



ATHABASCA

OIL CORPORATION

Consolidated Financial Statements

December 31, 2014

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, 2014 and 2013, 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 auditors consider 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, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada
March 11, 2015

Ernst + Young LLP

Chartered Accountants



CONSOLIDATED BALANCE SHEETS

As at (\$ Thousands)	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	\$ 531,475	\$ 298,995
Short-term investments (Note 4)	47,618	23,795
Accounts receivable (Note 13)	32,117	40,700
Income tax receivable (Note 12)	9,579	16,376
Prepaid expenses and other	10,582	20,201
Current portion of derivative asset (Note 13)	930	-
Short-term promissory notes (Note 5)	450,000	-
Assets held for sale (Note 5)	-	1,219,523
	1,082,301	1,619,590
Long-term promissory notes (Note 5)	133,892	-
Long-term portion of derivative asset (Note 13)	11,708	-
Other long-term assets	3,747	-
Property, plant and equipment (Note 6 and 8)	2,103,334	1,598,205
Exploration and evaluation assets (Note 7 and 8)	962,821	1,124,530
	\$ 4,297,803	\$ 4,342,325
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 11)	\$ 168,500	\$ 201,410
Current portion of long-term debt (Note 10)	2,597	-
	171,097	201,410
Long-term debt (Note 10)	786,649	533,210
Provisions (Note 11)	68,949	61,249
Deferred income tax liability (Note 12)	106,922	172,499
	1,133,617	968,368
SHAREHOLDERS' EQUITY		
Common shares (Note 15)	1,984,134	1,970,186
Contributed surplus	154,201	150,362
Retained earnings	1,025,851	1,253,409
	3,164,186	3,373,957
	\$ 4,297,803	\$ 4,342,325

Commitments and contingencies (Note 20)

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, 2014	December 31, 2013
REVENUE		
Petroleum and natural gas sales	\$ 127,487	\$ 120,298
Interest income and other	11,929	14,162
Midstream revenue	2,667	2,198
Royalties	(15,497)	(11,589)
Total revenue	126,586	125,069
EXPENSES		
Operating and transportation expenses	35,923	35,649
General and administrative (Note 18)	58,929	65,485
Stock-based compensation (Note 16)	9,413	22,085
Financing and interest (Note 19)	28,407	44,616
Depletion, depreciation and impairment (Notes 6, 7 and 8)	243,492	135,973
Total expenses	376,164	303,808
Foreign exchange loss, net	(15,704)	-
Derivative gain, net (Note 13)	12,694	-
Unrealized Put Option loss (Note 5)	-	(51,980)
Gain (loss) on sale of assets (Note 5)	(38,751)	71,010
Loss before income taxes	(291,339)	(159,709)
INCOME TAXES		
Current income tax expense	-	660
Deferred income tax recovery (Note 12)	(64,171)	(35,791)
Loss before the following	(227,168)	(124,578)
Equity loss on investments (Note 5)	(390)	(1,560)
Net loss and comprehensive loss	\$ (227,558)	\$ (126,138)
BASIC LOSS PER SHARE (Note 17)		
	\$ (0.57)	\$ (0.32)
DILUTED LOSS PER SHARE (Note 17)		
	\$ (0.57)	\$ (0.32)

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended (\$ Thousands)	December 31, 2014	December 31, 2013
COMMON SHARES (Note 15)		
Balance, beginning of period	\$ 1,970,186	\$ 1,960,914
Exercise of stock options and RSUs	13,948	6,192
Release of contingently returnable shares	-	3,080
Balance, end of period	1,984,134	1,970,186
CONTRIBUTED SURPLUS		
Balance, beginning of period	150,362	119,259
Stock-based compensation	16,692	39,549
Exercise of stock options and RSUs	(12,853)	(8,446)
Balance, end of period	154,201	150,362
RETAINED EARNINGS		
Balance, beginning of period	1,253,409	1,379,547
Net loss	(227,558)	(126,138)
Balance, end of period	1,025,851	1,253,409
TOTAL SHAREHOLDERS' EQUITY	\$ 3,164,186	\$ 3,373,957

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended (\$ Thousands)	December 31, 2014	December 31, 2013
OPERATING ACTIVITIES		
Net loss	\$ (227,558)	\$ (126,138)
Items not affecting cash		
Stock-based compensation (Note 16)	9,413	22,085
Net non-cash financing and interest	3,485	1,955
Depletion, depreciation and impairment (Notes 6, 7 and 8)	243,492	135,973
Deferred income tax recovery (Note 12)	(64,171)	(35,791)
Equity loss on investments (Note 5)	390	1,560
Unrealized foreign exchange loss	15,353	-
Unrealized gain on derivative (Note 13)	(12,638)	-
Unrealized Put Option (gain) loss (Note 5)	-	51,980
(Gain) loss on sale of assets (Note 5)	38,751	(71,010)
Income tax credits received	6,797	15,647
Reclamation expenditures (Note 11)	(1,756)	(944)
Changes in non-cash working capital (Note 22)	6,619	(6,830)
	18,177	(11,513)
FINANCING ACTIVITIES		
Net proceeds from long-term debt (Note 10)	236,675	-
Repayment of long-term debt	(1,281)	-
Proceeds from exercised equity incentives (Note 16)	1,094	826
	236,488	826
INVESTING ACTIVITIES		
Proceeds on sale of investments (Note 5)	601,304	-
Proceeds from sale of assets (Notes 6 and 7)	59,974	173,894
Additions to property, plant and equipment (Note 6)	(578,725)	(648,519)
Additions to exploration and evaluation assets (Note 7)	(48,133)	(95,428)
Contributions to assets held for sale and investments (Note 5)	(8,120)	(17,614)
(Increase) decrease in short-term investments (Note 4)	(23,823)	512,992
Changes in non-cash working capital (Note 22)	(24,662)	(41,656)
	(22,185)	(116,331)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	232,480	(127,018)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	298,995	426,013
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 531,475	\$ 298,995

See accompanying notes to the consolidated financial statements



Notes to the Consolidated Financial Statements

As at and for the year ended December 31, 2014

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

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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 11, 2015.

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, 2013. There were no changes to the Company's operating segments during the period. Interest income and other for the year ended December 31, 2013 has been changed from those presented in prior periods to reflect Athabasca's decision to separately present midstream revenue. As a result, for the year ended December 31, 2013, \$2.2 million was reclassified from interest income to midstream revenue.

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.

The carrying value of property, plant and equipment is related to reserve amounts used for impairment and depletion calculations which are based on estimates of oil and gas and bitumen reserves and resources, future commodity prices and future costs required to develop and produce the reserves and resources. The Company expects that reserve 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. 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 rate which may result in material changes to the estimated recoverable amount of the assets. Exploration and evaluation assets require judgment as to whether future economic benefits exist, including the existence of proven reserves 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 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.



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.

Commitment disclosures relating to post-sanction thermal oil projects include estimates of the total cost of the long-term projects and could be revised either upwards or downwards based on the actual results of developing the project.

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
Dover Put/Call Option	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 serving as a proxy.



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 may be used periodically by the Company to manage risks related to its US dollar denominated debt. All derivatives have been classified at fair value through 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.

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. Exploration and evaluation 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 exploration and evaluation 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 the 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 the 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.

Property, Plant and Equipment (“PP&E”)

Items of property, plant and equipment 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. For assets that are depleted the net carrying value of the related conventional petroleum and natural gas PP&E assets are 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.

The Company is in the early stages of developing its thermal oil assets and the assets are not yet ready for use; therefore, no depletion or depreciation has been recorded with respect to the related thermal oil capitalized expenditures to date. Light oil assets that are ready for use in the manner intended by management have had depletion recorded against their related capitalized expenditures. 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. 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.

Impairment

Impairment tests are performed on cash-generating units (“CGUs”) which are determined by the Company to be at the area level for light oil assets and thermal oil assets. CGUs are not larger than an operating segment.

E&E assets and PP&E are tested for impairment at each reporting date when facts and circumstances suggest that the carrying amount exceeds 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”). 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 discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related E&E and PP&E assets and CGU’s.

Research and Development

The Company engages in research and development activities to develop or improve processes and techniques to extract oil from bitumen deposits. Athabasca also performs research over light oil extraction techniques such as horizontal drilling in shale oil and gas mineral formations. Research involves planned investigation with the goal of attaining new knowledge and is not directly related to specific E&E projects. Development involves translating that knowledge into a new technology or process. Research costs are expensed as incurred. Development costs are capitalized with E&E assets as the Company assesses commercial viability and technical feasibility. These costs are capitalized until the development is ready for use, considered to be the commencement of commercial operations or production. Otherwise, development costs are expensed as incurred. Development costs include directly attributable pre-operating revenues and costs. The costs of the Company’s Dover West Carbonates TAGD Field Test are being capitalized in the E&E phase as the Company continues to assess the heater cable technology.

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 capitalizes borrowing costs associated with its sanctioned Hangingstone Project 1 assets. 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 is recorded as cash equivalents and short-term investments mature. 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 difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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 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 the employee profit sharing plan. Athabasca previously had issued incentive shares granted under legacy plans which were held in trust until certain length of service requirements were met. At the grant date the Company uses the fair value method to account for securities issued as part of its stock-based compensation plans. The fair value is recorded as stock-based compensation over the vesting period with a corresponding amount reflected in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

The stock-based compensation fair value is determined using an estimated forfeiture rate. Compensation ultimately recognized is revised in subsequent periods to reflect the final grant amounts. For employees who are working on specific capital projects, the stock-based compensation is allocated to E&E assets or PP&E. 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. Shares held in trust and contingently returnable to the Company are excluded from basic income per share and included as 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, 2014, Athabasca does not have any finance leases.

Commitments and contingencies

For post-sanctioned thermal oil projects, Athabasca discloses the total sanctioned value of the project yet to be incurred at the reporting date. For contractual arrangements relating to both sanctioned and pre-sanctioned thermal oil projects, light oil and other projects, 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.

Recent Accounting Pronouncements

The Company adopted the International Financial Reporting Interpretation Committee 21 *Levies* on January 1, 2014. There was no material impact to the Company's consolidated financial statements as a result of the adoption of this interpretation.

Future Accounting Pronouncements

The International Accounting Standards Board 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, 2017, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard was expanded in October 2010 and will be published in three phases, of which two phases have been published. The first phase replaces the current approach to classification and measurement of financial assets and liabilities and uses a model of only two classification categories: fair value or amortized cost. The second phase, amended in 2013 by the IASB, incorporates a new general hedge accounting model which will allow reporting entities more opportunities to apply hedge accounting. The third phase clarifies the use of a single impairment method when evaluating financial instruments. A mandatory effective date for IFRS 9 in its entirety will be announced when the project is closer to completion. Early adoption of phases one and two is permitted only if adopted in their entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the consolidated financial statements.



4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	Initial Term (Days)	Interest Rates (%)	Amount (\$)
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
AS AT DECEMBER 31, 2013			
Cash	-	0.50 – 1.45	\$ 203,392
Cash equivalents	30 - 60	1.45 – 1.50	95,603
			298,995
Short-term investments	365	1.60 – 1.65	23,795
Total			\$ 322,790

5. SALE OF ASSETS TO PETROCHINA

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, and 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 year ended December 31, 2014 of \$3.3 million has been recognized in interest income up to the date of sale (Note 13).

Sale of Dover

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. 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. The following table outlines the assets and liabilities sold:



	Assets held for sale
Investment in AOC (Dover) Energy Inc.	\$ 891,299
Fair value of the Dover Put Option (Note 13 (a))	328,224
TOTAL ASSETS HELD FOR SALE, DECEMBER 31, 2013	\$ 1,219,523
Contributions	8,120
Time value of money accretion, recognized in interest income	3,342
Share of net loss on investment	(390)
Decommissioning obligations	(6,728)
TOTAL CARRYING VALUE AT TIME OF SALE	\$ 1,223,867

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. The Promissory Notes are unconditional, secured by irrevocable, standby letters of credit issued by HSBC Bank Canada and bear interest at an average rate of 1.67%. The Promissory Notes have been classified as held-to-maturity.

Sale of 40% interest in Dover	Cash Proceeds
Gross proceeds from sale	\$ 1,320,000
Closing adjustments	(136,108)
Net purchase price	1,183,892
Working capital adjustments	1,304
NET PROCEEDS ON SALE	\$ 1,185,196
Consisting of:	
Cash and net working capital	601,304
Promissory Note #1 (maturing March 2, 2015)	300,000
Promissory Note #2 (maturing August 28, 2015)	150,000
Promissory Note #3 (maturing August 29, 2016)	133,892
	\$ 1,185,196

For the year ended December 31, 2014, Athabasca recognized a net loss on the sale of Dover of \$38.7 million. The loss was primarily due to a \$49.0 million payment made to Phoenix to settle certain claims related to future abandonment costs associated with petroleum and natural gas wells located in the Dover and MacKay River areas, offset by the de-recognition of certain decommissioning obligations previously recognized by Athabasca and working capital adjustments. The loss was also offset by other adjustments relating to the probability and timing estimates used in valuing the Dover Put Option at the end of 2013 compared to the outcomes in 2014.

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

BALANCE, DECEMBER 31, 2012	\$ 1,109,851
PP&E expenditures	648,519
Non-cash capitalized costs ⁽¹⁾	23,433
Depletion and depreciation	(102,238)
Disposals, net of accumulated depletion and depreciation	(81,360)
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

(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, 2014	December 31, 2013
PP&E at cost	\$ 2,313,978	\$ 1,726,424
Accumulated depletion and depreciation	(210,644)	(128,219)
TOTAL PP&E	\$ 2,103,334	\$ 1,598,205

As at December 31, 2014, \$1,278 million (December 31, 2013 - \$855.6 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.

7. EXPLORATION AND EVALUATION (“E&E”) ASSETS

BALANCE, DECEMBER 31, 2012	\$ 1,095,307
E&E expenditures	95,428
Non-cash capitalized costs ⁽¹⁾	7,414
Recognition of SR&ED tax credits	(17,376)
Disposals	(22,508)
Depletion, depreciation and impairment	(33,735)
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)
Disposals	(57,111)
Depletion, depreciation and impairment (Note 8)	(161,065)
BALANCE, DECEMBER 31, 2014	\$ 962,821

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

During 2014, Athabasca disposed of exploratory non-core Thermal Oil properties for cash proceeds of \$56.1 million and exploratory non-core Light Oil properties for cash proceeds of \$1.0 million.

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 as well as a review of pending land expiries and future development plans for each of the Company’s assets. In the fourth quarter of 2014, it was determined that the significant decline in commodity prices was an indicator of impairment across all of the Company’s assets, and Athabasca tested all of its CGUs for impairment.

The Company used fair value less costs of disposal to calculate the recoverable amount of its CGUs. Significant estimates were utilized to determine the recoverable amounts of the CGUs and were based on discounted cash flow estimates from the Company’s Proved Plus Probable Reserves and Best Estimate Contingent Resources (Level 3). The Company also observed comparable market transactions for the Company’s undeveloped acreage (Level 3). The discounted cash flow estimates use forecasted commodity prices and cost estimates that were consistent with Athabasca’s independent qualified Reserve Engineers. Future cash flows were estimated using a two percent inflation rate and a market appropriate discount rate of 10% to 12% based on the nature of the properties included in the CGU and the extent of their development. A significant change to the forecasted price assumptions, cost estimates or discount rate used could have a material impact on these cash flow estimates.

Light Oil Division

The Light Oil Division consists of the Greater Kaybob Area development CGU as well as other exploration acreage located in Northwest Alberta (the “Light Oil Exploration Areas”). There was no impairment of the Greater Kaybob Area CGU. In its Light Oil Exploration Areas, Athabasca recognized a full impairment loss of \$74.4 million. 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 for the year ended December 31, 2014 to \$102.2 million (December 31, 2013 - \$33.7 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. There were no impairments of the Hangingstone, Dover West or Birch CGUs. In its Grosmont exploration area, the Company has recognized a full impairment loss of \$53.5 million. Athabasca also relinquished \$5.3 million in non-commercial Grosmont leases during 2014 bringing the total Thermal Oil relinquishment and impairment charges to \$58.8 million for the year ended December 31, 2014 (December 31, 2013 - \$ nil).

9. SEGMENTED INFORMATION

Segmented capital expenditures

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

Capital expenditures (Year ended)	December 31, 2014	December 31, 2013
LIGHT OIL		
Property, plant and equipment	\$ 195,033	\$ 254,889
Exploration and evaluation	4,905	27,161
	199,938	282,050
THERMAL OIL		
Property, plant and equipment	373,739	379,552
Exploration and evaluation	43,228	68,267
Assets held for sale (Note 5)	8,120	17,614
	425,087	465,433
CORPORATE		
Corporate assets and other	9,953	14,078
TOTAL CAPITAL SPENDING⁽¹⁾⁽²⁾	\$ 634,978	\$ 761,561

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

(2) Includes capitalized project staff costs of \$42.3 million (December 31, 2013 - \$46.7 million) and capitalized interest of \$44.5 million (December 31, 2013 - \$9.6 million).

Segmented assets

Athabasca's total assets by segment are as follows:

Net book value (As at)	December 31, 2014	December 31, 2013
LIGHT OIL		
Property, plant and equipment	\$ 1,120,896	\$ 999,801
Exploration and evaluation	2,632	100,969
	1,123,528	1,100,770
THERMAL OIL		
Property, plant and equipment	971,627	588,977
Exploration and evaluation	960,189	1,023,561
Assets held for sale	-	1,219,523
	1,931,816	2,832,061
CORPORATE		
Current assets, excluding assets held for sale	1,082,301	400,067
Other long term assets	149,347	-
Property, plant and equipment	10,811	9,427
	1,242,459	409,494
TOTAL ASSETS	\$ 4,297,803	\$ 4,342,325



Segmented operating results

Athabasca's operating results by segment are as follows:

Year ended December 31,	Light Oil		Thermal Oil		Consolidated	
	2014	2013	2014	2013	2014	2013
SEGMENT REVENUES						
Petroleum and natural gas sales	\$ 127,487	\$ 120,298	\$ -	\$ -	\$ 127,487	\$ 120,298
Midstream revenue	2,667	2,198	-	-	2,667	2,198
Other income	-	-	3,511	6,045	3,511	6,045
Royalties	(15,497)	(11,589)	-	-	(15,497)	(11,589)
	114,657	110,907	3,511	6,045	118,168	116,952
SEGMENT EXPENSES & OTHER						
Operating and transportation	35,923	35,649	-	-	35,923	35,649
Depletion, depreciation and impairment	176,092	121,549	58,821	-	234,913	121,549
Unrealized Put Option loss (Note 5)	-	-	-	51,980	-	51,980
(Gain) loss on sale of assets	92	(71,350)	38,659	340	38,751	(71,010)
Equity loss on investments (Note 5)	-	-	390	1,560	390	1,560
	212,107	85,848	97,870	53,880	309,977	139,728
Segment income (loss)	\$ (97,450)	\$ 25,059	\$ (94,359)	\$ (47,835)	\$ (191,809)	\$ (22,776)
CORPORATE						
Interest income and other					8,418	8,117
Financing and interest					(28,407)	(44,616)
General and administrative					(58,929)	(63,161)
Stock-based compensation					(9,413)	(24,409)
Depreciation					(8,579)	(14,424)
Foreign exchange loss, net					(15,704)	-
Derivative gain, net					12,694	-
Deferred income tax recovery					64,171	35,131
Net loss and comprehensive loss					\$ (227,558)	\$ (126,138)

10. INDEBTEDNESS

As at	December 31, 2014	December 31, 2013
Senior Secured Second Lien Notes (a)	\$ 550,000	\$ 550,000
Senior Secured Term Loans (b) ⁽¹⁾	259,719	-
Debt issuance costs	(30,804)	(21,664)
Amortization of debt issuance costs	10,331	4,874
TOTAL LONG-TERM DEBT	\$ 789,246	\$ 533,210
Presented as:		
Current portion of long-term debt	\$ 2,597	\$ -
Long-term debt	\$ 786,649	\$ 533,210

(1) 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 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. As at December 31, 2014, Athabasca was in compliance with all of the Notes covenants.



Athabasca has the option to redeem the Notes at a price of 107.50%, 103.75% and 100.00% in the 12-month periods beginning November 19, 2014, 2015 and 2016, respectively. Debt issuance costs associated with the transaction were initially capitalized and are amortized to net loss over the life of the Notes using the effective interest rate method.

b) Senior Secured Term Loans

On May 7, 2014, Athabasca entered into a credit agreement providing for US\$225 million term loan which was fully funded at closing and 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 (the "Term Loans"). Borrowings 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 Loans at any time prior to May 7, 2015 at the present value of 102% of the principal amount plus the present value of interest owing from the date of redemption to May 7, 2015. Beyond that date, Athabasca has the option to redeem the Term Loans 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 (including the present value of total proved and probable reserves) to total debt of 3.5 times; and, beginning with the March 31, 2015 quarter-end, if the aggregate of 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 to net first lien debt of 1.5 times. As at December 31, 2014, Athabasca's adjusted consolidated net tangible assets to total debt ratio was 5.2 times. The Company is in compliance with all of the covenants related to the Term Loans.

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 December 16, 2013 the Company entered into a \$350 million amended and restated credit agreement with a syndicate of financial institutions, replacing its previous \$200 million 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 the previous \$350 million 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. 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, 2014, the Company paid a rate of 1.00% on the undrawn portion of the Credit Facility (December 31, 2013 – 1.00%). As of December 31, 2014, Athabasca had \$0.5 million in issued letters of credit secured by the Credit Facility (December 31, 2013 - \$0.1 million) and no amounts had been drawn under the Credit Facility (December 31, 2013 - \$ 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.

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 balance of \$2,750 million. As at December 31, 2014, the Company's shareholders' equity balance was \$3,163 million (December 31, 2013 – \$3,374 million).



11. PROVISIONS

As at	December 31, 2014	December 31, 2013
Decommissioning obligations (a)	\$ 72,054	\$ 64,115
Long-term refundable deposit and other (b)	3,096	-
TOTAL PROVISIONS	\$ 75,150	\$ 64,115
Presented as:		
Accounts payable and accrued liabilities	\$ 6,201	\$ 2,866
Provisions	\$ 68,949	\$ 61,249

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, 2014	December 31, 2013
DECOMMISSIONING OBLIGATIONS, BEGINNING OF PERIOD	\$ 64,115	\$ 48,030
Liabilities incurred	1,929	10,840
Liabilities settled	(7,887)	(944)
Liabilities disposed	(533)	(106)
Change in discount rate	2,222	(7,594)
Changes in estimates	6,059	9,559
Accretion expense	6,149	4,330
DECOMMISSIONING OBLIGATIONS, END OF PERIOD	\$ 72,054	\$ 64,115
Presented as:		
Accounts payable and accrued liabilities	\$ 6,201	\$ 2,866
Decommissioning obligations	\$ 65,853	\$ 61,249

The Company has calculated the net present value of its decommissioning obligations using an inflation rate of 2% (December 31, 2013 - 2%) and a credit-adjusted risk free discount rate of 8.25% per annum (December 31, 2013 - 8.5%). 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, 2014 is \$254.1 million (December 31, 2013 - \$265.2 million).

A 1% increase in the credit-adjusted risk free discount rate would decrease the provision by \$7.5 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 \$8.8 million, with a corresponding adjustment to E&E and PP&E.

Athabasca has settled certain claims made by Phoenix in relation to future abandonment costs in the Dover and MacKay River areas. As part of the settlement, Athabasca acknowledged its obligation to complete the reclamation of certain wellsites in the area and secured its obligation by depositing \$0.8 million into an escrow account. The security is to be returned to Athabasca when it completes its reclamation obligations. If Athabasca does not complete its reclamation obligations by December 31, 2016, Phoenix has the right to complete the Company's reclamation work and to be reimbursed for its costs from the funds held in escrow. The associated decommissioning obligations will not be derecognized until Athabasca has completed all necessary reclamation activities.

Included in the liabilities settled is \$6.7 million relating to decommissioning obligations previously recognized and then settled concurrently with the closing of the Dover sale (Note 5).



b) Long term refundable deposit and other

Long term refundable deposit

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 \$3.0 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 twelve years.

12. INCOME TAXES

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

As at	December 31, 2014	December 31, 2013
DEFERRED INCOME TAX ASSETS		
Non-capital losses	\$ 151,113	\$ 133,831
SR&ED credits	9,405	7,902
Share issuance costs	1,364	5,040
Long-term debt in excess of tax values	1,919	-
Other	502	805
DEFERRED INCOME TAX LIABILITIES		
Capital assets in excess of tax values	(200,324)	(174,861)
Promissory note reserve	(68,846)	-
Derivative asset in excess of tax values	(2,055)	-
Asset held for sale in excess of tax value	-	(145,216)
DEFERRED INCOME TAX LIABILITY	\$ (106,922)	\$ (172,499)

The changes in the deferred tax balances are as follows:

Year ended	December 31, 2014	December 31, 2013
DEFERRED INCOME TAX ASSETS		
Balance, beginning of year	\$ 147,579	\$ 71,595
Carry-back election of non-capital losses	-	(18,596)
Carry-back election of SR&ED	-	(13,426)
Recognition of SR&ED credits (Note 7)	1,407	17,376
Deferred tax assets recognized through net income	15,317	90,630
Balance, end of year	164,303	147,579
DEFERRED INCOME TAX LIABILITIES		
Balance, beginning of year	(320,078)	(265,239)
Deferred tax liabilities recognized through net income	48,853	(54,839)
Balance, end of year	(271,225)	(320,078)
NET DEFERRED INCOME TAX LIABILITY	\$ (106,922)	\$ (172,499)

During 2013, with the Canada Revenue Agency ("CRA") approval of the 2009/2010 SR&ED claims, Athabasca recognized \$17.4 million of SR&ED credits earned from 2009-2013 as a reduction of E&E assets. Athabasca's policy is to recognize SR&ED credits when the research program is approved by the CRA or is a continuation of a previously approved program.

In the third quarter of 2013, Athabasca elected to carry-back certain provincial non-capital losses and SR&ED credits earned in 2010 and 2011 to apply them against the Company's 2009 taxable net income. As at December 31, 2014, \$9.6 million is currently receivable and is expected to be collected in 2015.



The following table reconciles expected income tax expense calculated at the Canadian statutory rate of 25% (2013 – 25%) to actual income tax expense:

Year ended	December 31, 2014	December 31, 2013
LOSS BEFORE INCOME TAXES	\$ (291,339)	\$ (159,709)
EXPECTED INCOME TAX EXPENSE (RECOVERY)		
Income tax expense (recovery) at statutory rate	(72,835)	(39,927)
ADJUSTMENTS RELATED TO THE FOLLOWING:		
Non-taxable portion of gain on sale of tangible assets	4,846	(8,396)
Stock-based compensation	2,314	5,662
Non-taxable portion on foreign exchange translation, net	1,937	-
Non-taxable portion of unrealized Put Option (gain) loss	(418)	5,795
Non-taxable portion of derivative gain	(1,332)	-
Other	1,317	1,735
INCOME TAX RECOVERY	\$ (64,171)	\$ (35,131)
Consisting of:		
Current income tax expense	\$ -	\$ 660
Deferred income tax recovery	\$ (64,171)	\$ (35,791)

As at December 31, 2014, Athabasca had approximately \$2,445 million of consolidated tax pools available for deduction against future taxable income.

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, Promissory Notes, other long-term assets, accounts payable and long-term debt. Prior to the Dover sale, the Company also held the Dover Put Option financial instrument.

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, except for investments in Guaranteed Investment Certificates ("GICs"). At December 31, 2014, Athabasca held no short-term GIC investments. The fair value of Athabasca's derivative financial asset of \$12.6 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 Notes of \$587.1 million and the Notes of \$464.1 million have been classified as Level 2. The fair values were based on observable quoted prices from financial institutions. The Term Loans have a fair value of \$228.9 million (US\$197.3 million) and have been classified as Level 3. As the Term Loans are not actively traded, the value of the Notes, adjusted for the senior priority of the loan, was used as a proxy.

The fair value of the Dover Put Option was classified as Level 3. The fair value was determined to be the residual of the fixed exercise price, adjusted for estimated closing costs, and the anticipated carrying value of the Dover Investment at the time of exercise, discounted for the duration to the expected transaction close date using a risk free rate given PetroChina's investment grade credit rating. The fair value of the Dover Put Option was adjusted based on refined estimates of anticipated closing costs, working capital adjustments, the timing of proceeds and planned capital expenditures. Athabasca exercised the Dover Put Option in April 2014 and closed the sale in August 2014 (Note 5).



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, 2014	December 31, 2013
Cash and cash equivalents	\$ 531,475	\$ 298,995
Short-term investments	47,618	23,795
Accounts receivable	32,117	40,700
Income tax receivable	9,579	16,376
Derivative asset	12,638	-
Promissory Notes	583,892	-
Assets held for sale	-	1,219,523
MAXIMUM CREDIT RISK	\$ 1,217,319	\$ 1,599,389

As at December 31, 2014 and December 31, 2013 Athabasca's cash, cash equivalents and short-term investments were held with five 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, 2014, the largest institution held 35% of the balances (December 31, 2013 – 45%).

As at December 31, 2014, 11% of the Company's consolidated accounts receivable balance was due from the Government of Canada for input tax credits (December 31, 2013 - 17%) and 23% 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, 2013 – 27%). Joint interest billings due from partners account for 30% of accounts receivable (December 31, 2013 – 41%) and additional activity with partners accounts for 17% (December 31, 2013 – 10%). Additionally, 8% relates to accrued interest on the Promissory Notes. Management believes collection risk on the outstanding accounts receivable as at December 31, 2014 is low as the Company deals with high quality counterparties. No material amounts were past due at December 31, 2014, based on the terms with the counterparties.

As at December 31, 2014 Athabasca has recognized \$583.9 million in Promissory Notes. The Promissory Notes are unconditional and secured by irrevocable, standby letters 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.

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.

It is anticipated that Athabasca's 2015 capital and operating budgets, including the appraisal and development of the Duvernay and completion of Hangingstone Project 1, will be funded with existing cash, short-term investments, Promissory Notes, cash flow from operations and available credit. Other longer term projects will require additional capital to develop and Athabasca believes it will fund these other projects through some combination of cash, short-term investments, Promissory Notes, cash flow from operations, a reasonable level of debt and other external financing options including possible equity issuances or joint arrangements. The Company cannot guarantee the availability of these sources of additional funding.

The Company's significant outstanding financial liabilities mature as follows: the Term Loans mature on May 7, 2019 or on May 19, 2017 if the Company has not redeemed or refinanced the Notes prior to that date; the Notes mature on November



19, 2017; and the long term deposit, described in Note 11 (b), will be held for a period of twelve years. The ability to draw on the delayed draw term loan expires on May 7, 2016 and the undrawn 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, 2014	December 31, 2013
Cash and cash equivalents ⁽¹⁾	\$ 436,286	\$ 203,392
Long-term debt ⁽²⁾⁽³⁾	(259,719)	-
NET INTEREST RATE EXPOSURE	\$ 176,567	\$ 203,392

- (1) As at December 31, 2014 \$95.2 million was held as cash equivalents (December 31, 2013 - \$95.6 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 \$223.9 million as at December 31, 2014 (December 31, 2013 - \$ nil) is subject to a floating interest rate based on the LIBOR, plus a credit spread of 7.25% and an interest rate floor of 1.00%.
- (3) The Notes have a face value of \$550 million as at December 31, 2014 (December 31, 2013 - \$550 million), and are subject to a fixed interest rate of 7.50% per annum and are not exposed to changes in interest rates as at the balance sheet date.

The Company's exposure to interest rate fluctuations on interest earned on the floating rate cash balance of \$436.3 million, from a 1.00% change in interest rates, would be approximately \$4.4 million for a twelve month period (year ended December 31, 2013 - \$2.0 million).

The Company is exposed to interest rate cash flow risk on its floating rate Term Loans. However, given that the Company has a 1.00% LIBOR floor on its Term Loans, a decrease in the rate would have no impact. A 1.00% increase in LIBOR above the existing rate would result in a US\$0.6 million (\$0.7 million) increase in interest expense for a twelve month period (year ended December 31, 2013 - \$ nil).

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its US dollar denominated Term Loans 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 \$12.6 million would be de-recognized and a \$2.5 million derivative liability would be recognized. Long-term debt would decrease by \$12.9 million resulting in a net \$3.7 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 \$15.1 million and increase long-term debt by \$12.9 million resulting in a net \$2.2 million gain.

c) Derivative Contract

Athabasca is exposed to foreign currency risk on its US dollar denominated Term Loan. In May 2014, to manage the currency exposure, 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 and the associated liability or asset is recognized on the balance sheet.

For the year ended,	December 31, 2014	December 31, 2013
Unrealized derivative gain	\$ 12,638	\$ -
Realized derivative gain	56	-
DERIVATIVE GAIN, NET	\$ 12,694	\$ -



As at	December 31, 2014	December 31, 2013
OPENING DERIVATIVE ASSET	\$ -	\$ -
Unrealized derivative gain	12,638	
CLOSING DERIVATIVE ASSET	\$ 12,638	\$ -
Presented as:		
Current portion of derivative asset	\$ 930	\$ -
Long-term portion of derivative asset	\$ 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 available \$125 million revolving senior secured credit facility (Note 10 (c)) as capital.

Capital managed by the Company as at December 31, 2014 and December 31, 2013 was as follows:

As at	December 31, 2014	December 31, 2013
Senior secured second lien notes	\$ 537,543	\$ 533,210
Term loans	251,703	-
Shareholders' equity	3,164,186	3,373,957
TOTAL CAPITAL MANAGED	\$ 3,953,432	\$ 3,907,167

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, 2014		December 31, 2013	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of period	400,844,142	\$ 1,970,186	399,784,091	\$ 1,960,914
Exercise of stock options and RSUs (Note 16 a,b)	1,275,331	13,948	460,829	6,192
Contingently returnable shares released (Note 16 e)	-	-	608,472	3,080
Cancellation of incentive shares (Note 16 e)	-	-	(9,250)	-
BALANCE AT END OF PERIOD	402,119,473	\$ 1,984,134	400,844,142	\$ 1,970,186

16. STOCK-BASED COMPENSATION

The Company's stock-based compensation plans for employees, directors and certain other service providers, currently consists of stock options, restricted share units, performance awards and an employee profit sharing plan.

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. Options generally vest within four years and have a life of five or seven years.



Year ended	December 31, 2014		December 31, 2013	
	Number of options	Exercise price ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
Outstanding stock options at beginning of period	14,576,555	\$ 11.28	12,715,170	\$ 12.33
Granted	4,537,500	6.39	3,158,240	7.04
Forfeited and cancelled	(5,359,961)	11.17	(1,169,755)	11.94
Expired	(245,000)	6.07	-	-
Exercised	(169,200)	5.81	(127,100)	6.24
OUTSTANDING STOCK OPTIONS AT END OF PERIOD	13,339,894	\$ 9.89	14,576,555	\$ 11.28
EXERCISABLE STOCK OPTIONS AT END OF PERIOD	5,409,170	\$ 12.44	5,025,322	\$ 12.42

(1) Weighted average

The average estimated fair value per stock option granted during the year ended December 31, 2014 was \$2.39 (year ended December 31, 2013 - \$2.47). The weighted average exercise prices of the Company's outstanding stock options as at December 31, 2014 range from \$2.88 - \$17.36 as follows:

Range of exercise prices (\$)	Options outstanding			Options exercisable	
	Number of options	Exercise price ⁽¹⁾	Years to expiry ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
2.88 – 6.20	2,027,600	\$ 5.25	6.79	0	\$ 5.25
6.21 – 7.15	1,756,390	6.52	3.83	251,775	6.52
7.16 – 7.98	1,849,600	7.41	5.94	67,900	7.40
7.99 – 10.92	1,943,663	10.26	2.15	1,062,704	10.47
10.93 – 11.56	1,888,616	11.19	1.93	1,227,815	11.22
11.57 – 14.94	1,982,450	12.58	1.84	1,317,525	12.64
14.95 - 17.36	1,891,575	15.93	1.36	1,481,451	15.93
	13,339,894	\$ 9.89	3.05	5,409,170	\$ 12.44

(1) Weighted average

b) Restricted Share Units ("RSUs")

During the first quarter of 2010, the Company established an RSU stock-based compensation plan. Under the terms of the RSU plan, the Company may grant RSUs to employees, directors and consultants. All 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 RSU at the sole discretion of the Company.

The RSU plan is a rolling plan and currently limits the number of common shares that may be issued on exercise of 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. The life and vesting terms of the RSU plan are consistent with the Company's stock option plan.

Year ended	December 31, 2014	December 31, 2013
Outstanding RSUs at beginning of period	10,617,753	5,714,082
Granted	4,403,745	5,813,640
Forfeited	(3,632,489)	(576,240)
Exercised	(1,106,131)	(333,729)
OUTSTANDING RESTRICTED SHARE UNITS AT END OF PERIOD	10,282,878	10,617,753
EXERCISABLE RESTRICTED SHARE UNITS AT END OF PERIOD	1,973,048	1,386,672

The average estimated fair value per RSU granted during the year ended December 31, 2014 was \$6.79 (year ended December 31, 2013 - \$6.98).



c) Performance Award Plan

During the second quarter of 2014, the Company approved a performance award plan. Under the terms of the performance award plan the Company may grant performance awards to employees. Performance awards will cliff vest over a period of three years and vested awards will be settled, at the Company's discretion, with cash, in shares purchased in the open market or in shares issued from treasury. The settlement value is based on a multiplier which ranges based on the Company's total shareholder return, relative to a performance peer group, consisting of other industry peers, over the vesting period.

The performance award plan has been accounted for as a cash settled share based payment plan. At December 31, 2014 the fair value of the performance awards outstanding was estimated at \$0.6 million (December 31, 2013 – \$ nil) considering Athabasca's historical and expected future performance relative to peers.

For the year ended December 31, 2014, the Company has recognized \$0.1 million in stock based compensation expense and an associated liability relating to the performance awards granted in the period (December 31, 2013 – \$ nil).

d) Fair Value Assumptions for Stock-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value for option and RSU grants under its stock-based compensation plans. Estimated fair values during the year ended December 31, 2014 were calculated using the following weighted average assumptions:

Year ended December 31, 2014	Stock Options	RSUs
Risk-free interest rate (%)	1.5	1.3
Estimated forfeiture rate (%)	7.0	7.5
Expected life (years)	4.8	3.9
Dividend rate (%)	-	-
Volatility (%)	41.7	42.3

The share price is determined using the TSX quoted market price on the date of grant. The weighted average share price used for the stock option and RSU grants for the year ended December 31, 2014 was \$6.39 and \$6.88 per share respectively. Volatility is based on the historical trading price variances of the Company's share price using market data.

e) Incentive Shares, Amended Stock Options and Nominally Priced Stock Options

In 2006, the Company issued to Avenir Capital Corporation ("Avenir") incentive shares, the majority of which were available for allocation to employees, directors and consultants. This plan was replaced for future grants with the RSU plan (Note 16 (b)). The Company had a stock option plan approved in 2006 which allowed options to be granted to employees, directors and consultants. This option plan was replaced by a new option plan in 2009 (Note 16 (a)). In 2009, the options issued under the 2006 plan were amended and additional nominally priced stock options were granted. The amended stock options and nominally priced stock options were immediately exercised with the returned shares held in trust subject to the satisfaction of length of service requirements.

The following table summarizes all common shares granted and held in trust under the incentive share, amended stock option and nominally priced stock option agreements:

Year ended	December 31, 2014	December 31, 2013
Balance granted and held in trust at beginning of period	-	1,454,767
Forfeited	-	(35,459)
Vested and released	-	(1,419,308)
BALANCE GRANTED AND HELD IN TRUST AT END OF PERIOD	-	-

As at December 31, 2013, all remaining shares held in trust vested and were released.



17. PER SHARE COMPUTATIONS

Year ended	December 31, 2014	December 31, 2013
Weighted average shares outstanding - basic	401,512,412	400,111,681
Dilutive effect of stock options and RSUs	-	-
Dilutive effect of contingently returnable shares	-	-
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	401,512,412	400,111,681

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, 2014, 23,622,772 (December 31, 2013 – 25,194,308) 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, 2014 and 2013, the Company's general and administrative expenses consisted of the following:

Year ended	December 31, 2014	December 31, 2013
Salaries and benefits	\$ 65,720	\$ 76,678
Restructuring costs	10,468	-
Office costs	17,601	19,977
Legal, accounting and consulting	5,693	8,846
Stakeholder relations	1,570	3,095
Cancellation charges and other	183	3,637
Capitalized staff costs	(42,306)	(46,748)
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 58,929	\$ 65,485

19. FINANCING AND INTEREST EXPENSE

For the years ended December 31, 2014 and 2013, the Company's financing and interest expense consisted of the following:

Year ended	December 31, 2014	December 31, 2013
Interest expense on indebtedness (Note 10)	\$ 60,005	\$ 44,341
Accretion of decommissioning obligations (Note 11)	6,149	4,330
Amortization of debt issuance costs	11,441	6,519
Capitalized financing and interest ⁽¹⁾	(49,188)	(10,574)
TOTAL FINANCING AND INTEREST EXPENSE	\$ 28,407	\$ 44,616

(1) For the year ended December 31, 2014, Athabasca's effective capitalization interest rate was 8.55% (December 31, 2013 - 8.29%).



20. COMMITMENTS AND CONTINGENCIES

The following table summarizes Athabasca's estimated future minimum commitments as at December 31, 2014 for the following five years and thereafter:

	2015	2016	2017	2018	2019	Thereafter	Total
Repayment of long-term debt (Note 10) ⁽¹⁾	\$ 2,587	\$ 2,562	\$ 552,536	\$ 2,511	\$ 249,523	\$ -	\$ 809,719
Interest expense on long-term debt (Note 10)	62,078	61,871	52,603	18,152	6,221	-	200,925
Transportation	6,479	21,328	24,384	26,990	29,103	484,125	592,409
Office leases	5,587	5,803	5,398	4,580	4,580	23,803	49,751
Purchase commitments and other	17,519	-	-	-	-	-	17,519
Drilling rigs	6,360	2,650	-	-	-	-	9,010
TOTAL COMMITMENTS	\$ 100,610	\$ 94,214	\$ 634,921	\$ 52,233	\$ 289,427	\$ 507,928	\$ 1,679,333

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

Athabasca sanctioned the development of its first thermal oil project at Hangingstone which includes the construction of a \$538 million base facility and the expenditure of \$27 million for supporting infrastructure. Athabasca has also sanctioned the installation of regional infrastructure to accommodate future expansions at an additional \$108 million above the Hangingstone Project 1 base costs. In addition, a fifth well pad, consisting of five injector-producer lateral well pairs has been sanctioned for \$35 million. At December 31, 2014, the facilities, infrastructure and fifth well pad were substantially complete and the final cost of the project is anticipated to be within 5% of the sanctioned value. As at December 31, 2014 \$713.9 million has been incurred in respect of the development with purchase commitments related to the sanctioned project which are excluded from the table above.

Athabasca has entered into two transportation services agreements which will 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 Cheecham to Edmonton. No amounts have been recognized in the table for the transportation from Hangingstone to Cheecham as that commitment takes effect upon the completion of a lateral pipeline, which is anticipated to be completed in the second half of 2015. The amount of the commitment is anticipated to be greater than \$475 million over the initial term of the agreement, but the final commitment depends on the actual costs incurred by Enbridge to construct the lateral pipeline. The initial term of the agreement is 25 years with 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 amount of the commitment is anticipated to be greater than \$122 million over the initial term of the agreement. The initial term of the agreement is 25 years with the option to extend over five renewal terms of five years each.

The Company is subject to certain financial assurance provisions under its pipeline transportation agreements which will likely require the Company to provide financial collateral beginning in the first quarter of 2016. The ultimate amount of collateral required is not yet determinable and will be based on the Company's capitalization, liquidity position and operational performance at the end of 2015, but could be material. Athabasca has sufficient available funding in place to service any collateral that may be required and any such requirements are not expected to impact the current capital or operating plans of the Company.

Athabasca is responsible for the retirement of its resource assets at the end of their useful lives (Note 11 (a)).

Excluded from the table above is a commitment for \$142 million in office leases which were assigned to a third party in December 2013 (Note 11 (b)).

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 is involved in various claims arising in the normal course of business. Athabasca does not expect that such claims will have a material adverse effect on the Company.

21. RELATED PARTY TRANSACTIONS

Some members of Athabasca's staff were utilized by Brion Energy Corporation, the entity that had been jointly owned by Athabasca and Phoenix to operate the Dover oil sands project ("Brion"), under a shared services arrangement. For the year ended December 31, 2014, Athabasca charged Brion \$0.6 million to recover the costs of these shared services staff (December 31, 2013 - \$4.8 million). The charges are recorded as a reduction in general and administrative expense. Additionally, Athabasca charges Brion for the use of the Dover West permanent access road as per a road use agreement. For the year ended December 31, 2014, Athabasca charged Brion \$2.1 million (December 31, 2013 - \$0.2 million). These transactions were in the normal course of operations and were measured at the exchange amount.

As at December 31, 2014, accounts receivable included \$0.2 million owing from Brion in respect of road use and no amounts owing for shared services staff (December 31, 2013 - \$0.9). As a result of the sale of Dover (Note 5), Brion is no longer a related party.

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 the exchange amount.

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:

Executive compensation (year ended)	December 31, 2014	December 31, 2013
Salaries, fees and short-term employee benefits	\$ 6,079	\$ 7,543
Termination benefits	2,029	1,446
Share-based compensation	5,625	2,011
TOTAL EXECUTIVE COMPENSATION	\$ 13,733	\$ 11,000

22. 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, 2014 and 2013:

Year ended	December 31, 2014	December 31, 2013
Change in accounts receivable	\$ 8,583	\$ (3,688)
Change in prepaid expenses and other	9,619	(14,966)
Change in accounts payable and accrued liabilities	(32,910)	(28,207)
	\$ (14,708)	\$ (46,861)
Other items impacting changes in non-cash working capital:		
Change in current decommissioning obligations (Note 11)	(3,335)	(1,625)
	(18,043)	(48,486)
RELATED TO:		
Operating activities	\$ 6,619	\$ (6,830)
Investing activities	\$ (24,662)	\$ (41,656)
NET CHANGE IN NON-CASH WORKING CAPITAL	\$ (18,043)	\$ (48,486)



Other cash flow information

Year ended	December 31, 2014	December 31, 2013
Cash taxes paid net of (refunds) received	\$ -	\$ (3,849)
Cash interest paid	\$ 56,254	\$ 41,250

23. SUBSEQUENT EVENT

Subsequent to year end, on March 2, 2015, the first Promissory Note matured and Athabasca received cash proceeds of \$302.5 million, comprised of the Promissory Note principal of \$300 million and accrued interest of \$2.5 million.



CORPORATE INFORMATION

MANAGEMENT

Thomas Buchanan
Chief Executive Officer

Rob Broen
President & Chief Operating Officer

Kim Anderson
Chief Financial Officer

Sherry Bouvier
Vice President, Human Resources & Administration

Robert Bowie
Vice President, Corporate Development

Blair Hockley
Vice President, Hangingstone Asset

Richard Koshman
Vice President, Major Projects

Anne Schenkenberger
Vice President, Legal & Corporate Secretary

Kevin Smith
Vice President, Light Oil

Matthew Taylor
Vice President, Capital Markets & Communications

DIRECTORS

Thomas Buchanan
Chief Executive Officer & Chairman

Gary Dundas ⁽¹⁾⁽²⁾⁽³⁾

Ronald Eckhardt ⁽²⁾⁽³⁾
Independent Lead Director

Carlos Fierro ⁽¹⁾

Paul Haggis ⁽³⁾

Marshall McRae ⁽¹⁾⁽³⁾

Peter Sametz ⁽¹⁾⁽²⁾

Sveinung Svarte ⁽²⁾
Vice Chairman

Member of:

(1) Audit Committee

(2) Reserves and Health, Safety & Environmental Committee

(3) Compensation and Governance Committee

CORPORATE OFFICE

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WEBSITE

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

TRUSTEE AND TRANSFER AGENT

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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

