Loan.

Debt issuance costs associated with the Term Loans were initially capitalized and are amortized to net income over the life of the Term Loans using the effective interest rate method.

c) Revolving Senior Secured Credit Facility

On May 7, 2014, concurrent with entering into the Term Loans, the Company entered into a $125 million amended and restated credit agreement with a syndicate of financial institutions to replace its previous $350 million credit facility. The amended and restated credit facility (the "Credit Facility") is available on a revolving basis until April 30, 2017. The Credit Facility may be extended subject to lender consent and provided the term of the facility does not exceed three years from the date of extension.

Amounts borrowed under the Credit Facility bear interest at a floating rate based on the applicable Canadian prime rate, US base rate, LIBOR or bankers' acceptance rate, plus a margin of between 1.00% and 4.00% depending on the type of borrowing and the Company's indebtedness to consolidated cash flow ratio. Athabasca pays issuance fees for letters of credit between 1.33% and 4.00% depending on the type of borrowing and the Company's indebtedness to consolidated cash flow ratio. The Company incurs a standby fee on the undrawn portion of the Credit Facility of between 0.50% and 1.00% based on the Company's indebtedness to consolidated cash flow ratio. For the year ended December 31, 2015, the Company paid a rate of between 2.67% and 4.00% for letters of credit and a rate of 1.00% on the undrawn portion of the Credit Facility (December 31, 2014 - 1.00%). As of December 31, 2015, Athabasca had $7.3 million in letters of credit secured by the Credit Facility (December 31, 2014 - $0.5 million) and no amounts had been drawn under the Credit Facility (December 31, 2014 - $ nil). If drawn, the credit facility is collateralized by a first priority security interest on all present and after acquired property of the Company and is effectively senior in priority to the Term Loans and the Senior Secured Second Lien Notes. In the first quarter of 2016, Athabasca issued an additional letter of credit for $89.9 million in respect of financial assurance provisions associated with the Company's pipeline transportation commitments, reducing the remaining capacity of the credit facility to $27.8 million.

The Credit Facility is subject to substantially the same covenants as the Notes and Term Loans plus, among others, the requirement to maintain a minimum tangible net worth based on the Company's shareholders' equity. The Company amended its tangible net worth covenant from a minimum of $2,750 million to a minimum of $1,700 million. As at December 31, 2015, the Company's shareholders' equity was $2,482 million (December 31, 2014 - $3,164 million). As at December 31, 2015, Athabasca was in compliance with all of the Credit Facility covenants.

11. INCOME TAXES

Athabasca's deferred income tax position consists of the following:

As at	December 31, 2015	December 31, 2014
DEFERRED INCOME TAX ASSETS		
Non-capital losses	$ 168,476	$ 151,113
SR&ED credits	9,485	9,405
Share issuance costs	—	1,364
Long-term debt in excess of tax values	8,883	1,919
Other	660	502
DEFERRED INCOME TAX LIABILITIES		
Capital assets in excess of tax values	(161,209)	(200,324)
Promissory Note reserve	(17,050)	(68,846)
Derivative asset in excess of tax values	(9,245)	(2,055)
DEFERRED INCOME TAX ASSET (LIABILITY)	$ —	$ (106,922)

As at December 31, 2015, Athabasca elected to not recognize deductible temporary differences in respect of income tax assets from non-capital losses of $347.6 million (December 31, 2014 - nil).

The changes in the deferred tax balances are as follows:

Year ended	December 31, 2015	December 31, 2014
DEFERRED INCOME TAX ASSETS		
Balance, beginning of year	$ 164,303	$ 147,579
Deferred tax assets recognized through net income	24,656	15,317
Carry-back election of non-capital losses	(1,698)	—
Recognition of SR&ED credits in E&E (Note 7)	243	1,407
Balance, end of year	187,504	164,303
DEFERRED INCOME TAX LIABILITIES		
Balance, beginning of year	(271,225)	(320,078)
Deferred tax liabilities recognized through net income	83,721	48,853
Balance, end of year	(187,504)	(271,225)
NET DEFERRED INCOME TAX ASSET (LIABILITY)	$ —	$ (106,922)

The Company has approximately $2.8 billion in tax pools, including approximately $0.9 billion in non-capital losses available for immediate deduction against future income that expire at various times beyond 2025.

The following table reconciles expected income tax expense calculated at the Canadian statutory rate of 26% (2014 - 25%) to actual income tax expense:

Year ended	December 31, 2015	December 31, 2014
LOSS BEFORE INCOME TAXES	$ (805,148)	$ (291,339)
EXPECTED INCOME TAX RECOVERY		
Income tax recovery at statutory rate	(209,338)	(72,835)
ADJUSTMENTS RELATED TO THE FOLLOWING:		
Non-taxable portion on foreign exchange losses, net	6,387	1,937
Non-taxable portion of derivative gains, net	(5,930)	(1,332)
Non-taxable portion of gains on sale of assets	118	4,846
Non-taxable portion on unrealized Put Option (gain) loss	—	(418)
Stock-based compensation	2,008	2,314
Impact from change in future statutory rate	5,588	—
Unrecognized deferred income tax asset	93,843	—
Other	(1,053)	1,317
DEFERRED INCOME TAX RECOVERY	$ (108,377)	$ (64,171)

During the second quarter of 2015, the Alberta Government announced a 2% increase to the 2015 provincial tax rate effective July 1, 2015, increasing by 1% in 2015 and 1% in 2016. For the year ended December 31, 2015 and 2014, Athabasca recognized deferred income tax recoveries of $108.4 million and $64.2 million, respectively, which were primarily due to impairment losses.

12. PROVISIONS

As at	December 31, 2015	December 31, 2014
Decommissioning obligations (a)	$ 75,537	$ 72,054
Office lease provision (b)	12,338	—
Other long-term obligations (c)	4,113	3,096
TOTAL PROVISIONS	$ 91,988	$ 75,150
Presented as:		
Accounts payable and accrued liabilities	$ 7,666	$ 6,201
Provisions	$ 84,322	$ 68,949

a) Decommissioning obligations

The total future costs to reclaim oil and gas assets are estimated by management based on the Company's ownership interest in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The following table reconciles the change in decommissioning obligations:

Year ended	December 31, 2015	December 31, 2014
DECOMMISSIONING OBLIGATIONS, BEGINNING OF PERIOD	$ 72,054	$ 64,115
Liabilities incurred	1,324	1,929
Liabilities settled	(3,481)	(7,887)
Liabilities disposed	—	(533)
Change in discount rate	(4,943)	2,222
Changes in estimates	4,449	6,059
Accretion expense	6,134	6,149
DECOMMISSIONING OBLIGATIONS, END OF PERIOD	$ 75,537	$ 72,054
Presented as:		
Accounts payable and accrued liabilities	$ 2,208	$ 6,201
Provisions	$ 73,329	$ 65,853

The Company has calculated the net present value of its decommissioning obligations using an inflation rate of 2% (December 31, 2014 - 2%) and a credit-adjusted risk free discount rate of 9.00% per annum (December 31, 2014 - 8.25%). The payments to settle these obligations are expected to occur during a period of up to 50 years due to the long-term nature of the Company's oil and gas assets. The total undiscounted amount of estimated cash flows required to settle the obligations as at December 31, 2015 is $275.9 million (December 31, 2014 - $254.1 million).

A 1% increase in the credit-adjusted risk free discount rate would decrease the provision by $5.8 million, with a corresponding adjustment to E&E and PP&E. A 1% decrease in the credit-adjusted risk free discount rate would increase the provision by $6.8 million, with a corresponding adjustment to E&E and PP&E.

b) Office lease provision

As part of the restructuring activities completed in the first quarter of 2015 (Note 19), Athabasca recognized a $7.0 million provision related to certain onerous office lease contracts in restructuring and other charges (December 31, 2014 - $ nil). For the year ended December 31, 2015, an additional $8.4 million was recognized in Loss on Provisions due to refined estimates of the timing and amount of expected cash inflows associated with the liability and recognition of accretion expense for $0.5 million. The increase in the office lease provision was partially offset by cash settlements of $3.5 million during the year.

The provision represents the present value of the minimum future lease payments that the Company is obligated to make under the non-cancellable operating lease contracts less revenue expected to be earned through existing and potential future sub-lease agreements. The total undiscounted amount of estimated future cash flows to settle the obligations is $15.4 million (December 31, 2014 - $ nil). These cash flows have been discounted using Athabasca's credit-adjusted risk free discount rate of 9.00% (December 31, 2014 - nil). This estimate may vary as a result of changes in the estimated utilization of the leased premises or the terms of existing and potential sub-lease arrangements. Any subsequent changes in estimates will be recognized as a (Gain) Loss on Provisions.

As at December 31, 2015, $5.5 million of the provision has been presented as current and included in accounts payable and accrued liabilities. A 1% increase in the credit-adjusted risk free discount rate would decrease the provision by $0.3 million, with a corresponding adjustment against income. A 1% decrease in the credit-adjusted risk free discount rate would increase the provision by $0.3 million, with a corresponding adjustment against income.

c) Other long-term obligations

In December 2013, Athabasca assigned an office lease to a third party. Under the terms of the reassignment, Athabasca continues to be liable to the landlord for any default under the lease that is caused by the assignee. In January 2014, Athabasca received a deposit of $3.1 million which will be held as security for the term of the lease in order to cover any default by the assignee. Once the lease term has expired Athabasca will be required to refund the deposit to the third party plus any interest earned on the funds during the period the deposit was held. Athabasca does not anticipate any defaults as the assignee is a large investment-grade-rated energy company. The lease commenced on January 1, 2015, for a term of 12 years.

The Company also recognized $1.0 million in other long-term obligations relating to the Company's newly issued deferred share unit plan. Refer to Note 16 for further details.

13. FINANCIAL INSTRUMENTS

The Company's consolidated financial assets and liabilities are comprised of cash and cash equivalents, short-term investments, accounts receivable, income tax receivable, derivative financial assets, the Promissory Note, other long-term assets, accounts payable and long-term debt.

a) Fair Value

The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The Company's cash and cash equivalents and short-term investments have been assessed on the fair value hierarchy described above and have been classified as Level 1. The fair value of Athabasca's derivative financial asset of $62.6 million has been classified as Level 2. The fair value was determined using a third party model which was verified for reasonableness by the Company by comparing it to other external market data. The fair value of the Promissory Note of $136.9 million and the Notes of $414.6 million have been classified as Level 2. The fair values were based on observable quoted prices from financial institutions. The Term Loan has a fair value of C$237.4 million and has been classified as Level 3. As the Term Loan is not actively traded, the value of the Notes, adjusted for the senior priority of the loan, was used as a proxy to calculate the fair value of the Term Loan.

b) Financial Risk Management

Credit Risk

The maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, income tax receivable, derivative assets and Promissory Notes on the consolidated balance sheets. Cash and cash equivalents and short-term investments held by the Company are invested with counterparties meeting credit quality requirements and concentration limits pursuant to an investment policy that is periodically reviewed by the Audit Committee. The policy emphasizes security of assets over investment yield.

The maximum exposure to credit risk at the reporting date is:

As at		December 31, 2015		December 31, 2014
Cash and cash equivalents	$	559,487	$	531,475
Short-term investments		—		47,618
Accounts receivable		25,601		32,117
Income tax receivable		2,215		9,579
Derivative asset		62,584		12,638
Promissory Notes		133,892		583,892
MAXIMUM CREDIT RISK	$	783,779	$	1,217,319

As at December 31, 2015 and December 31, 2014 Athabasca's cash, cash equivalents and short-term investments were held with four counterparties. The Company holds investments in term deposits with large reputable financial institutions. The Company's management believes that credit risk associated with these investments is low. At December 31, 2015, the largest institution held 32% of the balances (December 31, 2014 - 35%).

As at December 31, 2015, 40% of the accounts receivable balance relates to the sale of petroleum and natural gas and was substantially collected within 30 days after the end of the period (December 31, 2014 - 23%). Joint interest billings and equipment disposals with partners account for 18% of accounts receivable (December 31, 2014 - 47%). 30% of the accounts receivable balance relates to GST, a cash call receivable and other receivables (December 31, 2014 - 22%). Additionally, 12% relates to accrued interest on the Promissory Note (December 31, 2014 - 8%). Management believes collection risk on the outstanding accounts receivable as at December 31, 2015 is low given the high credit quality of the Company's material counterparties. No material amounts were past due at December 31, 2015.

As at December 31, 2015 Athabasca holds $136.9 million in a remaining Promissory Note including the note principal and accrued interest. The Promissory Note is unconditional and secured by an irrevocable, standby letter of credit issued by HSBC Bank Canada ("HSBC"). Management believes that credit risk associated with this receivable is low as Phoenix is a wholly owned subsidiary of PetroChina, an investment grade rated corporation, and HSBC is a large reputable financial institution. The first and second Promissory Notes, which matured on March 2, 2015 and August 28, 2015 respectively, were fully collected on maturity.

Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient available reserves to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in cash and cash equivalent accounts. Until required, excess cash will be invested in short-term investments.

It is anticipated that Athabasca's 2016 capital and operating budgets, including continued appraisal and development activities in the Light Oil Division and the continued ramp-up of Project 1, and any debt repayments will be funded with existing cash and cash equivalents, short-term investments, the Promissory Note, operating income from the Thermal Oil and Light Oil divisions, proceeds from the sales of assets, the Duvernay capital carry from the pending Murphy Transaction (Note 24) and available credit. Beyond 2016, the Company may require additional capital to develop its assets and Athabasca believes it will fund its capital programs through some combination of cash and cash equivalents, short-term investments, the Duvernay capital carry from the pending Murphy Transaction (Note 24), a reasonable level of debt and other external financing. The Company cannot guarantee the availability of these sources of additional funding and the availability of future funding will depend on, among other things, the current commodity price environment, performance in both the Light Oil Division and at Hangingstone, the Company's credit rating at the time and the current state of the equity and debt capital markets. The Company has significant flexibility to adjust its capital programs in response to commodity price cycles or other constraints.

The Company's significant outstanding financial liabilities mature as follows: the Notes mature on November 19, 2017; the Term Loan matures on May 7, 2019 or on May 19, 2017 if the Company has not redeemed or refinanced the Notes prior to that date; and the long-term deposit, described in Note 12, will be held until December 31, 2026. The ability to draw on the delayed draw term loan expires on May 7, 2016 and the Credit Facility matures on April 30, 2017. All other financial liabilities mature within one year.

Interest Rate Risk

The Company's floating interest rate profile at the reporting date was as follows:

As at		December 31, 2015		December 31, 2014
Cash and cash equivalents(1)	$	480,619	$	436,286
Long-term debt(2) (3)		(306,759)		(259,719)
NET INTEREST RATE EXPOSURE	$	173,860	$	176,567

(1) As at December 31, 2015 $78.9 million was held as cash equivalents (December 31, 2014 - $95.2 million). All cash equivalents were fixed rate financial instruments and were not exposed to changes in interest rates as at the balance sheet date.
(2) The outstanding Term Loan which has a face value of US $221.6 million as at December 31, 2015 (December 31, 2014 - US $223.9 million) is subject to a floating interest rate based on the LIBOR, plus a credit spread of 7.25%, with a LIBOR floor of 1.00%.
(3) The Notes have a face value of $550 million as at December 31, 2015 (December 31, 2014 - $550 million), and are subject to a fixed interest rate of 7.50% per annum and are not exposed to changes in interest rates.

The Company's exposure to interest rate fluctuations on interest earned on the floating rate cash balance of $480.6 million, from a 1.00% change in interest rates, would be approximately $4.8 million for a 12 month period (year ended December 31, 2014 - $4.4 million).

The Company is also exposed to interest rate cash flow risk on its floating rate Term Loan. However, given that the Company has a 1.00% LIBOR floor on its Term Loan, a decrease in the rate would have no impact. A 1.00% increase in LIBOR above the existing rate would result in a US$1.4 million ($1.9 million) increase in interest expense for a 12 month period (year ended December 31, 2014 - US$0.6 million ($0.7 million)).

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its US dollar denominated Term Loan and US dollar forward contract as described below. If the Canadian dollar strengthened by 5% relative to the US dollar, holding all other variables constant, the derivative asset of $62.6 million would decrease by $16.7 million. Long-term debt would decrease by $15.3 million resulting in a net $1.4 million loss. A 5% decrease in the Canadian dollar relative to the US dollar, holding all other variables constant, would increase the derivative asset by $16.7 million and increase long-term debt by $15.3 million resulting in a net $1.4 million gain.

c) Derivative Contract

Athabasca is exposed to foreign currency risk on its US dollar denominated Term Loan. To manage the currency exposure, in May 2014, Athabasca entered into a US dollar forward contract for US$270.8 million relating to the interest payments and principal repayments on the Term Loan at a rate of US$1.00 = C$1.1211 expiring on March 31, 2017. This contract is accounted for as a derivative instrument and changes in the valuation are recognized in net income (loss) and the associated liability or asset is recognized on the balance sheet.

Year ended		December 31, 2015		December 31, 2014
Unrealized derivative gain	$	49,946	$	12,638
Realized derivative gain		3,945		56
DERIVATIVE GAIN, NET	$	53,891	$	12,694

As at		December 31, 2015		December 31, 2014
OPENING DERIVATIVE ASSET	$	12,638	$	—
Unrealized derivative gain		49,946		12,638
CLOSING DERIVATIVE ASSET	$	62,584	$	12,638
Presented as:				
Current portion of derivative asset	$	5,382	$	930
Long-term portion of derivative asset	$	57,202	$	11,708

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to pursue the acquisition, exploration and development of its resource properties or potential other business and to maintain a flexible capital structure to undertake projects for the benefit of its stakeholders. The Company considers the items included in shareholders' equity, long-term debt, the undrawn term loan and the $125.0 million revolving senior secured credit facility as capital.

Capital managed by the Company as at December 31, 2015 and December 31, 2014 was as follows:

As at		December 31, 2015		December 31, 2014
Senior Secured Second Lien Notes (Note 10)	$	550,000	$	550,000
Senior Secured Term Loans (Note 10)		306,759		259,719
Shareholders' Equity (Note 15)		2,482,140		3,164,186
TOTAL CAPITAL MANAGED	$	3,338,899	$	3,973,905

15. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of first and second preferred shares. There are no first or second preferred shares outstanding at the reporting date. None of the Company's share capital has a par value. The following table summarizes changes to the Company's common share capital:

Year ended	December 31, 2015			December 31, 2014		
	Number of Shares		Amount	Number of Shares		Amount
Balance at beginning of period	402,119,473	$	1,984,134	400,844,142	$	1,970,186
Exercise of stock options and RSUs (Note 16)	2,180,119		21,636	1,275,331		13,948
BALANCE AT END OF PERIOD	404,299,592	$	2,005,770	402,119,473	$	1,984,134

16. STOCK-BASED COMPENSATION

The Company's stock-based compensation plans for employees, directors and certain other service providers, currently consist of stock options, restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). The following table summarizes the outstanding equity compensation units:

Year ended	December 31, 2015	December 31, 2014
Stock options (a)	9,942,905	13,339,894
Restricted share units (2010 RSU Plan) (b)	6,035,950	10,282,878
Restricted share units (2015 RSU Plan) (b)	2,329,550	—
Performance share units (c)	1,260,500	455,000
Deferred share units (d)	663,082	—
TOTAL OUTSTANDING EQUITY COMPENSATION UNITS	20,231,987	24,077,772

a) Stock Options

The Company has a stock option plan, approved in 2009, which allows options to be granted to employees, directors and certain other service providers. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price or to receive a cash payment equal to the appreciated value of the stock option at the sole discretion of the Company. The stock option plan is a rolling plan and currently limits the number of common shares that may be issued on exercise of options awarded under the plan to an aggregate of 10% of the common shares outstanding from time to time, less the number of common shares issuable under all other security-based compensation agreements. Currently, options generally vest within three years and have a life of five to seven years.

The following summarizes the stock option units outstanding as at December 31, 2015 and 2014:

Year ended	December 31, 2015			December 31, 2014		
	Number of options	Exercise price(1)		Number of options	Exercise price(1)	
Outstanding stock options at beginning of period	13,339,894	$	9.89	14,576,555	$	11.28
Granted	2,792,800		2.02	4,537,500		6.39
Forfeited	(5,366,489)		10.07	(5,359,961)		11.17
Expired	(823,300)		10.67	(245,000)		6.07
Exercised	—		—	(169,200)		5.81
OUTSTANDING STOCK OPTIONS AT END OF PERIOD	9,942,905	$	7.52	13,339,894	$	9.89
EXERCISABLE STOCK OPTIONS AT END OF PERIOD	3,814,252	$	11.29	5,409,170	$	12.44

(1) Weighted average

The estimated fair value per stock option granted during the year ended December 31, 2015 was $0.82 (year ended December 31, 2014 - $2.39). The weighted average exercise prices of the Company's outstanding stock options as at December 31, 2015 range from $1.48 - $17.22 as follows:

	Options outstanding				Options exercisable		
Range of exercise prices ($)	Number of options	Exercise price(1)		Years to Expiry(1)	Number of options	Exercise price(1)	
1.48 - 2.47	2,387,900	$	2.02	6.31	—	$	—
2.48 - 6.48	1,974,900		5.83	5.24	538,050		5.88
6.49 - 7.74	1,827,140		7.00	4.32	366,800		6.88
7.75 - 11.87	1,840,015		10.18	1.90	1,127,352		10.71
11.88 - 17.22	1,912,950		14.06	0.68	1,782,050		14.19
	9,942,905	$	7.52	3.83	3,814,252	$	11.29

(1) Weighted average

b) Restricted Share Units

During the first quarter of 2010, the Company established an RSU stock-based compensation plan (the "2010 RSU Plan"). Under the terms of the 2010 RSU Plan, the Company may grant restricted share units ("2010 Plan RSUs") to employees, directors and consultants. All 2010 Plan RSUs issued by the Company permit the holder to purchase one common share of the Company for $0.10 or to receive a cash payment equal to the fair market value of the common shares less the exercise price of the 2010 Plan RSUs at the sole discretion of the Company. During the second quarter of 2015, the 2010 RSU Plan was replaced with a new RSU plan for employees (the "2015 RSU Plan"), which is described below.

The 2010 RSU Plan was a rolling plan and limited the number of common shares that could be issued on exercise of 2010 Plan RSUs awarded under the plan to an aggregate of 10% of the common shares outstanding from time to time, less the number of common shares issuable under all other security-based compensation arrangements. Grants of 2010 Plan RSUs generally vested within one to four years and have an average expected life of four years.

The following summarizes the 2010 Plan RSUs outstanding as at December 31, 2015 and 2014:

Year ended	December 31, 2015	December 31, 2014
Outstanding RSUs at beginning of period	10,282,878	10,617,753
Granted	519,580	4,403,745
Forfeited	(2,582,389)	(3,632,489)
Expired	(4,000)	—
Exercised	(2,180,119)	(1,106,131)
OUTSTANDING RESTRICTED SHARE UNITS AT END OF PERIOD	6,035,950	10,282,878
EXERCISABLE RESTRICTED SHARE UNITS AT END OF PERIOD	3,238,714	1,973,048

The average estimated fair value per 2010 Plan RSUs granted during the year ended December 31, 2015 was $2.21 (year ended December 31, 2014 - $6.79).

Restricted share units granted under the 2015 RSU Plan ("2015 Plan RSUs") will vest evenly over three years and have no exercise price. The 2015 Plan RSUs will be automatically settled at each vest date in either cash, shares issued from treasury or through the purchase of shares on the open market, at the Company's discretion. The 2015 RSU Plan has been accounted for as an equity-settled share-based compensation plan.

The following summarizes the 2015 Plan RSUs outstanding:

Year ended	December 31, 2015	December 31, 2014
Outstanding RSUs at beginning of period	—	—
Granted	2,996,150	—
Forfeited	(666,600)	—
OUTSTANDING RESTRICTED SHARE UNITS AT END OF PERIOD	2,329,550	—

The average estimated fair value per 2015 Plan RSUs granted during the year ended December 31, 2015 was $2.05 (year ended December 31, 2014 - nil).

c) Performance Share Units

During 2014, the Company approved a performance award plan ("PSU Plan"). Under the PSU Plan, the Company may grant performance awards ("PSUs") to employees. PSUs will cliff vest over approximately three years and vested awards will be settled in cash, shares issued from treasury or through the purchase of shares on the open market, at the Company's discretion. The settlement value is based on a multiplier, which ranges from 0% to 200%, based on the Company's total shareholder return relative to a performance peer group consisting of other industry peers over the vesting period.

The PSU Plan has been accounted for as an equity-settled share-based compensation plan, which has been adjusted for the probability of performance achievement. The following table summarizes the PSUs outstanding as at December 31, 2015 and 2014:

Year ended	December 31, 2015	December 31, 2014
Outstanding PSUs at beginning of period	455,000	—
Granted	1,429,500	455,000
Forfeited	(624,000)	—
OUTSTANDING PERFORMANCE SHARE UNITS AT END OF PERIOD	1,260,500	455,000

The average estimated fair value per PSU granted during the year ended December 31, 2015 was $2.24 (year ended December 31, 2014 - $7.25)

d) Deferred Share Units

During the second quarter of 2015, the Company approved a deferred share unit plan ("DSUs") for Athabasca's non-management directors. The DSUs vest immediately on the date of grant and will be settled in cash when the individual ceases to be a director of the Company. The DSUs are expensed immediately upon grant and the resulting liability is revalued at each reporting date based on the closing share price. The DSU liability is included in other long-term provisions.

For the twelve months ended December 31, 2015, the Company granted 663,082 units to its directors. The Company recognized an expense of $1.0 million in stock-based compensation expense for the twelve month period ended December 31, 2015 (December 31, 2014 - $nil). As at December 31, 2015, the Company has also recognized an associated liability of $1.0 million (December 31, 2014 - $nil).

e) Fair Value Assumptions for Stock-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value for option, RSU and PSU grants under its stock-based compensation plans. Estimated fair values for the stock-based grants for the year ended December 31, 2015 were calculated using the following weighted average assumptions:

Year ended December 31, 2015	Options	2010 Plan RSUs	2015 Plan RSUs	PSUs
Weighted average share price	$ 2.02	$ 2.30	$ 2.05	$ 2.24
Risk-free interest rate (%)	1.0	0.8	0.7	0.8
Estimated forfeiture rate (%)	7.0	7.5	7.5	7.5
Expected life (years)	4.4	3.6	2.7	3.3
Dividend rate (%)	—	—	—	—
Volatility (%)	48.9	47.3	52.2	49.5

17. PER SHARE COMPUTATIONS

Year ended	December 31, 2015	December 31, 2014
Weighted average shares outstanding - basic	403,214,050	401,512,412
Dilutive effect of stock options and RSUs	—	—
WEIGHTED AVERAGE SHARES OUTSTANDING - diluted	403,214,050	401,512,412

Dilutive securities will have a dilutive effect under the treasury stock method only when the average market price of the common shares during the period exceeds the sum of the exercise price of the securities and unamortized stock-based compensation. For the year ended December 31, 2015, 19,568,905 (December 31, 2014 - 24,077,772) in anti-dilutive securities were excluded from the calculation of diluted loss per share.

18. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, 2015 and 2014, the Company's general and administrative expenses consisted of the following:

Year ended	December 31, 2015	December 31, 2014
Salaries and benefits	$ 31,867	$ 65,720
Office costs	12,908	17,601
Legal, accounting and consulting	4,205	5,693
Stakeholder relations and other	1,174	1,753
Capitalized staff costs	(17,625)	(42,306)
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	$ 32,529	$ 48,461

19. RESTRUCTURING AND OTHER CHARGES

For the years ended December 31, 2015 and 2014, the Company's restructuring and other charges consisted of the following :

Year ended	December 31, 2015	December 31, 2014
Staff restructuring charges	$ 11,300	$ 10,468
Office lease provision (Note 12)	7,034	—
Cancellation charges	4,574	—
TOTAL RESTRUCTURING AND OTHER CHARGES	$ 22,908	$ 10,468

For the years ended December 31, 2015 and 2014, Athabasca incurred staff restructuring charges of $11.3 million and $10.5 million, respectively, relating to the Company's cost reduction activities. The Company also recognized a loss of $7.0 million for the year ended December 31, 2015, relating to lease commitments on vacated office space primarily as a result of the staff reductions. For the year ended December 31, 2015, Athabasca also recognized net cancellation charges of $4.6 million relating to Thermal Oil rig commitments associated with the 2014/15 drilling season.

20. FINANCING AND INTEREST

For the years ended December 31, 2015 and 2014, the Company's financing and interest expense consisted of the following:

Year ended	December 31, 2015	December 31, 2014
Interest expense on indebtedness (Note 10)	$ 65,652	$ 60,005
Accretion of provisions (Note 12)	6,667	6,149
Amortization of debt issuance costs	7,404	11,441
Capitalized financing and interest	(39,686)	(49,188)
TOTAL FINANCING AND INTEREST	$ 40,037	$ 28,407

For the year ended December 31, 2015, Athabasca's average effective capitalization interest rate was 8.58% (December 31, 2014 - 8.55%). In August of 2015, Athabasca discontinued the capitalization of interest and financing costs associated with Project 1 when the project became ready for use in the manner intended by management.

21. COMMITMENTS AND CONTINGENCIES

The following table summarizes Athabasca's estimated future minimum commitments as at December 31, 2015 for the following five years and thereafter:

	2016	2017	2018	2019	2020	Thereafter	Total
Transportation	$ 52,252	$ 53,433	$ 48,527	$ 51,260	$ 51,260	$ 856,303	$ 1,113,035
Repayment of long-term debt (Note 10)(1)(2)	3,056	553,026	2,996	297,681	—	—	856,759
Interest expense on long-term debt (Note 10)(2)	66,813	61,471	24,987	8,726	—	—	161,997
Office leases	2,452	2,452	2,452	2,452	2,452	11,808	24,068
Purchase commitments and other(3)	11,415	—	—	—	—	—	11,415
Drilling rigs	2,764	2,915	—	—	—	—	5,679
TOTAL COMMITMENTS	$ 138,752	$ 673,297	$ 78,962	$ 360,119	$ 53,712	$ 868,111	$ 2,172,953

(1) The Term Loan is required to be repaid on May 19, 2017 if the Company has not redeemed or refinanced the Notes prior to this date.

(2) Estimated future interest and principal repayments relating to the Term Loan have been translated at a rate of US$1.00 = C$1.3840 in the table above which is based on the current spot rate as at December 31, 2015.

(3) Purchase commitments and other primarily relates to Thermal Oil camp costs and long-lead equipment in the Light Oil Division.

Athabasca has entered into two transportation services agreements which support the Hangingstone projects. The first agreement was signed with Enbridge Pipelines (Athabasca) Inc. ("Enbridge") for the transportation of produced bitumen and blended diluents from Hangingstone. Included in the table above under Transportation are the minimum take or pay commitments for terminalling and transportation from Hangingstone to Cheecham and from Cheecham to Edmonton. The initial term of the agreement is 25 years with Athabasca having the option to extend over four renewal terms of five years each.

The second agreement was signed with Inter Pipeline Polaris Inc. ("IPPI") for the transportation of condensate to the Hangingstone project using the IPPI owned and operated Polaris Condensate Pipeline System. Included in the table above under Transportation are the minimum take or pay commitments under the agreement. The initial term of the agreement is 25 years with Athabasca having the option to extend over five renewal terms of five years each.

Athabasca is subject to certain financial assurance provisions under its pipeline transportation agreements which require the Company to provide financial collateral consisting of letters of credit. On January 4, 2016, Athabasca issued a letter of credit under the Company's Credit Facility for $89.9 million in respect of the financial assurance provisions associated with the Enbridge pipeline transportation services agreement, which became effective in conjunction with the pipeline becoming operational late in the fourth quarter of 2015. Athabasca currently has $97.2 million in aggregate letters of credit issued primarily relating to these transportation services obligations.

Athabasca is responsible for the retirement of its resource assets at the end of their useful lives (Note 12).

Excluded from the table above is a commitment for $133.7 million in office leases which were assigned to a third party in December 2013 (Note 12).

Athabasca has entered into indemnity agreements with its directors and officers whereby the Company indemnifies the directors and officers to the fullest extent permitted by law against all personal liability and loss that may arise in service to the Company.

The Company may, from time to time, be involved in claims arising in the normal course of business.

The Company is currently undergoing income tax related audits in the normal course of business. While the final outcome of such audits cannot be predicted with certainty, it is the opinion of management that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations.

22. RELATED PARTY TRANSACTIONS

Athabasca has determined that the Company's key management personnel consist of the Company's directors and officers. The compensation and other benefits paid to key management personnel are as follows:

Year ended	December 31, 2015	December 31, 2014
Salaries, fees and short-term employee benefits	$ 7,098	$ 6,079
Termination benefits	3,508	2,029
Stock-based compensation	8,477	5,625
TOTAL EXECUTIVE COMPENSATION	$ 19,083	$ 13,733

In the fourth quarter of 2014, through the normal course of operations, Athabasca sold a parcel of land to an energy company that has a director, who is also an officer for that company, in common with Athabasca for consideration of $0.7 million. The transaction was measured at fair value.

23. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital

The following table reconciles the net changes in non-cash working capital from the balance sheet to the cash flow statement as at December 31, 2015 and 2014:

Year ended		December 31, 2015		December 31, 2014
Change in accounts receivable	$	6,516	$	8,583
Change in current income tax receivable		7,364		—
Change in prepaid expenses and other		(582)		9,619
Change in inventory		(8,910)		—
Change in accounts payable and accrued liabilities		(113,793)		(32,910)
		(109,405)		(14,708)
Other items impacting changes in non-cash working capital:				
Change in current portion of accrued interest income on Promissory Note (Note 5)		(755)		—
Change in current decommissioning obligations (Note 12)		3,993		(3,335)
	$	(106,167)	$	(18,043)
RELATED TO:				
Operating activities	$	3,031	$	6,619
Investing activities		(109,198)		(24,662)
NET CHANGE IN NON-CASH WORKING CAPITAL	$	(106,167)	$	(18,043)

24. SUBSEQUENT EVENTS

Light Oil joint venture

On January 27, 2016, Athabasca entered into a purchase and sale agreement to form a strategic joint venture with Murphy Oil Company Ltd. (Canadian subsidiary to Murphy Oil Corporation, "Murphy") to develop the Montney and Duvernay Formations in the Greater Kaybob and Greater Placid areas. As part of the transaction, Athabasca is selling a share of its Greater Kaybob and Greater Placid area assets for gross proceeds of $475.0 million (the "Murphy Transaction").

Under the purchase and sale agreement, Athabasca is selling 70% of its working interest in production, acreage and infrastructure within the Greater Kaybob area assets. Murphy will assume operatorship under a Joint Development Agreement ("JDA") of the Greater Kaybob area. Athabasca is also selling 30% of its working interest in production, acreage and infrastructure within the Greater Placid area assets. Under a separate JDA, Athabasca will be operator of the Greater Placid area. Athabasca will also retain operatorship of the regional midstream infrastructure in the near term.

Murphy will pay approximately $250.0 million in cash to Athabasca on the transaction closing date. Additional consideration of approximately $225.0 million will be in the form of a capital carry in the Greater Kaybob whereby Murphy will fund 75% of Athabasca's share of development capital up to a maximum five year period.

The effective date of the Murphy Transaction is January 1, 2016 and the transaction is anticipated to close in the second quarter of 2016, subject to the parties meeting certain conditions.

CORPORATE INFORMATION

MANAGEMENT

Rob Broen
President & Chief Executive Officer

Kim Anderson
Chief Financial Officer

Blair Hockley
Vice President, Thermal Oil

Anne Schenkenberger
Vice President, General Counsel & Corporate Secretary

Kevin Smith
Vice President, Light Oil

Rod Sousa
Vice President, Corporate Development

Matthew Taylor
Vice President, Capital Markets & Communications

DIRECTORS

Ronald Eckhardt(2)(3)
Chair

Bryan Begley

Carlos Fierro(1)

Paul Haggis(3)

Marshall McRae(1)(3)

Peter Sametz(1)(2)

CORPORATE OFFICE

1200, 215 - 9 Avenue SW
Calgary, Alberta T2P 1K3
Telephone: (403) 237-8227
Fax: (403) 264-4640

WEBSITE

www.atha.com

Detailed biographies of Athabasca's Board of Directors and Management are available on the Corporation's website.

TRUSTEE AND TRANSFER AGENT

Computershare Trust Company of Canada
Suite 600, 530 - 8th Avenue SW
Calgary, Alberta, T2P 3S8
Telephone: (403) 267-6800
Fax: (403) 267-6529

BANK

TD Canada Trust

AUDITORS

Ernst & Young LLP

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

INDEPENDENT EVALUATORS

GLJ Petroleum Consultants Ltd.
DeGolyer and MacNaughton Canada Limited

STOCK SYMBOL

ATH
Toronto Stock Exchange

Member of:

(1) Audit Committee
(2) Reserves and Health, Safety & Environment Committee
(3) Compensation and Governance Committee