2016

YEAR END

Results for the year ended December 31, 2016

PennWest

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Abbreviations

bbl: barrels (oil or natural gas liquids)
bbls/day or **bbls/d:** barrels per day
boe: barrels of oil equivalent (based on 6 mcf of natural gas equaling one barrel of oil)
boe/d: barrels of oil equivalent per day
mcf: thousand cubic feet (natural gas)
mcf/d: thousand cubic feet per day
mmboe: million barrels of oil equivalent
mmcf: million cubic feet
mmcf per day or **mmcf/day** or **mmcf/d:** million cubic feet per day
MW: megawatt
MWh: megawatt-hour
NGL: natural gas liquids
GJ: gigajoule
NYSE: New York Stock Exchange
TSX: Toronto Stock Exchange
WTI: West Texas Intermediate

Conversions of Units

Imperial	Metric
1 ton	0.907 tonnes
1.102 tons	1 tonne
1 acre	0.40 hectares
2.5 acres	1 hectare
1 bbl	0.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
0.035 mcf	1 cubic metre
1 mile	1.61 kilometres
0.62 miles	1 kilometre

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Penn West Petroleum Ltd. ("Penn West", the "Company", "we", "us", "our") should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2016 and 2015 (the "Consolidated Financial Statements"). The date of this MD&A is March 14, 2017. All dollar amounts contained in this MD&A are expressed in millions of Canadian dollars unless noted otherwise.

For additional information, including Penn West's Consolidated Financial Statements and Annual Information Form, please go to the Company's website at www.pennwest.com, in Canada to the SEDAR website at www.sedar.com or in the United States to the EDGAR website at www.sec.gov.

Certain financial measures such as funds flow from operations, funds flow from operations per share-basic, funds flow from operations per share-diluted, netback, gross revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") included in this MD&A do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-GAAP measures; accordingly, they may not be comparable to similar measures provided by other issuers. This MD&A also contains oil and gas information and forward-looking statements. Please see the Company's disclosure under the headings "Non-GAAP Measures", "Oil and Gas Information", and "Forward-Looking Statements" included at the end of this MD&A.

Annual Financial Summary

			Year ended December 31
(millions, except per share amounts) [1]	**2016**	2015	2014
Gross revenues [2]	**$ 709**	$ 1,268	$ 2,391
Funds flow from operations	**182**	249	971
Basic per share	**0.36**	0.50	1.97
Diluted per share	**0.36**	0.50	1.97
Net loss	**(696)**	(2,646)	(1,733)
Basic per share	**(1.39)**	(5.27)	(3.51)
Diluted per share	**(1.39)**	(5.27)	(3.51)
Development capital expenditures [3]	**82**	470	732
Property dispositions, net	**(1,415)**	(800)	(560)
Long-term debt	**469**	1,940	2,149
Dividends declared	**-**	15	277
Dividends declared per share	**-**	0.03	0.56
Total assets	**$ 3,339**	$ 5,924	$ 9,852

(1) Certain comparative figures have been reclassified to correspond with current period presentation.
(2) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.
(3) Includes the effect of capital carried by partners.

Over the past two years, Penn West closed several asset dispositions as it focused on strengthening its balance sheet and increasing its financial flexibility. As a result of these disposition activities, production volumes declined which led to lower gross revenues and total assets from the comparative periods.

In 2016, the net loss was due to non-cash property, plant and equipment ("PP&E") impairment charges as a result of classifying certain assets as held for sale and impairments on exploration & evaluation ("E&E") assets as the Company re-focused its development plans to the Cardium, Peace River and Viking areas in Alberta. In 2015, non-cash PP&E and Goodwill impairment charges due to lower commodity price forecasts, lower estimated reserve recoveries and lower or minimal future development capital planned led to a net loss. In 2014, the net loss was mainly due to a non-cash Goodwill impairment charge as a result of the decline in commodity prices.

Development capital expenditures in 2016 decreased compared to 2015 and 2014 as the Company reduced its first half capital program in response to declining commodity prices and a smaller asset base. In 2016, Penn West focused its development activities within its key development areas of the Cardium, Peace River and Alberta Viking.

Long-term debt declined significantly over the past two years as proceeds from asset dispositions were used to reduce the Company's outstanding debt balance both under its bank facility and senior notes.

On September 1, 2015, the Company announced that its Board of Directors approved the suspension of the dividend until further notice. The last dividend payment of $0.01 per share was on October 15, 2015.

Quarterly Financial Summary
(millions, except per share and production amounts)(unaudited)

Three months ended [1]	**Dec. 31 2016**	Sep. 30 2016	June 30 2016	Mar. 31 2016	Dec. 31 2015	Sep. 30 2015	June 30 2015	Mar. 31 2015
Gross revenues [2]	**$ 133**	$ 136	$ 209	$ 231	$ 273	$ 295	$ 360	$ 340
Funds flow from operations	**48**	32	55	47	39	48	85	77
Basic per share	**0.10**	0.06	0.11	0.09	0.08	0.10	0.17	0.15
Diluted per share	**0.10**	0.06	0.11	0.09	0.08	0.10	0.17	0.15
Net loss	**(232)**	(232)	(132)	(100)	(1,606)	(764)	(28)	(248)
Basic per share	**(0.46)**	(0.46)	(0.26)	(0.20)	(3.20)	(1.52)	(0.06)	(0.49)
Diluted per share	**(0.46)**	(0.46)	(0.26)	(0.20)	(3.20)	(1.52)	(0.06)	(0.49)
Dividends declared	**-**	-	-	-	-	5	5	5
Per share	**$ -**	$ -	$ -	$ -	$ -	$ 0.01	$ 0.01	$ 0.01
Production								
Liquids (bbls/d) [3]	**21,295**	23,355	41,848	53,012	53,339	55,323	63,222	65,343
Natural gas (mmcf/d)	**103**	107	130	144	144	161	168	177
Total (boe/d)	**38,481**	41,233	63,568	77,010	77,398	82,198	91,164	94,905

(1) Certain comparative figures have been reclassified to correspond with current period presentation.
(2) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.
(3) Includes crude oil and natural gas liquids.

Calculation of Funds Flow from Operations

(millions, except per share amounts) [1]	Year ended December 31 **2016**	2015
Cash flow from operating activities	**$ (137)**	$ 175
Change in non-cash working capital	**97**	(31)
Decommissioning expenditures	**11**	36
Office lease settlements	**4**	-
Monetization of foreign exchange contracts	**(32)**	(95)
Settlements of normal course foreign exchange contracts	**(3)**	(40)
Monetization of transportation commitment	**(20)**	-
Realized foreign exchange loss – debt prepayments	**191**	123
Realized foreign exchange loss – debt maturities	**37**	36
Carried operating expenses [2]	**15**	12
Restructuring charges	**19**	33
Funds flow from operations	**$ 182**	$ 249
Per share – funds flow from operations		
Basic per share	**$ 0.36**	$ 0.50
Diluted per share	**$ 0.36**	$ 0.50

(1) Certain comparative figures have been reclassified to correspond with current period presentation.
(2) The effect of carried operating expenses from the Company's partner under the Peace River Oil Partnership.

In 2016, Penn West maintained relatively strong funds flow from operations as declines in production levels from asset disposition activity were partially offset by the Company's focus on cost reductions across all areas, specifically within operating and general and administration costs. Additionally, the Company's active hedging program led to realized risk management gains which also reduced the impact of asset dispositions.

In 2016, the Company monetized a total of US$115 million (2015 – US$404 million) of foreign exchange forward contracts on senior notes and permanently disposed of a pipeline commitment and received $20 million of proceeds from the sale.

During 2016, Penn West repaid senior notes in an aggregate amount of $185 million (2015 – $299 million) as part of normal maturities. Additional amounts of $1,075 million (2015 - $683 million) of senior notes were prepaid as a result of the offers made at par to the Company's noteholders using asset disposition proceeds. In 2016, Penn West also repaid a total of $351 million (2015 - $147 million) outstanding under its syndicated bank facility using asset disposition proceeds.

Business Strategy

In 2016, Penn West improved its financial position by closing several asset dispositions, notably the Saskatchewan Viking disposition in June 2016. The Company continued to progress its asset disposition program in the second half of 2016 and into 2017 as it focuses its asset base within the Cardium, Peace River and Viking areas of Alberta. Recently, the Company closed transactions in 2017 to dispose of properties within British Columbia and the Swan Hills area of Alberta. Penn West is on schedule to conclude its asset disposition program by the end of the first quarter of 2017.

In 2017, Penn West will take a balanced and disciplined approach to developing its asset portfolio with a focus on organic production growth while ensuring it generates free cash flow. The Company's increased financial flexibility allowed for a development program during the second half of 2016. Penn West will build off these activities and its competitive cost structure as it advances its operational and development plans within its key development areas. Key focuses for 2017 will include:

- further development of the Company's light-oil Cardium interests by focusing on integrated waterflood development to build a long-term, low-decline base;
- focusing on primary, "cold-flow", development within the Peace River area with the support of the Company's joint venture partner under the Peace River Oil Partnership;
- leveraging existing infrastructure within the Alberta Viking area to profit from the short cycle time and quick payout of wells in the area; and
- pursuing new ventures on Penn West's existing land positions.

Penn West believes its 2017 plans will position the Company for enhanced production growth in future years which will in turn increase its profitability and long-term shareholder value.

Business Environment

The following table outlines quarterly averages for benchmark prices and Penn West's realized prices for the previous five quarters.

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Benchmark prices					
WTI crude oil ($US/bbl)	**$ 49.29**	$ 44.95	$ 45.59	$ 33.45	$ 42.18
Edm mixed sweet par price (CAD$/bbl)	**61.58**	54.68	54.70	40.67	52.85
NYMEX Henry Hub ($US/mcf)	**2.98**	2.81	1.95	2.09	2.27
AECO Index (CAD$/mcf)	**2.95**	2.26	1.32	1.97	2.56
Penn West average sales price [(1)]					
Light oil (CAD$/bbl)	**58.76**	53.97	53.48	37.44	50.20
Heavy oil (CAD$/bbl)	**27.09**	21.67	25.18	14.76	25.40
NGL (CAD$/bbl)	**25.09**	17.91	18.05	12.75	19.53
Total liquids (CAD$/bbl)	**45.82**	40.81	42.98	29.86	42.16
Natural gas (CAD$/mcf)	**2.98**	2.46	1.42	1.96	2.54
Benchmark differentials					
WTI - Edm Light Sweet ($US/bbl)	**(3.11)**	(2.96)	(3.07)	(3.69)	(2.46)
WTI - WCS Heavy ($US/bbl)	**$ (14.32)**	$ (13.50)	$ (13.30)	$ (14.24)	$ (14.49)

(1) Excludes the impact of realized hedging gains or losses.

Crude Oil

Crude oil prices remained volatile in 2016 as increased supply and weak demand moved prices below US$30 per barrel during the first quarter of 2016. Throughout the remainder of 2016, evidence of lower supply levels due to the prolonged low commodity price environment and speculation of an OPEC agreement to limit production levels led to range bound volatility between US$40 per barrel and US$55 per barrel.

In the fourth quarter of 2016, crude oil prices fluctuated as rumors regarding an OPEC agreement on production levels continued to influence the market. The price for WTI declined below US$45 per barrel mid-quarter on skepticism whether an agreement would be reached. Late in the quarter WTI strengthened after a tentative agreement was announced resulting in WTI over US$53 per barrel by quarter-end.

Canadian light oil differentials widened in the second quarter to US$3.11 per barrel below WTI, and heavy oil differentials weakened to US$14.32 per barrel below WTI as additional volumes came to market with a strengthening WTI price.

As at December 31, 2016, the Company had the following crude oil hedging positions in place:

Reference Price	Term	Price ($/Barrel)	Volume (Barrels/day)
WTI	Jan 2017 – Mar 2017	$68.98	3,400
WTI	Apr 2017 – Jun 2017	$68.48	800
WTI	Jul 2017 – Sept 2017	$69.50	400
WTI	Oct 2017 – Dec 2017	$70.81	900
WTI	Apr 2017 – Dec 2017	$68.73	1,800
WTI	Jan 2017 – Dec 2017	$66.81	5,200
WTI	Jan 2018 – Jun 2018	$71.00	1,000

Natural Gas

Throughout 2016, Henry Hub natural gas prices were affected by warm weather, particularly during the summer months which resulted in increased demand and higher prices. During the fourth quarter of 2016, natural gas prices weakened to as low as US$2.60 per mcf as storage levels approached record levels before recovering later in the quarter due to cold weather and increasing demand.

In 2016, AECO prices were affected by the loss of oil sands production during the second quarter due to forest fires in the Fort McMurray area of Alberta resulting in significantly lower demand. As these oil sands projects returned to production during the third quarter of 2016, intra-Alberta demand increased to normal levels which resulted in AECO price increases. AECO prices strengthened relative to Henry Hub in the fourth quarter of 2016 with cooler weather increasing demand and ongoing TransCanada Pipelines restrictions impacting supply.

Penn West had the following natural gas hedging positions in place as at December 31, 2016.

Reference Price	Term	Price ($/mcf)	Volume (mcf/day)
AECO	Jan 2017 – Mar 2017	$3.03	15,200
AECO	Apr 2017 – Jun 2017	$2.70	13,300
AECO	Jul 2017 – Sep 2017	$2.71	11,400
AECO	Oct 2017 – Dec 2017	$3.00	9,500
AECO	Jan 2017 – Dec 2017	$3.07	5,700
AECO	Jan 2018 – Dec 2018	$2.89	3,800

Subsequent to December 31, 2016, the Company entered into an additional gas swaps on 1,900 mcf per day from January to June of 2018 at AECO $2.84 per mcf.

Average Sales Prices

	Year ended December 31		
	2016	2015	% change
Light oil (per bbl)	**$ 47.96**	$ 54.48	(12)
Risk management gain (per bbl) [1]	**11.37**	3.83	>100
Light oil net (per bbl)	**59.33**	58.31	2
Heavy oil (per bbl)	**21.22**	33.26	(36)
NGL's (per bbl)	**17.73**	18.14	(2)
Natural gas (per mcf)	**2.14**	2.86	(25)
Risk management gain (per mcf) [1]	**0.18**	0.40	(55)
Natural gas net (per mcf)	**2.32**	3.26	(29)
Weighted average (per boe)	**28.83**	37.40	(23)
Risk management gain (per boe) [1]	**5.03**	2.59	94
Weighted average net (per boe)	**$ 33.86**	$ 39.99	(15)

(1) Realized risk management gains and losses on commodity contracts are included in gross revenues.

Performance Indicators

Penn West's management and Board of Directors monitors its performance based on the following three key focus areas using a number of qualitative and quantitative factors:

- Values – Includes Penn West's execution of its field, health, safety, environmental and regulatory programs and its focus on operational excellence;
- Delivery – Includes Penn West key performance metrics including a leading cost structure within the industry and a focus on free cash flow generation; and
- Growth – Includes the management of the Company's asset portfolio, financial stewardship and the goal of creating production growth and long-term competitive return on investment for its shareholders.

Values

At Penn West, the health, safety and wellness of its employees, contractors and stakeholders living within its areas of operation is paramount. Safety policies, procedures and programs developed by Penn West shall meet or exceed legislative requirements and all injuries and serious incidents are reported and investigated accordingly. Additionally, the Company is committed to minimizing the environmental impacts of its operations with its programs focusing on stakeholder communication, impact minimization, resource conservation and site abandonment and reclamation. Throughout its operations, Penn West requires a high standard of professional conduct and supports a culture that ensures all individuals act with integrity and respect. These principles form the operational standard for the Company as it focuses on activities across its leading positions within Alberta.

Delivery

The Company met all key targets in 2016 as it continued to emphasize execution and focus on cost reduction initiatives.

- The Company's average annual production for 2016 was 54,990 boe per day, which is at the high-end of guidance provided by the Company of 52,000 to 55,000 boe per day;
- Development capital expenditures were $82 million compared to a budget of $90 million;
- Operating costs per boe were $13.18 per boe, ahead of the Company's guidance of $13.50 - $14.50 per boe;
- General & administrative costs were within the Company's guidance of $2.50 - $2.90 per boe at $2.81 per boe.

In 2017, the Company will continue to target capital expenditures within funds flow from operations as it anticipates generating free cash flow. For 2017 targets, please refer to the "Outlook" section below.

Growth

In 2016, Penn West continued to progress on a number of initiatives to strengthen its balance sheet and increase its financial flexibility in response to the low commodity price environment. Most notably the Company closed asset dispositions for total proceeds of $1.4 billion. The proceeds from these transactions were used to reduce its outstanding debt balance which strengthened its balance sheet.

The Company now has the financial flexibility to focus on operational activities and on developing its asset base. For 2017, Penn West has an exploration and development capital budget of $160 million and is targeting double-digit organic production growth from the fourth quarter of 2016 to the fourth quarter of 2017. Reserves replacement will also be a focus in 2017 with a plan to replace over 100 percent of production declines through its development program.

Penn West will continue to evaluate its plans as it moves forward and assess its development budget as commodity prices strengthen.

RESULTS OF OPERATIONS

Production

Daily production	2016	2015	% change
		Year ended December 31	
Light oil (bbls/d)	**22,423**	41,510	(46)
Heavy oil (bbls/d)	**8,750**	11,984	(27)
NGL (bbls/d)	**3,636**	5,769	(37)
Natural gas (mmcf/d)	**121**	163	(26)
Total production (boe/d)	**54,990**	86,357	(36)

The Company closed several asset dispositions in 2016 with associated average production of approximately 30,000 boe per day as it focused on reducing its debt levels. This resulted in a decline in production from the comparative period in 2015. Significant dispositions in 2016 included:

- the Saskatchewan Viking disposition in June which had associated average production of approximately 13,700 boe per day;
- the Slave Point disposition in April which had associated average production of approximately 3,900 boe per day; and
- several non-core asset dispositions during the third quarter of 2016 with associated average production of approximately 6,000 boe per day.

In 2016, Penn West's production results were at the high-end of its guidance range of 52,000 – 55,000 boe per day as development well performance came in ahead of expectations and the Company improved its base production reliability.

Netbacks

			Year ended December 31	
			2016	2015
	Liquids (bbl)	Natural Gas (mcf)	**Combined (boe)**	Combined (boe)
Operating netback:				
Sales price [1]	$ 38.08	$ 2.14	**$ 28.83**	$ 37.40
Commodity gain [2]	7.33	0.18	**5.03**	2.59
Royalties	(3.03)	0.38	**(1.08)**	(4.05)
Transportation	(1.51)	(0.35)	**(1.72)**	(1.46)
Operating costs	(15.27)	(1.60)	**(13.18)**	(18.56)
Netback [3]	$ 25.60	$ 0.75	**$ 17.88**	$ 15.92
	(bbls/d)	(mmcf/d)	**(boe/d)**	(boe/d)
Production	34,809	121	**54,990**	86,357

(1) Excluded from the netback calculation in 2016 was $28 million of other income (2015 - $7 million), mainly related to the proceeds received by the Company from permanently disposing of a pipeline commitment during the first quarter.
(2) Realized risk management gains and losses on commodity contracts.
(3) Certain comparative figures have been reclassified to correspond with current period presentation.

Overall, the Company's focus on cost reduction initiatives led to a significant improvement in operating costs which ultimately increased its netback. Additionally, increased commodity gains due to the Company's active hedging program and a reduction in royalties due to asset disposition activity and the lower commodity price environment contributed to the improvement. The weak commodity price environment compared to 2015 partially offset this, specifically related to heavy oil and natural gas prices. Operating Costs includes the effect of carried operating expenses from the Company's partner under the Peace River Oil Partnership of $15 million or $0.75 per boe on a combined basis (2015 - $13 million or $0.40 per boe).

Production Revenues

Revenues from the sale of oil, NGL and natural gas consisted of the following:

	Year ended December 31			
(millions)		**2016**		2015
Liquids	**$**	**606**	$	1,075
Natural gas		**103**		193
Gross revenues [1]	**$**	**709**	$	1,268

(1) Includes realized risk management gains on commodity contracts which totaled $101 million (2015 - $81 million).

Gross revenues were lower than the comparative period due to a significant decrease in production volumes as the Company closed several asset dispositions throughout the year. The decline in the commodity price environment, particularly during the first half of 2016, also contributed to the decrease, which was partially offset by the weakening of the Canadian dollar compared to the US dollar from the prior year.

Reconciliation of Change in Production Revenues

(millions)		
Gross revenues – January 1 – December 31, 2015	$	1,268
Decrease in liquids production		(455)
Decrease in liquids prices [1]		(35)
Decrease in natural gas production		(49)
Decrease in natural gas prices [1]		(41)
Increase in other income [2]		21
Gross revenues – January 1 – December 31, 2016	$	709

(1) Includes realized risk management gains and losses on commodity contracts.
(2) Other income of $28 million (2015 - $7 million) for 2016 relates mainly to proceeds received by the Company from permanently disposing of a pipeline commitment during the first quarter.

Royalties

	Year ended December 31			
(millions)		**2016**		2015
Royalties (millions)	**$**	**22**	$	128
Average royalty rate [1]		**4%**		11%
$/boe	**$**	**1.08**	$	4.05

(1) Excludes effects of risk management activities.

Royalties have decreased from the comparative periods mainly due to the impact of asset disposition activity completed in 2016 and 2015 and decreases in the commodity price environment. In the second quarter of 2016, the Company received its annual gas cost allowance invoice which resulted in the release of an $8 million provision related to the asset disposition activity completed in 2015.

Expenses

	Year ended December 31			
(millions)		**2016**		2015
Operating	**$**	**281**	$	597
Transportation		**35**		46
Financing		**114**		162
Share-based compensation	**$**	**12**	$	6

	Year ended December 31			
(per boe)		**2016**		2015
Operating [(1)]	**$**	**13.18**	$	18.56
Transportation		**1.72**		1.46
Financing		**5.65**		5.15
Share-based compensation	**$**	**0.60**	$	0.19

(1) Includes the effect of carried operating expenses from its partner under the Peace River Oil Partnership of $15 million or $0.75 per boe (2015 - $13 million or $0.40 per boe).

Operating

The Company's cost structure significantly improved from 2015 as it progressed on several cost reduction initiatives. Additionally, in 2016 Penn West benefited from high-grading its asset portfolio by closing a number of non-core, high operating cost property dispositions and realized industry wide cost savings due to the continued weak commodity price environment.

In 2016, operating costs included a realized loss of $7 million (2015 – $16 million) on electricity contracts.

Financing

During the fourth quarter of 2016, the Company voluntarily reduced its borrowing capacity under its secured, revolving syndicated bank facility from $1.2 billion to $600 million to reflect the Company's current size of operations and future requirements. The secured, revolving syndicated bank facility matures on May 6, 2019. The syndicated bank facility contains provisions for stamping fees on bankers' acceptances and LIBOR loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios. At December 31, 2016, the Company had $255 million of unused credit capacity available.

At December 31, 2016, the value of the Company's senior notes was $140 million (2015 – $1.5 billion).

During 2016, Penn West repaid senior notes in an aggregate amount of $185 million (2015 – $299 million) as part of normal maturities. Additional amounts of $1,075 million (2015 - $683 million) of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. In 2016, Penn West also repaid a total of $351 million (2015 - $147 million) outstanding under its syndicated bank facility using asset disposition proceeds.

There were no senior note issuances in either 2016 or 2015.

Summary information on our senior notes outstanding as at December 31, 2016 is as follows:

	Issue date	Amount (millions)	Term	Average interest rate [1]	Weighted average remaining term
2007 Notes	May 31, 2007	US$10	8 – 15 years	6.35%	1.4
2008 Notes	May 29, 2008	US$28	8 – 12 years	6.81%	1.7
2009 Notes	May 5, 2009	US$8	5 – 10 years	9.82%	2.4
2010 Q1 Notes	March 16, 2010	US$20	5 – 15 years	6.07%	1.7
2010 Q4 Notes	December 2, 2010, January 4, 2011	US$27	5 – 15 years	5.28%	4.1
2011 Notes	November 30, 2011	US$12	5 – 10 years	5.28%	4.9

(1) Average interest rate can fluctuate based on debt to EBITDA ratio which expires on March 30, 2017, the date the covenant relief period ends with the bank syndicate and noteholders.

Penn West's debt structure includes short-term financings under its syndicated bank facility and long-term financing through its senior notes. Financing charges in 2016 decreased compared to 2015 as the Company reduced debt levels as it applied asset disposition proceeds to re-pay indebtedness on the Company's syndicated bank facility and pre-pay outstanding senior notes, which resulted in lower interest charges.

In May 2015, the Company finalized amended agreements with the lenders under its syndicated bank facility and with the holders of its senior notes which resulted in amended financial covenants and led to increases in the fee structure. The fee structure on the Company's senior notes will change during the amendment period (up until March 30, 2017) as follows:

Senior debt to EBITDA ratio	Basis points per annum increase
Less than or equal to 3:1	50
Greater than 3:1 and less than or equal to 4:1	100
Greater than 4:1 and less than or equal to 4.5:1	150
Greater than 4.5:1	200

See "Liquidity and Capital Resources – Liquidity" for further details on the amendments.

The interest rates on any non-hedged portion of the Company's syndicated bank facility are subject to fluctuations in short-term money market rates as advances on the syndicated bank facility are generally made under short-term instruments. As at December 31, 2016, 70 percent (2015 – 24 percent) of Penn West's outstanding debt instruments were exposed to changes in short-term interest rates.

Share-Based Compensation

Share-based compensation expense relates to the Company's Stock Option Plan (the “Option Plan”), Restricted Share Unit Plan (“RSU”), Deferred Share Unit Plan (“DSU”) and Performance Share Unit Plan (“PSU”).

Share-based compensation consisted of the following:

		Year ended December 31		
(millions)		**2016**		2015
Options	**$**	**1**	$	4
PSU plan		**1**		-
DSU plan		**1**		-
RSU – equity method		**6**		-
RSU – liability method		**3**		2
Share-based compensation	**$**	**12**	$	6

The share price used in the fair value calculation of the RSU plan (liability method), PSU and DSU obligations at December 31, 2016 was $2.37 (2015 – $1.17).

General and Administrative Expenses (“G&A”)

		Year ended December 31		
(millions)		**2016**		2015
Gross	**$**	**87**	$	141
Per boe		**4.32**		4.47
Net		**56**		92
Per boe	**$**	**2.81**	$	2.91

Over the past two years, Penn West has closed a number of asset dispositions which resulted in reductions in staff and a decline in the absolute dollar expense. On a per boe basis, 2016 is comparable to 2015 as the Company aligned its headcount to its smaller operations. For 2016, the Company was within its target range of G&A per boe of $2.50 - $2.90.

Restructuring Expense

		Year ended December 31		
(millions)		**2016**		2015
Restructuring	**$**	**135**	$	33
Per boe	**$**	**6.70**	$	1.04

In 2016, the Company recorded a non-cash charge totaling $116 million (2015 – nil) on certain office lease commitments as they were classified as onerous contracts. This charge was the result of completing several asset dispositions in 2016 and the associated reductions in staff, consequently the Company requires less office space in the future.

Depletion, Depreciation, Impairment and Accretion

	Year ended December 31	
(millions)	**2016**	2015
Depletion and depreciation ("D&D")	**$ 368**	$ 667
D&D expense per boe	**18.33**	21.15
PP&E Impairment	**288**	1,700
PP&E Impairment per boe	**14.35**	53.93
E&E Impairment	**235**	252
E&E Impairment per boe	**11.66**	7.99
Accretion of decommissioning liability	**24**	37
Accretion expense per boe	**$ 1.19**	$ 1.17

The Company's D&D expense decreased from the comparative period mainly due to asset dispositions that closed in 2016 and 2015 and impairment charges recorded during 2016 and 2015.

In 2016, the Company recorded $210 million of PP&E impairment ($288 million before-tax) as a result of classifying certain assets as assets held for sale as they were recorded at the lesser of fair value less costs to sell and their carrying amount. The values were based on the proceeds from signed sales agreements.

In 2015, the Company recorded a $1.2 billion PP&E impairment charge ($1.7 billion before-tax) related to certain properties in the Swan Hills, Slave Point, Cardium, Edmonton and Wainwright areas of Alberta and the Fort St. John area of northeastern British Columbia. The impairments were primarily due to lower commodity price forecasts, lower estimated reserve recoveries and minimal future development capital planned in non-core areas. Additionally, Penn West reduced its future development costs to align with the Company's 2016 capital budget.

During 2016, Penn West recorded a $171 million ($235 million before-tax) E&E impairment charge relating to certain assets in Alberta and natural gas properties in British Columbia as the Company has no future plans for development in these areas as it focuses activities within its key development plays of the Cardium, Peace River and Alberta Viking.

In 2015, as a result of a decrease in commodity price forecasts and an associated reduction in Penn West's planned future capital expenditures, the Company recorded an E&E impairment charge of $185 million ($252 million before-tax) related to its natural gas weighted properties within the Cordova area of British Columbia.

Taxes

	Year ended December 31	
(millions)	**2016**	2015
Deferred tax recovery	**$ 252**	$ 619

During 2016, the deferred tax recovery was due to PP&E and E&E impairment charges, a restructuring charge on office lease contracts and impairment on the deferred funding asset held under the Cordova Joint Venture.

The deferred income tax recovery in 2015 was mainly due to PP&E impairment charges and was partially offset by an increase to the Alberta corporate tax rate from 10 percent to 12 percent.

Tax Pools

(millions)		As at December 31 2016		2015
Undepreciated capital cost (UCC)	**$**	**365**	$	757
Canadian development expense (CDE)		**-**		329
Canadian exploration expense (CEE)		**-**		123
Non-capital losses		**2,000**		2,836
Other		**67**		60
Total	**$**	**2,432**	$	4,105

In 2016 and 2015, the Company's tax pool balance declined as a result of asset dispositions that were closed during the year.

In 2016, there was no income (2015 - $245 million) deferred in operating partnerships and excluded from the tax pools.

Foreign Exchange

Penn West records unrealized foreign exchange gains or losses to translate U.S., UK and Euro denominated senior, secured notes and the related accrued interest to Canadian dollars using the exchange rates in effect on the balance sheet date. Realized foreign exchange gains or losses are recorded upon repayment of the senior notes.

The split between realized and unrealized foreign exchange is as follows:

		Year ended December 31 2016		2015
Realized foreign exchange loss on debt maturities	**$**	**(37)**	$	(36)
Realized foreign exchange loss on debt pre-payments		**(191)**		(123)
Unrealized foreign exchange gain (loss)		**312**		(151)
Foreign exchange gain (loss)	**$**	**84**	$	(310)

During 2016, Penn West repaid senior notes in an aggregate amount of US$142 million (2015 – US$193 million) and $nil (2015 - $57 million) as part of normal maturities. Additional amounts of US$690 million (2015 - US$445 million), $73 million (2015 - $40 million), £49 million (2015 - £28 million) and €6 million (2015 - €4 million) of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. In 2016, Penn West also repaid a total of $351 million (2015 - $147 million) outstanding under its syndicated bank facility using asset disposition proceeds.

Net Loss

(millions, except per share amounts)		Years ended December 31 2016		2015
Net loss	**$**	**(696)**	$	(2,646)
Basic per share		**(1.39)**		(5.27)
Diluted per share	**$**	**(1.39)**	$	(5.27)

In 2016, the net loss was due to non-cash PP&E impairment charges as a result of classifying certain assets as held for sale in addition to impairments on E&E assets as the Company re-focused its development plans to the Cardium, Peace River and Alberta Viking areas.

The net loss in 2015 was primarily due to non-cash PP&E, Goodwill and E&E impairment charges as a result of lower forecasted commodity prices, lower estimated reserve recoveries and lower or minimal future development capital planned in non-core areas.

Drilling

	Year ended December 31			
	2016		2015	
	Gross	**Net**	Gross	Net
Oil	**60**	**35**	211	177
Stratigraphic and service	**3**	**3**	1	1
Total	**63**	**38**	212	178
Success rate [1]		**100%**		100%

(1) Success rate is calculated excluding stratigraphic and service wells.

Capital Expenditures

(millions)		Year ended December 31 2016		2015
Land acquisition and retention	**$**	**2**	$	2
Drilling and completions		**71**		325
Facilities and well equipping		**43**		167
Geological and geophysical		**4**		2
Corporate		**2**		5
Capital carried by partners		**(40)**		(31)
Development capital expenditures [1]		**82**		470
SR&ED tax credits		**-**		(29)
Property dispositions, net		**(1,415)**		(800)
Total expenditures	**$**	**(1,333)**	$	(359)

(1) Exploration and development capital includes costs related to Property, Plant and Equipment and Exploration and Evaluation activities.

Penn West's development capital expenditures in 2016 decreased compared to 2015 as the Company reduced its capital program in response to declining commodity prices and targeted its capital expenditures to be within funds flow from operations. In the second half of 2016, the Company progressed on its capital program and drilled eight operated wells drilled in the Cardium, 18 operated wells in Peace River and 11 operated wells in the Alberta Viking.

The Company made significant progress on its asset disposition initiatives during 2016 which included closing the Saskatchewan Viking disposition for total proceeds of approximately $975 million and its Slave Point properties for total proceeds of approximately $148 million, both were subject to closing adjustments. Additionally, a number of minor, non-core property dispositions were closed during 2016.

Exploration and evaluation ("E&E") capital expenditures

		Year ended December 31		
(millions)		**2016**		2015
E&E capital expenditures	**$**	**-**	$	10

In 2016, E&E capital expenditures were minimal as the Company focused activities on development in its key development areas.

Gain on asset dispositions

		Year ended December 31		
(millions)		**2016**		2015
Gain on asset dispositions	**$**	**33**	$	85

The Company made significant progress on its asset disposition initiatives in 2016 and closed several dispositions for total proceeds of $1.4 billion. In 2016, the gains on dispositions included $9 million of transaction costs, primarily related to advisory fees (2015 - $6 million).

Environmental and Climate Change

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, site restoration requirements and restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under certain assumptions, become material.

Penn West is dedicated to managing the environmental impact from its operations through its environmental programs which include resource conservation, water management and site abandonment/reclamation/remediation. Operations are continuously monitored to minimize environmental impact and allocate sufficient capital to reclamation and other activities to mitigate the impact on the areas in which the Company operates.

Liquidity and Capital Resources

Capitalization

		Year ended December 31		
(millions)		**2016**		2015
Common shares issued, at market [1]	**$**	**1,192**	$	588
Bank loans and long-term notes		**469**		1,940
Cash		**(11)**		(2)
Total enterprise value [2]	**$**	**1,650**	$	2,526

(1) The share price at December 31, 2016 was $2.37 (December 31, 2015 - $1.17).
(2) Certain comparative figures have been reclassified to correspond with current period presentation.

The Company's working capital deficiency at December 31, 2016 was $29 million (2015 – $182 million) which excludes the current portion of deferred funding asset, risk management, long-term debt and provisions. Additionally, the working capital deficiency includes a $4 million surplus (2015 - $nil) related to assets classified as held for sale.

Dividends

(millions)		Year ended December 31 2016		2015
Dividends declared	**$**	**-**	$	15
Per share		**-**		0.03
Dividends paid [1]	**$**	**-**	$	85

(1) Includes amounts funded by the dividend reinvestment plan.

On September 1, 2015, Penn West announced that its Board of Directors approved the suspension of the dividend until further notice, following the October 15, 2015 payment.

Liquidity

The Company has a secured, revolving syndicated bank facility with an aggregate borrowing limit of $600 million and an extendible five-year term (May 6, 2019 maturity date). For further details on the Company's debt instruments, please refer to the "Financing" section of this MD&A.

The Company actively manages its debt portfolio and considers opportunities to reduce or diversify its debt capital structure. Management contemplates both operating and financial risks and takes action as appropriate to limit the Company's exposure to certain risks. Management maintains close relationships with the Company's lenders and agents to monitor credit market developments. These actions and plans aim to increase the likelihood of maintaining the Company's financial flexibility and capital program, supporting the Company's ability to capture opportunities in the market and execute longer-term business strategies.

The Company has a number of covenants related to its syndicated bank facility and senior notes. On December 31, 2016, the Company was in compliance with all of these financial covenants which consisted of the following:

	Limit	**December 31, 2016**
Senior debt to EBITDA [1]	Less than 4.0:1	2.02
Total debt to EBITDA [1]	Less than 4.0:1	2.02
Senior debt to capitalization	Less than 50%	17%
Total debt to capitalization	Less than 55%	17%

(1) EBITDA is calculated in accordance with Penn West's lending agreements wherein unrealized risk management gains and losses and impairment provisions are excluded.

The table below outlines the Company's senior debt to EBITDA calculation as at December 31, 2016:

	Three months ended				Trailing 12 months
(millions, except ratios)	Dec. 31 2016	Sep. 30 2016	June 31 2016	Mar. 31 2016	**Dec 31 2016**
Cash flow from operating activities	$ (44)	$ (98)	$ (56)	$ 61	**$ (137)**
Change in non-cash working capital	(6)	16	61	26	**97**
Decommissioning expenditures	6	1	2	2	**11**
Office lease settlements	4	-	-	-	**4**
Financing	11	22	41	40	**114**
Realized gain on foreign exchange hedges on prepayments	-	(9)	-	-	**(9)**
Realized foreign exchange loss – debt prepayments	78	113	-	-	**191**
Restructuring expenses – cash portion	5	5	3	6	**19**
EBITDA	$ 54	$ 50	$ 51	$ 135	**$ 290**
EBITDA contribution from assets sold [1]					**(55)**
EBITDA as defined by debt agreements					**$ 235**
Long-term debt					**$ 469**
Letters of credit – financial [2]					**6**
Total senior debt					**$ 475**
Senior debt to EBITDA					**2.02**

(1) Consists of EBITDA contributions from assets that have been disposed in the prior 12 months.
(2) Letters of credit that are classified as financial are included in the senior debt calculation per the debt agreements.

In May 2015, the Company finalized amending agreements with the lenders under its syndicated bank facility and with the holders of its senior notes to, among other things, amend its financial covenants as follows:

- the maximum Senior Debt to EBITDA and Total Debt to EBITDA ratio will be less than or equal to 5:1 for the period January 1, 2015 through and including June 30, 2016, decreasing to less than or equal to 4.5:1 for the quarter ending September 30, 2016 and decreasing to less than or equal to 4:1 for the quarter ending December 31, 2016;

- the Senior Debt to EBITDA ratio will decrease to less than or equal to 3:1 for the period from and after January 1, 2017; and

- the Total Debt to EBITDA ratio will remain at less than or equal to 4:1 for all periods after September 30, 2016.

The Company also agreed to the following:

- to temporarily grant floating charge security over all of its property in favor of the lenders and the noteholders on a pari passu basis, which security will be fully released upon the Company achieving both (i) a Senior Debt to EBITDA ratio of 3:1 or less for four consecutive quarters, and (ii) an investment grade rating on its senior secured debt;

- to cancel the $500 million tranche of the Company's existing $1.7 billion syndicated bank facility that was set to expire on June 30, 2016, the remaining $1.2 billion tranche of the syndicated bank facility remains available to the Company in accordance with the terms of the agreements governing such facility;

- to temporarily reduce its quarterly dividend commencing in the first quarter of 2015 to $0.01 per share or less until the earlier of (i) the Senior Debt to EBITDA being less than 3:1 for two consecutive quarters ending on or after September 30, 2015, and (ii) March 30, 2017; and

- until March 30, 2017, to use net proceeds from any asset dispositions to repay at par $650 million of the outstanding principal amounts owing to noteholders, with corresponding pro rata amounts from such asset dispositions to be used to repay any outstanding amounts drawn under its syndicated bank facility. In 2015 and 2016, the Company closed $2.2 billion in asset dispositions and these proceeds were used for debt prepayments to its noteholders and syndicated bank facility. As the Company reached the threshold of $650 million in 2015, additional repayments to lenders are at the discretion of the Company.

Financial Instruments

The Company had the following financial instruments outstanding as at December 31, 2016. Fair values are determined using external counterparty information, which is compared to observable market data. Penn West limits its credit risk by executing counterparty risk procedures which include transacting only with institutions within its syndicated bank facility or with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	Remaining term	Pricing	Fair value (millions)
Natural gas				
AECO Swaps	15,200 mcf/d	Jan/17 – Mar/17	$3.03/mcf	$ (1)
AECO Swaps	13,300 mcf/d	Apr/17 – Jun/17	$2.70/mcf	(1)
AECO Swaps	11,400 mcf/d	Jul/17 – Sep/17	$2.71/mcf	(1)
AECO Swaps	9,500 mcf/d	Oct/17 – Dec/17	$3.00/mcf	-
AECO Swaps	5,700 mcf/d	Jan/17 – Dec/17	$3.07/mcf	(1)
AECO Swaps	3,800 mcf/d	Jan/18 – Dec/18	$2.89/mcf	-
Crude Oil				
WTI Swaps	3,400 bbl/d	Jan/17 – Mar/17	$68.98/bbl	(1)
WTI Swaps	800 bbl/d	Apr/17 – Jun/17	$68.48/bbl	(1)
WTI Swaps	400 bbl/d	Jul/17 – Sep/17	$69.50/bbl	-
WTI Swaps	900 bbl/d	Oct/17 – Dec/17	$70.81/bbl	-
WTI Swaps	1,800 bbl/d	Apr/17 – Dec/17	$68.73/bbl	(4)
WTI Swaps	5,200 bbl/d	Jan/17 – Dec/17	$66.81/bbl	(16)
WTI Swaps	1,000 bbl/d	Jan/18 – Jun/18	$71.00/bbl	(1)
Foreign exchange forwards on senior notes				
3 to 15-year initial term	US$25	2017	1.000 CAD/USD	8
Cross currency swaps				
10-year initial term	£57	2018	2.0075 CAD/GBP, 6.95%	(20)
10-year initial term	£20	2019	1.8051 CAD/GBP, 9.15%	(3)
10-year initial term	€10	2019	1.5870 CAD/EUR, 9.22%	(1)
Total				$ (43)

Please refer to Penn West's website at www.pennwest.com for details on all financial instruments currently outstanding.

Subsequent to December 31, 2016, the Company entered into an additional gas swaps on 1,900 mcf per day from January to June of 2018 at AECO $2.84 per mcf.

The components of risk management on the Statement of Income (Loss) are as follows:

	Year ended December 31	
	2016	2015
Realized		
Settlement of commodity contracts/assignment	**$ 99**	$ 63
Monetization of commodity contracts	**2**	18
Settlement of foreign exchange contracts	**3**	40
Monetization of foreign exchange contracts	**32**	95
Total realized risk management gain	**136**	216
Unrealized		
Commodity contracts	**(72)**	21
Electricity swaps	**4**	6
Crude oil assignment	**(2)**	(8)
Foreign exchange contracts	**(43)**	(47)
Cross-currency swaps	**(34)**	18
Total unrealized risk management (loss)	**(147)**	(10)
Risk management gain (loss)	**$ (11)**	$ 206

In 2016, the Company monetized a total of US$115 million of foreign exchange forward contracts on senior notes and unwound AECO swap contracts totalling 14,100 mcf per day.

Outlook

For 2017, Penn West's capital program is expected to provide double-digit percentage production growth in its key development areas from the fourth quarter of 2016 to the fourth quarter of 2017. The Company expects to pay for the capital program using its funds flow from operations. In 2017, the Company re-evaluated a portion of its acreage in the outer Cardium and central Alberta that it potentially planned to sell. These assets, have meaningful deeper mineral rights in the Mannville that the Company intends to further evaluate in the near future. The Company decided to retain these assets and sell a portion of its freehold and gross overriding royalties for approximately equal proceeds. As a result, retained production in Penn West's key development areas in the fourth quarter of 2016 increased by approximately 3,500 boe per day. The Company is increasing full year 2017 average production guidance to 30,500 – 31,500 boe per day, previous guidance was 27,000 – 29,000 boe per day as outlined in the Company's January 5, 2017 press release. There have been no changes to the Company's capital program as previously disclosed.

Metric		**2017 Guidance Range**
Average Production	boe per day	30,500 – 31,500
E&D Capital Expenditures	$ millions	$160
Decommissioning Expenditures	$ millions	$20

This outlook section is included to provide shareholders with information about Penn West's expectations as at March 14, 2017 for production, exploration and development capital expenditures and decommissioning expenditures for 2017 and readers are cautioned that the information may not be appropriate for any other purpose. This information constitutes forward-looking information. Readers should note the assumptions, risks and discussion under "Forward-Looking Statements" and are cautioned that numerous factors could potentially impact Penn West's capital expenditure levels and production, including fluctuations in commodity prices.

All press releases are available on Penn West's website at www.pennwest.com, on SEDAR at www.sedar.com, and on EDGAR at www.sec.gov.

Sensitivity Analysis

Estimated sensitivities to selected key assumptions on funds flow for the 12 months subsequent to the date of this MD&A, including risk management contracts entered to date, are based on forecasted results as discussed in the Outlook above.

		Impact on funds flow	
Change of:	Change	$ millions	$/share
Price per barrel of liquids	$1.00	4	0.01
Liquids production	1,000 bbls/day	18	0.04
Price per mcf of natural gas	$0.10	2	-
Natural gas production	10 mmcf/day	5	0.01
Effective interest rate	1%	2	-
Exchange rate ($US per $CAD)	$0.01	3	0.01

Contractual Obligations and Commitments

Penn West is committed to certain payments over the next five calendar years and thereafter as follows:

	2017	2018	2019	2020	2021	Thereafter
Long-term debt	**$ 27**	$ 33	$ 345	$ 36	$ 17	$ 11
Transportation	**16**	13	8	7	5	3
Power infrastructure	**11**	5	-	-	-	-
Drilling rigs	**9**	-	-	-	-	-
Interest obligations	**17**	15	7	2	1	1
Office lease [(1)]	**34**	35	35	35	35	108
Decommissioning liability [(2)]	**$ 20**	$ 10	$ 9	$ 9	$ 8	$ 126

(1) The future office lease commitments above are to be reduced by contracted sublease recoveries totalling $111 million.

(2) These amounts represent the inflated, discounted future reclamation and abandonment costs that are expected to be incurred over the life of the Company's properties.

The Company's syndicated bank facility is due for renewal on May 6, 2019. In addition, the Company has an aggregate of US$105 million in senior notes maturing between 2017 and 2025. If the Company is unsuccessful in renewing or replacing the syndicated bank facility or obtaining alternate funding for some or all of the maturing amounts of the senior notes, it is possible that it could be required to obtain other facilities, including term bank loans.

The Company is involved in various litigation and claims in the normal course of business and records provisions for claims as required.

In February 2016, Penn West announced it had entered agreements to settle all class action proceedings in Canada and United States against the Company related to damages alleged to have been incurred due to a decline in Penn West's share price following the announcement in 2014 that the Company would need to restate certain of its historical financial statements and related MD&A. The settlement agreements provide for a payment of $53 million split evenly between Canadian and US investors that is fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact the Company's cash or financial position. The proposed settlements have received required court approval in each of Alberta, Ontario and Quebec and in New York, and all conditions to settlement have been satisfied. As a result of the approval of these settlements, there is no further exposure to the Company.

Equity Instruments

Common shares issued:	
As at December 31, 2016	502,763,763
Stock option plan	8,800
As at March 14, 2017	502,772,563
Options outstanding:	
As at December 31, 2016	7,612,625
Exercised	(8,800)
Forfeited	(749,750)
As at March 14, 2017	6,854,075

Fourth Quarter Highlights

Key financial and operational results for the fourth quarter were as follows:

	Three months ended December 31		
	2016	2015	% change
Financial			
(millions, except per share amounts) [1]			
Gross revenues [2]	**$ 133**	$ 273	(51)
Funds flow from operations	**48**	39	23
Basic per share	**0.10**	0.08	25
Diluted per share	**0.10**	0.08	25
Net loss	**(232)**	(1,606)	(86)
Basic per share	**(0.46)**	(3.20)	(86)
Diluted per share	**(0.46)**	(3.20)	(86)
Development capital expenditures [3]	**50**	99	(49)
Property acquisition (disposition), net	**$ (14)**	$ (389)	(96)
Operations			
Daily production			
Light oil and NGL (bbls/d)	**15,803**	41,378	(62)
Heavy oil (bbls/d)	**5,493**	11,962	(54)
Natural gas (mmcf/d)	**103**	144	(28)
Total production (boe/d)	**38,481**	77,398	(50)
Average sales price			
Light oil and NGL (per bbl)	**$ 52.34**	$ 47.00	11
Heavy oil (per bbl)	**27.09**	25.40	7
Natural gas (per mcf)	**$ 2.98**	$ 2.54	17
Netback per boe			
Sales price	**$ 33.33**	$ 33.80	(1)
Risk management gain	**4.27**	4.89	(13)
Net sales price	**37.60**	38.69	(3)
Royalties	**(1.26)**	(4.39)	(71)
Operating expenses	**(14.05)**	(17.43)	(19)
Transportation	**(1.62)**	(1.55)	5
Netback	**$ 20.67**	$ 15.32	35

(1) Certain comparative figures have been reclassified to correspond with current period presentation.
(2) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.
(3) Includes the effect of capital carried by partners.

Financial

Funds flow from operations increased in 2016 from the comparative quarter as a result of the Company's successful cost reduction initiatives, specifically within operating and G&A costs. Financing costs have also declined due to a reduction in the Company's debt balance.

Gross revenues decreased in the fourth quarter of 2016 compared to 2015 due to lower production volumes as the Company closed several asset dispositions in 2016.

The lower net loss in 2016 was the result of lower impairment charges and also in 2015 a Goodwill impairment charge of $684 million was recorded in the fourth quarter.

Operations

Netbacks increased from the comparative quarter primarily due to the Company implementing a number of cost reduction strategies which significantly lowered operating costs.

Development activities during the quarter were focused in the Cardium, Peace River and Alberta Viking areas with 14 net operated wells drilled.

Production declined from the comparable period in 2015, due to asset dispositions that closed during 2016. During the fourth quarter of 2016, average production within the Company's key development areas were as follows:

- Cardium – 18,081 boe per day
- Peace River – 4,867 boe per day
- Alberta Viking – 1,415 boe per day
- Legacy – 4,292 boe per day

In the fourth quarter of 2016, WTI crude oil prices averaged US$49.29 per barrel compared to US$44.95 per barrel in the third quarter of 2016 and US$42.18 per barrel in the fourth quarter of 2015. The increase is mainly due to anticipated OPEC production restrictions. The AECO Monthly Index averaged $2.95 per mcf in the fourth quarter of 2016 compared to $2.26 per mcf in the third quarter of 2016 and $2.56 per mcf for the fourth quarter of 2015. Natural gas prices in 2016 decreased mainly due to high storage levels.

Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in such securities legislation. They include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports that it files or submits under applicable securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

An internal evaluation was carried out by management under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of Penn West's disclosure controls and procedures as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 (the "Exchange Act") and as defined in Canada by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") as at December 31, 2016. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as at December 31, 2016 the disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Penn West's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR, as such term is defined in Rule 13a-15 under the Exchange Act and as defined in Canada by NI 52-109. A material weakness in the Company's ICFR exists if a deficiency, or a combination of deficiencies, in its ICFR is such that there is a reasonable possibility that a material misstatement of its annual financial statements or interim financial reports will not be prevented or detected on a timely basis.

An internal evaluation was carried out by management under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's ICFR as at December 31, 2016. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as at December 31, 2016 the Company's ICFR was effective.

Changes in Internal Control over Financial Reporting

Penn West's senior management has evaluated whether there were any changes in the Company's ICFR that occurred during the period beginning on October 1, 2016 and ending on December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No changes to Penn West's ICFR were made during the quarter.

Future Accounting Pronouncements

The IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue". IFRS 15 specifies revenue recognition criteria and expanded disclosures for revenue. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Penn West is currently assessing the impact of the standard.

The IASB completed the final sections of IFRS 9 "Financial Instruments" which replaces IAS 39 "Financial Statement: Recognition and Measurement". IFRS 9 provides guidance on the recognition and measurement, impairment and derecognition on financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Penn West is currently assessing the impact of the standard.

The IASB issued IFRS 16 "Leases" in January 2016 which replaces IAS 17 "Leases". IFRS 16 outlines several new requirements in regards to the recognition, measurement and disclosure of leases. A key principle within the standard includes a single lessee accounting model which requires lessees to recognise assets and liabilities for all leases which have a term more than 12 months. The accounting for lessors, which classify leases as either operating or finance, remains substantially unchanged from the previous standard. The new standard is effective for annual reporting periods beginning on or after 1 January 2019. Penn West is currently assessing the impact of the standard.

Off-Balance-Sheet Financing

Penn West has off-balance-sheet financing arrangements consisting of operating leases. The operating lease payments are summarized in the Contractual Obligations and Commitments section.

Critical Accounting Estimates

Penn West's significant accounting policies are detailed in Note 3 to its audited consolidated financial statements. In the determination of financial results, Penn West must make certain critical accounting estimates as follows:

Depletion and Impairments

Costs of developing oil and natural gas reserves are capitalized and depleted against associated oil and natural gas production using the unit-of-production method based on the estimated proved plus probable reserves with forecast commodity pricing.

All of the Company's reserves were evaluated by Sproule Associates Limited ("SAL"), an independent, qualified reserve evaluation engineering firm. Penn West's reserves are determined in compliance with National Instrument 51-101. The evaluation of oil and natural gas reserves is, by its nature, based on complex extrapolations and models as well as other significant engineering, reservoir, capital, pricing and cost assumptions. Reserve estimates are a key component in the calculation of depletion and are an important component in determining the recoverable amount in impairment tests. The determination of the recoverable amount involves estimating the higher of an asset's fair value less costs to sell or its value-in-use, the latter of which is based on its discounted future cash flows using an applicable discount rate. To the extent that the recoverable amount, which could be based in part on its reserves, is less than the carrying amount of property, plant and equipment, a write-down against income is recorded.

In 2016, Penn West recorded impairment charges totalling $210 million ($288 million before-tax), this was primarily due to classifying certain assets as held for sale due to disposing several properties as the company re-focused its development plans to the Cardium, Peace River and Viking areas in Alberta.

Decommissioning Liability

The decommissioning liability is the present value of the Company's future statutory, contractual, legal or constructive obligations to retire long-lived assets including wells, facilities and pipelines. The liability is recorded on the balance sheet with a corresponding increase to the carrying amount of the related asset. The recorded liability increases over time to its future liability amount through accretion charges to income. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the recorded decommissioning liability. Actual decommissioning expenditures are charged to the liability to the extent of the then-recorded liability. Amounts capitalized to the related assets are amortized to income consistent with the depletion or depreciation of the underlying asset. Note 10 to Penn West's audited consolidated financial statements details the impact of these accounting standards.

Office Lease Provision

The office lease liability is the net present value of future lease payments Penn West is obligated to make under non-cancellable lease contracts less recoveries under current sub-lease agreements. The liability is recognized on the balance sheet with the corresponding change charged to income. The recorded liability increases over time to its future amount through accretion charges to income. Revisions to the estimated amount or timing of the obligations are reflected prospectively as increases or decreases to the recorded liability. Actual lease payments less sub-lease recoveries are charged to the liability as the costs are incurred. Note 10 to Penn West's audited consolidated financial statements details the impact of these accounting standards.

Financial Instruments

Financial instruments included in the balance sheets consist of accounts receivable, fair values of derivative financial instruments, current liabilities and long-term debt. Except for the senior notes, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments, the mark-to-market values recorded for the financial instruments and the market rate of interest applicable to the bank debt. The estimated fair value of the senior notes is disclosed in Note 11 to the Company's audited consolidated financial statements.

Penn West's revenues from the sale of crude oil, natural gas liquids and natural gas are directly impacted by changes to the underlying commodity prices. To ensure that funds flows are sufficient to fund planned capital programs, financial instruments including swaps and collars may be utilized from time to time.

Substantially all of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risk. Penn West may, from time to time, use various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, electricity costs, exchange rates and interest rates. The use of these financial instruments exposes it to credit risks associated with the possible non-performance of counterparties to the derivative contracts. The Company limits this risk by executing counterparty risk procedures which include transacting only with financial institutions who are members of its credit facility or those with high credit ratings as well as obtaining security in certain circumstances.

Deferred Tax

Deferred taxes are recorded based on the liability method of accounting whereby temporary differences are calculated assuming financial assets and liabilities will be settled at their carrying amount. Deferred taxes are computed on temporary differences using substantively enacted income tax rates expected to apply when future income tax assets and liabilities are realized or settled.

Non-GAAP Measures

Certain financial measures including funds flow from operations, funds flow from operations per share-basic, funds flow from operations per share-diluted, netback, EBITDA and gross revenues included in this MD&A do not have a standardized meaning prescribed by IFRS and therefore are considered non-GAAP measures; accordingly, they may not be comparable to similar measures provided by other issuers. Funds flow from operations is cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and office lease settlements which also excludes the effects of financing related transactions from foreign exchange contracts and debt repayments/ pre-payments and is representative of cash related to continuing operations. Funds flow from operations is used to assess the Company's ability to fund its planned capital programs. See "Calculation of Funds Flow from Operations" above for a reconciliation of funds flow from operations to its nearest measure prescribed by IFRS. Netback is the per unit of production amount of revenue less royalties, operating expenses, transportation and realized risk management gains and losses, and is used in capital allocation decisions and to economically rank projects. See "Results of Operations – Netbacks" above for a calculation of the Company's netbacks. EBITDA is cash flow from operations excluding the impact of changes in non-cash working capital, decommissioning expenditures, financing expenses, realized gains and losses on foreign exchange hedges on prepayments, realized foreign exchange gains and losses on debt prepayments and restructuring expenses. EBITDA as defined by Penn West's debt agreements excludes the EBITDA contribution from assets sold in the prior 12 months and is used within Penn West's covenant calculations related to its syndicated bank facility and senior notes. Gross revenue is total revenues including realized risk management gains and losses on commodity contracts and is used to assess the cash realizations on commodity sales.

Oil and Gas Information

Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis is misleading as an indication of value.

Forward-Looking Statements

Certain statements contained in this document constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. In particular, this document contains forward-looking statements pertaining to, without limitation, the following: that the Company intended approach to developing its asset portfolio; the expected time frame for its asset disposition program; that the Company's will build off its increased financial flexibility, development program and its leading cost structure as it advances its operational and development plans within its core areas; that all safety policies, procedures and programs developed by the Company shall meet or exceed legislative requirements and all injuries and serious incidents are reported, that the Company is committed to minimizing the environmental impacts of its operations; the intended development of the Company's light-oil Cardium interests; the intended development of primary, "cold-flow" within the Peace River area; plans to leverage existing infrastructure within the Viking to profit from the short cycle time and quick payout of wells in the area; to pursue new ventures on Penn West's existing land positions; the belief that the 2017 plans will position the Company for enhanced production growth in future years and the resulting effect on its profitability and long-term shareholder value; the Company's intention to target capital expenditures within funds flow from operations; the intention to increase organic production by double-digit percentage from the fourth quarter of 2016 to the fourth quarter of 2017 and the plan to replace over 100 percent of production declines through its development program; that Penn West will continue to evaluate its plans as it moves forward and assess its development budget as commodity prices strengthen; our decreasing need for office space; our belief that compliance with environmental legislation could require additional expenditures and a failure to comply with such legislation may result in fines and penalties which could, in the aggregate and under certain assumptions, become material, our intent to reduce the environmental impact from our operations through environmental programs; the annual corporate production guidance range, expected exploration and development capital expenditures and decommissioning expenditures; the estimated sensitivities to selected key assumptions on funds flow for the 12 months subsequent to this MD&A. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this document, the Company has made assumptions regarding, among other things: that the Company does not dispose of additional material producing properties or royalties or other interests therein; that the current commodity price and foreign exchange environment will continue or improve; future capital expenditure levels; future crude oil, natural gas liquids and natural gas prices and differentials between light, medium and heavy oil prices and Canadian, WTI and world oil and natural gas prices; future crude oil, natural gas liquids and natural gas production levels; future exchange rates and interest rates; future debt levels; and the continued suspension of our dividend.

Although the Company believes that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the forward-looking statements contained herein will not be correct, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the possibility that the Company will not be able to continue to successfully execute our long-term plan in part or in full, and the possibility that some or all of the benefits that the Company anticipates will accrue to our Company and our security holders as a result of the successful execution of such plan do not materialize; the possibility that the Company is unable to execute some or all of our ongoing asset disposition program on favorable terms or at all; the possibility that we breach one or more of the financial covenants pursuant to our amending agreements with the syndicated banks and the holders of our senior, unsecured notes; general economic and political conditions in Canada, the U.S. and globally, and in particular, the effect that those conditions have on commodity prices and our access to capital; industry conditions, including fluctuations in the price of crude oil, natural gas liquids and

natural gas, price differentials for crude oil and natural gas produced in Canada as compared to other markets, and transportation restrictions, including pipeline and railway capacity constraints; fluctuations in foreign exchange or interest rates; unanticipated operating events or environmental events that can reduce production or cause production to be shut-in or delayed (including extreme cold during winter months, wild fires and flooding); and the other factors described under "Risk Factors" in our Annual Information Form and described in our public filings, available in Canada at www.sedar.com and in the United States at www.sec.gov. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained in this document speak only as of the date of this document. Except as expressly required by applicable securities laws, the Company does not undertake any obligation to publicly update any forward-looking statements. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Additional Information

Additional information relating to Penn West, including Penn West's Annual Information Form, is available on the Company's website at www.pennwest.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Penn West Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Penn West Petroleum Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income (loss), changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2016, 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 and the standards of the Public Company Accounting Oversight Board (United States). 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 Penn West Petroleum Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the years in the two-year period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penn West Petroleum Ltd.'s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2017 expressed an unqualified opinion on Penn West Petroleum Ltd.'s internal control over financial reporting.

"signed" Ernst & Young LLP
Chartered Professional Accountants
Calgary, Canada
March 14, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Penn West Petroleum Ltd.

We have audited Penn West Petroleum Ltd.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). Penn West Petroleum Ltd.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Penn West Petroleum Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn West Petroleum Ltd. as of December 31, 2016 and 2015, and the related consolidated statements of loss, cash flows and shareholders' equity for each of the two years in the period ended December 31, 2016 of Penn West Petroleum Ltd. and our report dated March 14, 2017 expressed an unqualified opinion thereon.

"signed" Ernst & Young LLP
Chartered Professional Accountants
Calgary, Canada
March 14, 2017

Penn West Petroleum Ltd.
Consolidated Balance Sheets

(CAD millions)	Note	**December 31, 2016**	December 31, 2015
Assets			
Current			
Cash		**$ 11**	$ 2
Accounts receivable	4	**113**	154
Other		**18**	42
Deferred funding asset	5	**77**	63
Risk management	11	**8**	44
Assets held for sale	6	**114**	-
		341	305
Non-current			
Deferred funding asset	5	**16**	168
Exploration and evaluation assets	7	**-**	243
Property, plant and equipment	8	**2,982**	5,145
Risk management	11	**-**	63
		2,998	5,619
Total assets		**$ 3,339**	$ 5,924
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		**$ 175**	$ 380
Current portion of long-term debt	9	**27**	222
Provisions	10	**35**	21
Risk management	11	**26**	3
Liabilities related to assets held for sale	6	**81**	-
		344	626
Non-current			
Long-term debt	9	**442**	1,718
Provisions	10	**264**	376
Risk management	11	**25**	-
Deferred tax liability	12	**14**	266
Other non-current liabilities	14	**3**	3
		1,092	2,989
Shareholders' equity			
Shareholders' capital	13	**8,997**	8,994
Other reserves	13	**97**	92
Deficit		**(6,847)**	(6,151)
		2,247	2,935
Total liabilities and shareholders' equity		**$ 3,339**	$ 5,924

Subsequent events (Note 6 and 11)

Commitments and contingencies (Note 19)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors of Penn West Petroleum Ltd.:

"signed"	*"signed"*
Richard L. George Chairman	Raymond D. Crossley Director

Penn West Petroleum Ltd.
Consolidated Statements of Income (Loss)

		Year ended December 31	
(CAD millions, except per share amounts)	Note	**2016**	2015
Oil and natural gas sales and other income		**$ 608**	$ 1,187
Royalties		**(22)**	(128)
		586	1,059
Risk management gain (loss)	11	**(11)**	206
		575	1,265
Expenses			
Operating	23	**281**	597
Transportation		**35**	46
General and administrative	23	**56**	92
Restructuring	10	**135**	33
Share-based compensation	14	**12**	6
Depletion, depreciation and impairment	8	**656**	2,367
Impairment of goodwill	20	**-**	706
Gain on dispositions	8	**(33)**	(85)
Provisions	10	**3**	-
Foreign exchange (gain) loss	9	**(84)**	310
Exploration and evaluation	7	**242**	259
Financing	9	**114**	162
Accretion	10	**24**	37
Deferred funding asset	5	**82**	-
		1,523	4,530
Loss before taxes		**(948)**	(3,265)
Deferred tax recovery	12	**252**	619
Net and comprehensive loss		**$ (696)**	$ (2,646)
Net loss per share			
Basic	16	**$ (1.39)**	$ (5.27)
Diluted	16	**$ (1.39)**	$ (5.27)
Weighted average shares outstanding (millions)			
Basic	16	**502.3**	502.0
Diluted	16	**502.3**	502.0

See accompanying notes to the consolidated financial statements.

Penn West Petroleum Ltd.
Consolidated Statements of Cash Flows

(CAD millions)	Note	Year ended December 31 2016	2015
Operating activities			
Net loss		**$ (696)**	$ (2,646)
Depletion, depreciation and impairment	8	**656**	2,367
Impairment of goodwill	20	**-**	706
Gain on dispositions	8	**(42)**	(91)
Loss on provisions	10	**3**	-
Exploration and evaluation	7	**242**	259
Accretion	10	**24**	37
Deferred tax recovery	12	**(252)**	(617)
Share-based compensation	14	**7**	4
Restructuring	10	**116**	-
Unrealized risk management loss	11	**147**	10
Unrealized foreign exchange (gain) loss	9	**(312)**	151
Deferred funding asset	5	**82**	-
Decommissioning expenditures	10	**(11)**	(36)
Office lease settlements	10	**(4)**	-
Change in non-cash working capital	17	**(97)**	31
		(137)	175
Investing activities			
Capital expenditures		**(82)**	(470)
Property dispositions, net		**1,415**	800
Change in non-cash working capital	17	**(23)**	(134)
		1,310	196
Financing activities			
Increase (decrease) in long-term debt	9	**(133)**	462
Repayment of senior notes	9	**(1,260)**	(982)
Issue of equity		**1**	-
Realized foreign exchange loss on repayments	9	**228**	159
Dividends paid	15	**-**	(75)
		(1,164)	(436)
Change in cash		**9**	(65)
Cash, beginning of year		**2**	67
Cash, end of year		**$ 11**	$ 2

See accompanying notes to the consolidated financial statements.

Penn West Petroleum Ltd.
Statements of Changes in Shareholders' Equity

	Note	Shareholders' Capital	Other Reserves	Deficit	Total
Balance at January 1, 2016		$ 8,994	$ 92	$ (6,151)	$ 2,935
Net and comprehensive loss		-	-	(696)	(696)
Share-based compensation	14	-	7	-	7
Issued on exercise of options	13	3	(2)	-	1
Balance at December 31, 2016		**$ 8,997**	**$ 97**	**$ (6,847)**	**$ 2,247**

	Note	Shareholders' Capital	Other Reserves	Deficit	Total
Balance at January 1, 2015		$ 8,983	$ 89	$ (3,490)	$ 5,582
Net and comprehensive loss		-	-	(2,646)	(2,646)
Share-based compensation	14	-	4	-	4
Issued on exercise of options	13	1	(1)	-	-
Issued to dividend reinvestment plan	13	10	-	-	10
Dividends declared	15	-	-	(15)	(15)
Balance at December 31, 2015		$ 8,994	$ 92	$ (6,151)	$ 2,935

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(All tabular amounts are in CAD millions except numbers of common shares, per share amounts, percentages and various figures in Note 11)

1. Structure of Penn West

Penn West Petroleum Ltd. ("Penn West" or the "Company") is an exploration and production company and is governed by the laws of the Province of Alberta, Canada. The Company operates in one segment, to explore for, develop and hold interests in oil and natural gas properties and related production infrastructure in the Western Canada Sedimentary Basin directly and through investments in securities of subsidiaries holding such interests. Penn West's portfolio of assets is managed at an enterprise level, rather than by separate operating segments or business units. The Company assesses its financial performance at the enterprise level and resource allocation decisions are made on a project basis across Penn West's portfolio of assets, without regard to the geographic location of projects. Penn West owns the petroleum and natural gas assets or 100 percent of the equity, directly or indirectly, of the entities that carry on the remainder of the oil and natural gas business of Penn West, except for an unincorporated joint arrangement (the "Peace River Oil Partnership") in which Penn West's wholly owned subsidiaries hold a 55 percent interest.

Penn West operates under the trade names of Penn West and Penn West Exploration.

2. Basis of presentation and statement of compliance

a) Statement of Compliance

These annual consolidated financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The annual consolidated financial statements have been prepared on a historical cost basis, except risk management assets and liabilities which are recorded at fair value as discussed in Note 11.

The annual consolidated financial statements of the Company for the year ended December 31, 2016 were approved for issuance by the Board of Directors on March 14, 2017.

b) Basis of Presentation

The annual consolidated financial statements include the accounts of Penn West, its wholly owned subsidiaries and its proportionate interest in partnerships. Results from acquired properties are included in Penn West's reported results subsequent to the closing date and results from properties sold are included until the closing date.

All intercompany balances, transactions, income and expenses are eliminated on consolidation.

Certain comparative figures have been reclassified to correspond with current period presentation.

3. Significant accounting policies

a) Critical accounting judgments and key estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. These and other estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in these estimates could be material.

Management also makes judgments while applying accounting policies that could affect amounts recorded in its consolidated financial statements. Significant judgments include the identification of cash generating units ("CGUs") for impairment testing purposes, determining whether a CGU or Exploration and Evaluation ("E&E") asset has an impairment indicator and determining whether an E&E asset is technically feasible and commercially viable.

The following are the estimates that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements.

i) Reserve estimates

Commercial petroleum reserves are determined based on estimates of petroleum-in-place, recovery factors and future oil and natural gas prices and costs. Penn West engages an independent qualified reserve evaluator to evaluate all of the Company's oil and natural gas reserves at each year-end.

Reserve adjustments are made annually based on actual oil and natural gas volumes produced, the results from capital programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year and the effect of changes in forecast future crude oil and natural gas prices. There are a number of estimates and assumptions that affect the process of evaluating reserves.

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids determined to be economically recoverable under existing economic and operating conditions with a high degree of certainty (at least 90 percent) those quantities will be exceeded. Proved plus probable reserves are the estimated quantities of crude oil, natural gas and natural gas liquids determined to be economically recoverable under existing economic and operating conditions with a 50 percent certainty those quantities will or will not be exceeded. Penn West reports production and reserve quantities in accordance with Canadian practices and specifically in accordance with "Standards of Disclosure for Oil and Gas Activities" ("NI 51-101").

The estimate of proved plus probable reserves is an essential part of the depletion calculation, the impairment test and hence the recorded amount of oil and gas assets.

Contingent Resources are defined in the COGE Handbook as those quantities of petroleum estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which do not currently qualify as Reserves or commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, operational, political and regulatory matters or a lack of markets. The estimate of contingent resources may be included as part of the recoverable amount in the impairment test.

Penn West cautions users of this information that the process of estimating crude oil and natural gas reserves is subject to a level of uncertainty. The reserves are based on current and forecast economic and operating conditions; therefore, changes can be made to future assessments as a result of a number of factors, which can include commodity prices, new technology, changing economic conditions, future reservoir performance and forecast development activity.

ii) Recoverability of asset carrying values

Penn West assesses its property, plant and equipment ("PP&E") for impairment by comparing the carrying amount to the recoverable amount of the underlying assets. The determination of the recoverable amount involves estimating the higher of an asset's fair value less costs to sell or its value-in-use, the latter of which is based on its discounted future cash flows using an applicable discount rate. Future cash flows are calculated based on estimates of future commodity prices and inflation and are discounted based on management's current assessment of market conditions.

iii) Recoverability of exploration and evaluation assets

E&E assets are assessed for impairment by comparing the carrying amount to the recoverable amount. The assessment of the recoverable amount involves a number of assumptions, including the timing, likelihood and amount of commercial production, further resource assessment plans, and future revenue and costs expected from the asset, if any.

iv) Decommissioning liability

Penn West recognizes a provision for future abandonment activities in the consolidated financial statements at the net present value of the estimated future expenditures required to settle the estimated obligation at the balance sheet date. The measurement of the decommissioning liability involves the use of estimates and assumptions including the discount rate, the amount and expected timing of future abandonment costs and the inflation rate related thereto. The estimates were made by management and external consultants considering current costs, technology and enacted legislation.

v) Office lease liability

Penn West recognizes a provision for certain onerous office lease commitments in the consolidated financial statements at the net present value of future lease payments the Company is obligated to make under non-cancellable lease contracts less recoveries under current sub-lease agreements. The measurement of the office lease liability involves the use assumptions including the discount rate, actual settlement amounts and estimates of future recoveries. Actual costs and cash outflows may differ from the estimates as a result of the changes in the noted assumptions.

vi) Fair value calculation on share-based payments

The fair value of share-based payments is calculated using a Black-Scholes model. There are a number of estimates used in the calculation such as the expected future forfeiture rate, the expected period the share-based compensation is outstanding and the future price volatility of the underlying security all of which can vary from expectations. The factors applied in the calculation are management's estimates based on historical information and future forecasts.

vii) Fair value of risk management contracts

Penn West records risk management contracts at fair value with changes in fair value recognized in income. The fair values are determined using external counterparty information which is compared to observable market data.

viii) Taxation

The calculation of deferred income taxes is based on a number of assumptions including estimating the future periods in which temporary differences and other tax credits will reverse and the general assumption that substantively enacted future tax rates at the balance sheet date will be in effect when differences reverse.

ix) Litigation

Penn West records provisions related to legal matters if it is probable that the Company will not be successful in defending the claim and if an amount can be reasonably estimated. Determining the probability of a claim being defended is subject to considerable judgment. Additionally, the potential claim is generally a wide range of figures and a single estimate must be made when recording a provision. Contingencies will only be resolved or unfounded when one or more future events occur. The assessment of contingencies involves significant judgment and estimates of the potential outcome of future events.

b) Business combinations

Penn West uses the acquisition method to account for business combinations. The net identifiable assets and liabilities acquired in transactions are generally measured at their fair value on the acquisition date. The acquisition date is the closing date of the business combination. Acquisition costs incurred by Penn West to complete a business combination are expensed in the period incurred except for costs related to the issue of any debt or equity securities, which are recognized based on the nature of the related financing instrument.

Revisions may be made to the initial recognized amounts determined during the measurement period, which shall not exceed one year after the close date of the acquisition.

c) Revenue

Penn West generally recognizes oil and natural gas revenue when title passes from Penn West to the purchaser or, in the case of services, as contracted services are performed.

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas and natural gas liquids (prior to deduction of transportation costs) is recognized when all the following conditions have been satisfied:

- The significant risks and rewards of ownership of the goods have been transferred to the buyer;
- There is no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to Penn West; and
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

d) Joint arrangements

The consolidated financial statements include Penn West's proportionate interest of jointly controlled assets and liabilities and its proportionate interest of the revenue, royalties and operating expenses. A significant portion of Penn West's exploration and development activities are conducted jointly with others and involve joint operations. Under such arrangements, Penn West has the exclusive rights to its proportionate interest in the assets and the economic benefits generated from its share of the assets. Income from the sale or use of Penn West's interest in joint operations and its share of expenses is recognized when it is probable that the economic benefits associated with the transactions will flow to/from Penn West and the amounts can be reliably measured.

The Peace River Oil Partnership is a joint operation and Penn West records its 55 percent interest of revenues, expenses, assets and liabilities.

e) Transportation expense

Transportation costs are paid by Penn West for the shipping of natural gas, crude oil and natural gas liquids from the wellhead to the point of title transfer to buyers. These costs are recognized as services are received.

f) Foreign currency translation

Penn West and each of its subsidiaries use the Canadian dollar as their functional currency. Monetary items, such as accounts receivable and long-term debt, are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary items, such as PP&E, are translated to Canadian dollars at the rate of exchange in effect when the associated transactions occurred. Revenues and expenses denominated in foreign currencies are translated at the exchange rate on the date of the transaction. Foreign exchange gains or losses on translation are included in income.

g) E&E

i) Measurement and recognition

E&E assets are initially measured at cost. Items included in E&E primarily relate to exploratory drilling, geological & geophysical activities, acquisition of mineral rights and technical studies. These expenditures are classified as E&E assets until the technical feasibility and commercial viability of extracting oil and natural gas from the assets has been determined.

ii) Transfer to PP&E

E&E assets are transferred to PP&E when they are technically feasible and commercially viable which is generally when proved reserves have been assigned to the asset. If proved reserves will not be established through the completion of E&E activities and there are no plans for development activity in a field, based on their recoverable amount, the E&E assets are charged to income as E&E expense. Any revenue, royalties, operating expenses and depletion prior to transfer are recognized in the statement of income (loss).

iii) Pre-license costs

Pre-license expenditures incurred before Penn West has obtained the legal rights to explore for hydrocarbons in a specific area are expensed.

iv) Impairment

E&E assets are tested for impairment when facts or circumstances indicate that a possible impairment may exist and prior to reclassification to PP&E. E&E impairment losses may be reversed in subsequent periods.

h) PP&E

i) Measurement and recognition

Oil & Gas properties are included in PP&E at cost, less accumulated depletion and depreciation and any impairment losses. The cost of PP&E includes costs incurred initially to acquire or construct the item and betterment costs.

Capital expenditures are recognized as PP&E when it is probable that future economic benefits associated with the investment will flow to Penn West and the cost can be reliably measured. PP&E includes capital expenditures incurred in the development phases, acquisition and disposition of PP&E, costs transferred from E&E and additions to the decommissioning liability.

ii) Depletion and Depreciation

Except for components with a useful life shorter than the reserve life of the associated property, resource properties are depleted using the unit-of-production method based on production volumes before royalties in relation to total proved plus probable reserves. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, Penn West includes estimated future costs to develop proved plus probable reserves and excludes estimated equipment salvage values. Changes to reserve estimates are included in the depletion calculation prospectively.

Components of PP&E that are not depleted using the unit-of-production method are depreciated on a straight-line basis over their useful life. The turnaround component has an estimated useful life of three to five years and the corporate asset component has an estimated useful life of 10 years.

iii) Derecognition

The carrying amount of an item of PP&E is derecognized when no future economic benefits are expected from its use or upon sale to a third party. The gain or loss arising from derecognition is included in income and is measured as the difference between the net proceeds, if any, and the carrying amount of the asset.

iv) Major maintenance and repairs

Ongoing costs to maintain properties are generally expensed as incurred. These costs include the cost of labour, consumables and small parts. The costs of material replacement parts, turnarounds and major inspections are capitalized provided it is probable that future economic benefits in excess of cost will be realized and such benefits are expected to extend beyond the current operating period. The carrying amount of a replaced part is derecognized in accordance with Penn West's derecognition policies.

v) Impairment of oil and natural gas properties

Penn West reviews oil and gas properties for circumstances that indicate its assets may be impaired at the end of each reporting period. These indicators can be internal (i.e. reserve changes) or external (i.e. market conditions) in nature. If an indication of impairment exists, Penn West completes an impairment test, which compares the estimated recoverable amount to the carrying value. The estimated recoverable amount is defined under IAS 36 ("Impairment of Assets") as the higher of an asset's or CGU's fair value less costs to sell and its value-in-use.

Where the recoverable amount is less than the carrying amount, the CGU is considered to be impaired. Impairment losses identified for a CGU are allocated on a pro rata basis to the asset categories within the CGU. The impairment loss is recognized as an expense in income.

Value-in-use is computed as the present value of future cash flows expected to be derived from production. Present values are calculated using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Under the fair value less cost to sell method the recoverable amount is determined using various factors, which can include external factors such as observable market conditions and comparable transactions and internal factors such as discounted cash flows related to reserve and resource studies and future development plans.

Impairment losses related to PP&E can be reversed in future periods if the estimated recoverable amount of the asset exceeds the carrying value. The impairment recovery is limited to a maximum of the estimated depleted historical cost if the impairment had not been recognized. The reversal of the impairment loss is recognized in depletion, depreciation and impairment.

vi) Other Property, Plant and Equipment

Penn West's corporate assets include computer hardware and software, office furniture, buildings and leasehold improvements and are depreciated on a straight-line basis over their useful lives. Corporate assets are tested for impairment separately from oil and gas assets.

i) Share-based payments

The fair value of options granted under the Stock Option Plan (the "Option Plan") are recognized as compensation expense with a corresponding increase to other reserves in shareholders' equity over the term of the options based on a graded vesting schedule. Penn West measures the fair value of options granted under these plans at the grant date using the Black-Scholes option-pricing model. The fair value is based on market prices and considers the terms and conditions of the share options granted.

The fair value of units granted under the Restricted Share Unit Plan ("RSU") following the equity method are recognized as compensation expense with a corresponding increase to other reserves in shareholders' equity over the term of the units based on a graded vesting schedule. Penn West measures the fair value of units granted under this plan at the grant date using the share price from the Toronto Stock Exchange ("TSX"). The fair value is based on market prices and considers the terms and conditions of the units granted.

The fair value of awards granted under the Deferred Share Unit Plan ("DSU"), Performance Share Unit Plan ("PSU") and the RSU Plan following the liability method are based on a fair value calculation on each reporting date using the awards outstanding and Penn West's share price from the TSX on each balance sheet date. The fair value of the awards is expensed over the vesting period based on a graded vesting schedule. Subsequent increases and decreases in the underlying share price result in increases and decreases, respectively, to the accrued obligation until the related instruments are settled.

j) Provisions

i) General

Provisions are recognized based on an estimate of expenditures required to settle present obligations at the end of the reporting period. The provision is risk adjusted to take into account any uncertainties. When the effect of the time value of money is material, the amount of a provision is calculated as the present value of the future expenditures required to settle the obligations. The discount rate reflects the current assessment of the time value of money and risks specific to the liability when those risks have not already been reflected as an adjustment to future cash flows.

ii) Decommissioning liability

The decommissioning liability is the present value of Penn West's future costs of obligations for property, facility and pipeline abandonment and site restoration. The liability is recognized on the balance sheet with a corresponding increase to the carrying amount of the related asset. The recorded liability increases over time to its future amount through accretion charges to income. Revisions to the estimated amount or timing of the obligations are reflected prospectively as increases or decreases to the recorded liability and the related asset. Actual decommissioning expenditures, up to the recorded liability at the time, are charged to the liability as the costs are incurred. Amounts capitalized to the related assets are amortized to income consistent with the depletion or depreciation of the underlying asset.

iii) Office lease liability

The office lease liability is the net present value of future lease payments Penn West is obligated to make under non-cancellable lease contracts less recoveries under current sub-lease agreements. The liability is recognized on the balance sheet with the corresponding change charged to income. The recorded liability increases over time to its future amount through accretion charges to income. Revisions to the estimated amount or timing of the obligations are reflected prospectively as increases or decreases to the recorded liability. Actual lease payments less sub-lease recoveries are charged to the liability as the costs are incurred.

k) Leases

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership of the related asset to the lessee. Operating lease payments are expensed on a straight-line basis over the life of the lease.

l) Share capital

Common shares are classified as equity. Share issue costs are recorded in shareholder's equity, net of applicable taxes. Dividends are paid at the discretion of the Board of Directors and are deducted from retained earnings.

If issued, preferred shares would be classified as equity and could be issued in one or more series.

m) Earnings per share

Earnings per share is calculated by dividing net income or loss attributable to the shareholders by the weighted average number of common shares outstanding during the period. Penn West computes the dilutive impact of equity instruments other than common shares assuming the proceeds received from the exercise of in-the-money share options are used to purchase common shares at average market prices.

n) Taxation

Income taxes are based on taxable income in a taxation year. Taxable income normally differs from income reported in the consolidated statement of income as it excludes items of income or expense that are taxable or deductible in other years or are not taxable or deductible for income tax purposes.

Penn West uses the liability method of accounting for deferred income taxes. Temporary differences are calculated assuming that the financial assets and liabilities will be settled at their carrying amount. Deferred income taxes are computed on temporary differences using substantively enacted income tax rates expected to apply when deferred income tax assets and liabilities are realized or settled.

o) Financial instruments

Financial instruments are measured at fair value and recorded on the balance sheet upon initial recognition of an instrument. Subsequent measurement and changes in fair value will depend on initial classification, as follows:

- Fair value through profit or loss financial assets and liabilities and derivative instruments classified as held for trading or designated as fair value through profit or loss are measured at fair value and subsequent changes in fair value are recognized in income;
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are initially measured at fair value with subsequent changes at amortized cost;

- Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in equity until the instrument or a portion thereof is derecognized or impaired at which time the amounts would be recognized in income;
- Held to maturity financial assets and loans and receivables are initially measured at fair value with subsequent measurement at amortized cost using the effective interest method. The effective interest method calculates the amortized cost of a financial asset and allocates interest income or expense over the applicable period. The rate used discounts the estimated future cash flows over either the expected life of the financial asset or liability or a shorter time-frame if it is deemed appropriate; and
- Other financial liabilities are initially measured at fair value with subsequent changes to fair value measured at amortized cost.

Penn West's current classifications are as follows:

- Cash and cash equivalents and accounts receivable are designated as loans and receivables;
- Accounts payable and accrued liabilities and long-term debt are designated as other financial liabilities; and
- Risk management contracts are derivative financial instruments measured at fair value through profit or loss.

Penn West assesses each financial instrument, except those valued at fair value through profit or loss, for impairment at the reporting date and records the gain or loss in income during the period.

p) Embedded derivatives

An embedded derivative is a component of a contract that affects the terms of another factor, for example, rent costs that fluctuate with oil prices. These "hybrid" contracts are considered to consist of a "host" contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative if the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- The embedded item, itself, meets the definition of a derivative; and
- The hybrid contract is not measured at fair value or designated as held for trading.

q) Classification of debt or equity

Penn West classifies financial liabilities and equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability or an equity instrument.
Penn West's debt instruments currently have requirements to deliver cash at the end of the term thus are classified as liabilities.

r) Future accounting pronouncements

The IASB issued IFRS 15 "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue". IFRS 15 specifies revenue recognition criteria and expanded disclosures for revenue. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Penn West is currently assessing the impact of the standard.

The IASB completed the final sections of IFRS 9 "Financial Instruments" which replaces IAS 39 "Financial Statement: Recognition and Measurement". IFRS 9 provides guidance on the recognition and measurement, impairment and derecognition on financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Penn West is currently assessing the impact of the standard.

The IASB issued IFRS 16 “Leases” in January 2016 which replaces IAS 17 “Leases”. IFRS 16 outlines several new requirements in regards to the recognition, measurement and disclosure of leases. A key principle within the standard includes a single lessee accounting model which requires lessees to recognise assets and liabilities for all leases which have a term more than 12 months. The accounting for lessors, which classify leases as either operating or finance, remains substantially unchanged from the previous standard. The new standard is effective for annual reporting periods beginning on or after January 1, 2019. Penn West is currently assessing the impact of the standard.

4. Working capital

Accounts receivable

Penn West continuously monitors credit risk and maintains credit policies to ensure collection risk is limited. Receivables are primarily with customers in the oil and gas industry and are subject to normal industry credit risk. Receivables over 90 days are classified as past due and are assessed for collectability. If an amount is deemed to be uncollectible, it is expensed through income.

As at December 31, based on Penn West’s credit assessments, provisions have been made for amounts deemed uncollectible. As at December 31, the following accounts receivable amounts were outstanding.

		Current		30-90 days		90+ days		Total [(1)]
2016	**$**	**90**	**$**	**23**	**$**	**9**	**$**	**122**
2015	$	102	$	35	$	17	$	154

(1) $9 million of accounts receivable is related to assets classified as held for sale in 2016.

5. Deferred funding asset

Deferred funding amounts relate to Penn West’s share of capital and operating expenses to be funded by Penn West’s partner in the Peace River Oil Partnership which is located in the Peace River area of Alberta and Penn West’s share of capital expenditures that was funded by Penn West’s partner in the Cordova Joint Venture which is located in northeastern British Columbia. Amounts expected to be settled within the next 12 months are classified as current.

				As at December 31
		2016		2015
Peace River Oil Partnership	**$**	**93**	$	149
Cordova Joint Venture		**-**		82
Total	**$**	**93**	$	231
Current portion	**$**	**77**	$	63
Long-term portion		**16**		168
Total	**$**	**93**	$	231

During the third quarter of 2016, the Company impaired the deferred funding asset under the Cordova Joint Venture which totalled $82 million as it no longer has future plans for development in the area. In January 2017, the Company closed a transaction to dispose of all its assets in British Columbia including Cordova.

6. Assets and liabilities held for sale

Assets and liabilities classified as held for sale consisted of the following:

	As at December 31	
	2016	2015
Assets held for sale		
Working capital	**$ 10**	$ -
Property, plant and equipment	**104**	-
	$ 114	$ -
Liabilities related to assets held for sale		
Working capital	**$ 6**	$ -
Decommissioning liability	**75**	-
	$ 81	$ -

As a result of entering definitive sales agreements during the fourth quarter of 2016, the Company classified all of its assets located in British Columbia and certain assets located in the Swan Hills area of Alberta as assets held for sale at December 31, 2016. In January 2017, two of these transactions closed for total proceeds of $22 million, subject to closing adjustments, with associated average production of approximately 9,600 boe per day.

On December 31, 2016, these assets were recorded at the lesser of fair value less costs to sell and their carrying amount, resulting in a PP&E impairment loss of $47 million ($65 million before-tax). The impairment expense has been recorded as additional depletion, depreciation and impairment on the Consolidated Statements of Income (Loss).

7. Exploration and evaluation assets

	Year ended December 31	
	2016	2015
Balance, beginning of year	**$ 243**	$ 505
Capital expenditures	**-**	10
Expensed	**(7)**	(7)
Impairment	**(235)**	(252)
Transfers to PP&E	**(1)**	(13)
Balance, end of year	**$ -**	$ 243

Penn West's non-cash E&E expense primarily relates to land expiries and properties not expected to be continued into the development phase.

In 2016, Penn West recorded a $144 million ($197 million before-tax) impairment charge related to the Duvernay area of Alberta and certain natural gas properties British Columbia as the Company has no future plans for development in the areas as it focuses activities in its core plays. E&E impairment losses may be reversed in subsequent periods if the Company's development plans change.

Also in 2016, the Company entered into signed sales agreements to dispose of certain properties and recorded an additional $27 million E&E impairment ($38 million before-tax) as a result of classifying certain assets as assets held for sale. These transactions subsequently closed in April 2016.

In 2015, due to minimal capital activity planned in its natural gas weighted properties within the Cordova area of British Columbia, the Company completed an impairment test on this property and concluded that the carrying amount exceeded its fair value which resulted in an impairment charge of $185 million ($252 million before-tax).

8. Property, plant and equipment

Cost

	Oil and gas assets	Facilities	Corporate assets	Total
Balance at January 1, 2015	$ 11,845	$ 5,447	$ 164	$ 17,456
Capital expenditures	288	167	5	460
Joint venture, carried capital	31	-	-	31
Acquisitions	6	1	-	7
Dispositions	(1,231)	(308)	-	(1,539)
Transfers from E&E	10	3	-	13
SR&ED tax credits (note 12)	(29)	-	-	(29)
Net decommissioning dispositions [1]	(189)	-	-	(189)
Balance at December 31, 2015	**$ 10,731**	**$ 5,310**	**$ 169**	**$ 16,210**
Capital expenditures	**37**	**43**	**2**	**82**
Joint venture, carried capital	**40**	**-**	**-**	**40**
Acquisitions	**2**	**1**	**-**	**3**
Dispositions	**(3,996)**	**(999)**	**-**	**(4,995)**
Transfers from E&E	**1**	**-**	**-**	**1**
Transfers to asset held for sale	**(430)**	**(107)**	**-**	**(537)**
Net decommissioning dispositions [1]	**(156)**	**-**	**-**	**(156)**
Balance at December 31, 2016	**$ 6,229**	**$ 4,248**	**$ 171**	**$ 10,648**

(1) Includes additions from drilling activity, facility capital spending and disposals from net property dispositions.

Accumulated depletion, depreciation and impairment

	Oil and gas Assets	Facilities	Corporate assets	Total
Balance at January 1, 2015	$ 7,363	$ 2,107	$ 80	$ 9,550
Depletion and depreciation	504	149	14	667
Impairments	1,360	340	-	1,700
Dispositions	(682)	(170)	-	(852)
Balance at December 31, 2015	**$ 8,545**	**$ 2,426**	**$ 94**	**$ 11,065**
Depletion and depreciation	**263**	**91**	**14**	**368**
Impairments	**230**	**58**	**-**	**288**
Transfers to asset held for sale	**(346)**	**(87)**	**-**	**(433)**
Dispositions	**(2,898)**	**(724)**	**-**	**(3,622)**
Balance at December 31, 2016	**$ 5,794**	**$ 1,764**	**$ 108**	**$ 7,666**

Net book value

	As at December 31	
	2016	2015
Total	**$ 2,982**	$ 5,145

The Company made significant progress on its asset disposition initiatives during 2016 as it closed its Saskatchewan Viking disposition for total proceeds of approximately $975 million and its Slave Point properties for total proceeds of approximately $148 million, both subject to closing adjustments. Additionally, a number of minor, non-core property dispositions were closed during the year. In 2016, Penn West recorded gains on dispositions of $33 million (2015 - $85 million), which included $9 million of transaction costs, primarily related to advisory fees (2015 - $6 million).

In 2016, the Company recorded $210 million of PP&E impairment ($288 million before-tax) as a result of classifying certain assets as assets held for sale as they were recorded at the lesser of fair value less costs to sell and their carrying amount. The values were based on the proceeds from signed sales agreements.

At December 31, 2016, due to asset disposition activity and revised development plans, Penn West determined that there were indicators of impairment within all CGU's and accordingly completed impairment tests. No impairments were noted as a result of completing the tests (2015 - $866 million).

The recoverable amounts used in the impairment tests were based on either the fair value less cost to sell or the value-in-use method depending on the CGU and were calculated using proved plus probable reserves and incremental development drilling locations supported by contingent resource studies at a pre-tax discount rate of 10 percent. The incremental development drilling location value was based on management's internal estimates considering well performance and recent well and type curve assumptions. The contingent resources were based on external contingent resource evaluations and were updated to reflect the current cost structure of the Company and the benchmark prices and assumptions as outlined below.

The following table outlines benchmark prices the Company used in the impairment tests as at December 31, 2016:

		WTI ($US/ bbl)		AECO ($CAD/mcf)		Exchange rate ($US equals $1 CAD)
2017	$	55.00	$	3.44	$	0.78
2018		65.00		3.27		0.82
2019		70.00		3.22		0.85
2020		71.40		3.91		0.85
2021		72.83		4.00		0.85
2022 – 2027	$	78.10	$	4.35	$	0.85
Thereafter (inflation percentage)		2.0%		2.0%		-

Impairments have been recorded as Depletion, Depreciation and Impairment on the Statement of Loss.

9. Long-term debt

	As at December 31	
	2016	2015
Bankers' acceptances and prime rate loans	**$ 329**	$ 462
U.S. Senior secured notes – 2007 Notes (1)		
5.80%, US$5 million, maturing May 31, 2017	**6**	136
5.90%, US$5 million, maturing May 31, 2019	**6**	118
6.05%, US$10 million, repaid in 2016	**-**	14
Senior secured notes – 2008 Notes (1)		
6.12%, US$118 million, matured on May 29, 2016	**-**	164
6.16%, CAD$30 million, repaid in 2016	**-**	30
6.30%, US$24 million, maturing May 29, 2018	**33**	249
6.40%, US$4 million, maturing May 29, 2020	**5**	49
UK Senior secured notes – UK Notes (1)		
7.78%, £35 million, repaid in 2016 (2)	**-**	71
Senior secured notes – 2009 Notes (1)		
8.89%, US$18 million, matured May 5, 2016	**-**	24
9.32%, US$8 million, maturing May 5, 2019	**11**	44
8.89%, US$15 million, repaid in 2016	**-**	20
9.15%, £14 million, repaid in 2016 (3)	**-**	29
9.22%, €6 million, repaid in 2016 (4)	**-**	9
Senior secured notes – 2010 Q1 Notes (1)		
5.29%, US$10 million, maturing March 16, 2017	**13**	71
5.85%, US$10 million, maturing March 16, 2020	**13**	103
5.95%, US$13 million, repaid in 2016	**-**	17
6.10%, US$10 million, repaid in 2016	**-**	14
Senior secured notes – 2010 Q4 Notes (1)		
4.17%, US$6 million, maturing December 2, 2017	**8**	25
5.38%, CAD$27 million, repaid in 2016	**-**	27
4.88%, US$13 million, maturing December 2, 2020	**17**	83
4.98%, US$6 million, maturing December 2, 2022	**8**	25
5.23%, US$2 million, maturing December 2, 2025	**3**	35
Senior secured notes – 2011 Q4 Notes (1)		
3.64%, US$20 million, matured November 30, 2016	**-**	27
4.23%, US$3 million, maturing November 30, 2018	**-**	4
4.63%, CAD$16 million, repaid in 2016	**-**	16
4.79%, US$12 million, maturing November 30, 2021	**17**	74
Total long-term debt	**$ 469**	$ 1,940
Current portion	**$ 27**	$ 222
Long-term portion	**$ 442**	$ 1,718

(1) Interest rate per note can fluctuate based on consolidated debt to EBITDA ratio which expires on March 30, 2017, the date the covenant relief period ends with the bank syndicate and noteholders.
(2) These notes bear interest at 7.45 percent in Pounds Sterling, however, contracts were entered into which fixed the interest rate at 6.95 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).
(3) These notes bear interest at 9.65 percent in Pounds Sterling, however, contracts were entered into which fixed the interest rate at 9.15 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).
(4) These notes bear interest at 9.72 percent in Euros, however, contracts were entered into which fixed the interest rate at 9.22 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).

In 2016, Penn West repaid senior notes in an aggregate amount of $185 million (2015 – $299 million) as part of normal maturities. Additional amounts of $1,075 million (2015 - $683 million) of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. In 2016, Penn West also repaid a total of $351 million (2015 - $147 million) outstanding under its syndicated bank facility using asset disposition proceeds.

There were no senior note issuances in either 2016 or 2015.

Additional information on Penn West's senior secured notes was as follows:

	As at December 31	
	2016	2015
Weighted average remaining life (years)	**2.7**	3.1
Weighted average interest rate [1]	**6.3%**	7.6%

(1) Includes the effect of cross currency swaps (refer to note 11).

The estimated fair values of the principal and interest obligations of the outstanding senior secured notes were as follows:

	As at December 31	
	2016	2015
2007 Notes	**$ 12**	$ 249
2008 Notes	**38**	470
UK Notes	**-**	66
2009 Notes	**11**	123
2010 Q1 Notes	**25**	183
2010 Q4 Notes	**33**	176
2011 Notes	**15**	101
Total	**$ 134**	$ 1,368

During the fourth quarter of 2016, the Company voluntarily reduced its borrowing capacity under its secured, revolving syndicated bank facility from $1.2 billion to $600 million to reflect the Company's current size of operations and future funding requirements. The secured, revolving syndicated bank facility matures on May 6, 2019. The syndicated bank facility contains provisions for stamping fees on bankers' acceptances and LIBOR loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios. At December 31, 2016, the Company had $255 million of unused credit capacity available.

Drawings on the Company's bank facility are subject to fluctuations in short-term money market rates as they are generally held as short-term borrowings. As at December 31, 2016, 70 percent (2015 – 24 percent) of Penn West's long-term debt instruments were exposed to changes in short-term interest rates.

Letters of credit totalling $16 million were outstanding on December 31, 2016 (2015 – $49 million) that reduce the amount otherwise available to be drawn on the bank facility.

Penn West records unrealized foreign exchange gains or losses on its senior notes as amounts are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. The split between realized and unrealized foreign exchange is as follows:

	Year ended December 31	
	2016	2015
Realized foreign exchange loss on debt maturities	**$ (37)**	$ (36)
Realized foreign exchange loss on debt pre-payments	**(191)**	(123)
Unrealized foreign exchange gain (loss)	**312**	(151)
Foreign exchange gain (loss)	**$ 84**	$ (310)

The Company is subject to certain financial covenants under its syndicated bank facility and senior notes. These types of financial covenants are typical for senior lending arrangements and include senior debt and total debt to EBITDA and senior debt and total debt to capitalization, as more specifically defined in the applicable lending agreements. At December 31, 2016, the Company was in compliance with all of its financial covenants under such lending agreements.

In May 2015, the Company finalized amending agreements with the lenders under its syndicated bank facility and with the holders of its senior notes to, among other things, amend its financial covenants as follows:

- the maximum Senior Debt to EBITDA and Total Debt to EBITDA ratio will be less than or equal to 5:1 for the period January 1, 2015 through and including June 30, 2016, decreasing to less than or equal to 4.5:1 for the quarter ending September 30, 2016 and decreasing to less than or equal to 4:1 for the quarter ending December 31, 2016;
- the Senior Debt to EBITDA ratio will decrease to less than or equal to 3:1 for the period from and after January 1, 2017; and
- the Total Debt to EBITDA ratio will remain at less than or equal to 4:1 for all periods after September 30, 2016.

The Company also agreed to the following:

- to temporarily grant floating charge security over all of its property in favor of the lenders and the noteholders on a pari passu basis, which security will be fully released upon the Company achieving both (i) a Senior Debt to EBITDA ratio of 3:1 or less for four consecutive quarters, and (ii) an investment grade rating on its senior secured debt;
- to cancel the $500 million tranche of the Company's existing $1.7 billion syndicated bank facility that was set to expire on June 30, 2016, the remaining $1.2 billion tranche of the syndicated bank facility remains available to the Company in accordance with the terms of the agreements governing such facility;
- to temporarily reduce its quarterly dividend commencing in the first quarter of 2015 to $0.01 per share or less until the earlier of (i) the Senior Debt to EBITDA being less than 3:1 for two consecutive quarters ending on or after September 30, 2015, and (ii) March 30, 2017; and
- until March 30, 2017, to use net proceeds from any asset dispositions to repay at par $650 million of the outstanding principal amounts owing to noteholders, with corresponding pro rata amounts from such asset dispositions to be used to repay any outstanding amounts drawn under its syndicated bank facility. In 2015 and 2016, the Company closed $2.2 billion in asset dispositions and these proceeds were used for debt prepayments to its noteholders and syndicated bank facility. As the Company reached the threshold of $650 million in 2015, additional repayments to lenders are at the discretion of the Company.

10. Provisions

	Year ended December 31	
	2016	2015
Decommissioning liability	**$ 182**	$ 397
Office lease provision	**117**	-
Total	**$ 299**	$ 397
Current portion	**$ 35**	$ 21
Long-term portion	**264**	376
Total	**$ 299**	$ 397

Decommissioning liability

The decommissioning liability is based upon the present value of Penn West's net share of estimated future costs of obligations to abandon and reclaim all wells, facilities and pipelines. These estimates were made by management using information from internal analysis and external consultants assuming current costs, technology and enacted legislation.

The decommissioning liability was determined by applying an inflation factor of 2.0 percent (2015 - 2.0 percent) and the inflated amount was discounted using a credit-adjusted rate of 6.5 percent (2015 – 7.5 percent) over the expected useful life of the underlying assets, currently extending over 50 years into the future.

Changes to the decommissioning liability were as follows:

	Year ended December 31	
	2016	2015
Balance, beginning of year	**$ 397**	$ 585
Net liabilities disposed [(1)]	**(193)**	(61)
Acquisitions	**5**	-
Increase (decrease) due to changes in estimates [(2)]	**37**	(128)
Liabilities settled	**(11)**	(36)
Transfers to liabilities for assets held for sale	**(75)**	-
Accretion charges	**22**	37
Balance, end of year	**$ 182**	$ 397
Current portion	**$ 20**	$ 21
Long-term portion	**$ 162**	$ 376

(1) Includes additions from drilling activity, facility capital spending and disposals from net property dispositions.
(2) Includes $75 million increase as a result of the change in the discount rate (2015 – $153 million decrease).

Office lease provision

During the year, the Company closed several significant asset dispositions which reduced the size of its operations and recognized a provision related to certain office lease commitments that are considered onerous contracts.

The office lease provision represents the net present value of the future lease payments that the Company is obligated to make under non-cancellable lease contracts less recoveries under current sub-lease agreements. The office lease provision was determined by applying a credit-adjusted discount rate of 6.5 percent over the remaining life of the lease contracts, extending into 2025.

Changes to the office lease provision were as follows:

	Year ended December 31	
	2016	2015
Balance, beginning of year	**$ -**	$ -
Net additions	**107**	-
Increase due to changes in estimates	**12**	-
Cash settlements	**(4)**	-
Accretion charges	**2**	-
Balance, end of year	**$ 117**	$ -
Current portion	**$ 15**	$ -
Long-term portion	**$ 102**	$ -

11. Risk management

Financial instruments consist of accounts receivable, fair values of derivative financial instruments, accounts payable and accrued liabilities and long-term debt. Except for the senior notes described in Note 9 with a carrying value of $140 million (2015 – $1,478 million) and a fair value of $134 million (2015 - $1,368 million), the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments, the mark to market values recorded for the financial instruments and the market rate of interest applicable to the syndicated bank facility.

The fair values of all outstanding financial, commodity, power, interest rate and foreign exchange contracts are reflected on the balance sheet with the changes during the period recorded in income as unrealized gains or losses.

As at December 31, 2016 and 2015, the only asset or liability measured at fair value on a recurring basis was the risk management asset and liability, which was valued based on “Level 2 inputs” being quoted prices in markets that are not active or based on prices that are observable for the asset or liability.

The following table reconciles the changes in the fair value of financial instruments outstanding:

	Year ended December 31	
Risk management asset (liability)	**2016**	2015
Balance, beginning of year	**$ 104**	$ 114
Unrealized gain (loss) on financial instruments:		
Commodity collars, swaps and assignments	**(74)**	13
Electricity swaps	**4**	6
Foreign exchange forwards	**(43)**	(47)
Cross currency swaps	**(34)**	18
Total fair value, end of year	**$ (43)**	$ 104

Total fair value consists of the following:		
Fair value, end of year – current asset portion	**$ 8**	$ 44
Fair value, end of year – current liability portion	**(26)**	(3)
Fair value, end of year – non-current asset portion	**-**	63
Fair value, end of year – non-current liability portion	**(25)**	-
Total fair value, end of year	**$ (43)**	$ 104

Penn West records its risk management assets and liabilities on a net basis in the consolidated balance sheets. Excluding offsetting of counterparty positions, Penn West's risk management assets and liabilities were as follows:

	As at December 31	
	2016	2015
Risk management		
Current asset	**$ 8**	$ 44
Non-current asset	**-**	63
Current liability	**(26)**	(3)
Non-current liability	**$ (25)**	$ -

Penn West had the following financial instruments outstanding as at December 31, 2016. Fair values are determined using external counterparty information, which is compared to observable market data. Penn West limits its credit risk by executing counterparty risk procedures which include transacting only with institutions within Penn West's credit facility or companies with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	Remaining term	Pricing	Fair value (millions)
Natural gas				
AECO Swaps	15,200 mcf/d	Jan/17 – Mar/17	$3.03/mcf	$ (1)
AECO Swaps	13,300 mcf/d	Apr/17 – Jun/17	$2.70/mcf	(1)
AECO Swaps	11,400 mcf/d	Jul/17 – Sep/17	$2.71/mcf	(1)
AECO Swaps	9,500 mcf/d	Oct/17 – Dec/17	$3.00/mcf	-
AECO Swaps	5,700 mcf/d	Jan/17 – Dec/17	$3.07/mcf	(1)
AECO Swaps	3,800 mcf/d	Jan/18 – Dec/18	$2.89/mcf	-
Crude Oil				
WTI Swaps	3,400 bbl/d	Jan/17 – Mar/17	$68.98/bbl	(1)
WTI Swaps	800 bbl/d	Apr/17 – Jun/17	$68.48/bbl	(1)
WTI Swaps	400 bbl/d	Jul/17 – Sep/17	$69.50/bbl	-
WTI Swaps	900 bbl/d	Oct/17 – Dec/17	$70.81/bbl	-
WTI Swaps	1,800 bbl/d	Apr/17 – Dec/17	$68.73/bbl	(4)
WTI Swaps	5,200 bbl/d	Jan/17 – Dec/17	$66.81/bbl	(16)
WTI Swaps	1,000 bbl/d	Jan/18 – Jun/18	$71.00/bbl	(1)
Foreign exchange forwards on senior notes				
3 to 15-year initial term	US$25	2017	1.000 CAD/USD	8
Cross currency swaps				
10-year initial term	£57	2018	2.0075 CAD/GBP, 6.95%	(20)
10-year initial term	£20	2019	1.8051 CAD/GBP, 9.15%	(3)
10-year initial term	€10	2019	1.5870 CAD/EUR, 9.22%	(1)
Total				$ (43)

Based on December 31, 2016 pricing, a $1.00 change in the price per barrel of liquids would have changed pre-tax unrealized risk management by $4 million and a $0.10 change in the price per mcf of natural gas would change pre-tax unrealized risk management by $1 million.

Subsequent to December 31, 2016, the Company entered into an additional gas swap at 1,900 mcf per day of production from January to June of 2018 at AECO CAD $2.84 per mcf.

The components of risk management on the Consolidated Statements of Loss are as follows:

	Year ended December 31	
	2016	2015
Realized		
Settlement of commodity contracts/assignment	**$ 99**	$ 63
Monetization of commodity contracts	**2**	18
Settlement of foreign exchange contracts	**3**	40
Monetization of foreign exchange contracts	**32**	95
Total realized risk management gain	**136**	216
Unrealized		
Commodity contracts	**(72)**	21
Electricity swaps	**4**	6
Crude oil assignment	**(2)**	(8)
Foreign exchange contracts	**(43)**	(47)
Cross-currency swaps	**(34)**	18
Total unrealized risk management (loss)	**(147)**	(10)
Risk management gain (loss)	**$ (11)**	$ 206

A realized loss of $7 million (2015 - $16 million loss) on electricity contracts has been included in operating expenses for 2016.

Market Risks

Penn West is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, commodity price risk, foreign currency rate risk, credit risk, interest rate risk and liquidity risk. The Company seeks to mitigate these risks through various business processes and management controls and from time to time by using financial instruments.

Commodity Price Risk

Commodity price fluctuations are among the Company's most significant exposures. Crude oil prices are influenced by worldwide factors such as OPEC actions, world supply and demand fundamentals and geopolitical events. Natural gas prices are influenced by the price of alternative fuel sources such as oil or coal and by North American natural gas supply and demand fundamentals including the levels of industrial activity, weather, storage levels and liquefied natural gas activity. In accordance with policies approved by Penn West's Board of Directors, the Company may, from time to time, manage these risks through the use of swaps or other financial instruments up to a maximum of 50 percent of forecast sales volumes, net of royalties, for the balance of any current year plus one additional year forward and up to a maximum of 25 percent, net of royalties, for one additional year thereafter. Risk management limits included in Penn West's policies may be exceeded with specific approval from the Board of Directors.

Foreign Currency Rate Risk

Prices received for crude oil are referenced to US dollars, thus Penn West's realized oil prices are impacted by Canadian dollar to US dollar exchange rates. A portion of the Company's debt capital is denominated in US dollars, thus the principal and interest payments in Canadian dollars are also impacted by exchange rates. When considered appropriate, the Company may use financial instruments to fix or collar future exchange rates to fix the Canadian dollar equivalent of crude oil revenues or to fix US denominated long-term debt principal repayments.

In 2016, the Company monetized a total of US$115 million (2015 - US$404 million) of foreign exchange forward contracts on senior notes. At December 31, 2016, the following foreign currency forward contract was outstanding:

Nominal Amount	Settlement date	Exchange rate
Buy US$25	2017	1.000 CAD/USD

Credit Risk

Credit risk is the risk of loss if purchasers or counterparties do not fulfill their contractual obligations. The Company's accounts receivable are principally with customers in the oil and natural gas industry and are generally subject to normal industry credit risk, which includes the ability to recover unpaid receivables by retaining the partner's share of production when Penn West is the operator. For oil and natural gas sales and financial derivatives, a counterparty risk procedure is followed whereby each counterparty is reviewed on a regular basis for the purpose of assigning a credit limit and may be requested to provide security if determined to be prudent. For financial derivatives, the Company normally transacts with counterparties who are members of its banking syndicate or other counterparties that have investment grade bond ratings. Credit events related to all counterparties are monitored and credit exposures are reassessed on a regular basis. As necessary, provisions for potential credit related losses are recognized.

As at December 31, 2016, the maximum exposure to credit risk was $130 million (2015 – $261 million) which comprised of $122 million (2015 - $154 million) being the carrying value of the accounts receivable and $8 million (2015 – $107 million) related to the fair value of the derivative financial assets.

Interest Rate Risk

A portion of the Company's debt capital can be held in floating-rate bank facilities, which results in exposure to fluctuations in short-term interest rates, which remain at lower levels than longer-term rates. From time to time, Penn West may increase the certainty of its future interest rates by entering fixed interest rate debt instruments or by using financial instruments to swap floating interest rates for fixed rates or to collar interest rates. As at December 31, 2016, 70 percent of the Company's long-term debt instruments were exposed to changes in short-term interest rates (2015 – 24 percent).

As at December 31, 2016, a total of $140 million (2015 – $1.5 billion) of fixed interest rate debt instruments was outstanding with an average remaining term of 2.7 years (2015 – 3.1 years) and an average interest rate of 6.3 percent (2015 – 7.6 percent).

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial liabilities as they come due. Management utilizes short and long-term financial and capital forecasting programs to ensure credit facilities are sufficient relative to forecast debt levels, dividend and capital program levels are appropriate, and that financial covenants will be met. Management also regularly reviews capital markets to identify opportunities to optimize the debt capital structure on a cost-effective basis. In the short term, liquidity is managed through daily cash management activities, short-term financing strategies and the use of swaps and other financial instruments to increase the predictability of cash flow from operating activities.

The following table outlines estimated future obligations for non-derivative financial liabilities as at December 31, 2016:

	Senior secured notes	Accounts payable & accrued liabilities [(1)]	Share-based compensation accrual	Total
2017	$ 27	$ 176	$ 5	**$ 208**
2018	33	-	2	**35**
2019	16	-	1	**17**
2020	36	-	-	**36**
2021	17	-	-	**17**
Thereafter	$ 11	$ -	$ -	**$ 11**

(1) Includes $6 million of accounts payable and accrued liabilities related to assets classified as held for sale.

12. Income taxes

The provision for income taxes is as follows:

	Year ended December 31	
	2016	2015
Deferred tax recovery	**$ (252)**	$ (619)

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

	Year ended December 31	
	2016	2015
Loss before taxes	**$ (948)**	$ (3,265)
Combined statutory tax rate [(1)]	**27.0%**	26.2%
Computed income tax recovery	**$ (256)**	$ (855)
Increase (decrease) resulting from:		
Share-based compensation	**1**	1
Non-taxable foreign exchange (gain) loss	**(11)**	54
Disposition of goodwill	**-**	7
Non-deductible impairment	**-**	185
Changes in tax rates	**-**	41
Adjustments related to prior years	**14**	(53)
Other	**-**	1
Deferred tax recovery	**$ (252)**	$ (619)

(1) The tax rate represents the combined federal and provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2016 and December 31, 2015.

Penn West has income tax filings that are subject to audit by taxation authorities, which may impact its deferred tax liability. Penn West does not anticipate adjustments arising from these audits and believes it has adequately provided for income taxes based on available information, however, adjustments that arise could be material.

In 2015, the corporate tax rate increased in Alberta from 10 percent to 12 percent which resulted in an increase in the Company's deferred tax liability. Also during 2015, with the Canada Revenue Agency ("CRA") approval of the 2012 and 2013 SR&ED Investment Tax Credit ("ITC") claims, the Company recognized $29 million of SR&ED ITC's against the deferred tax liability and a reduction of PP&E assets.

The net deferred income tax liability is comprised of the following:

	Balance January 1, 2016	Provision (Recovery) in Income	Recognized in Property, Plant and Equipment	**Balance December 31, 2016**
Deferred tax liabilities (assets)				
PP&E	$ 1,129	$ (461)	$ -	**$ 668**
Risk management	12	(52)	-	**(40)**
Decommissioning liability	(107)	38	-	**(69)**
Share-based compensation	(2)	(2)	-	**(4)**
Non-capital losses	(766)	225	-	**(541)**
Net deferred tax liability	$ 266	$ (252)	$ -	**$ 14**

	Balance January 1, 2015	Provision (Recovery) in Income	Recognized in Property, Plant and Equipment	Balance December 31, 2015
Deferred tax liabilities (assets)				
PP&E	$ 1,623	$ (465)	$ (29)	$ 1,129
Risk management	29	(17)	-	12
Decommissioning liability	(148)	41	-	(107)
Share-based compensation	(2)	-	-	(2)
Non-capital losses	(588)	(178)	-	(766)
Net deferred tax liability	$ 914	$ (619)	$ (29)	$ 266

At December 31, 2016, Penn West had non-capital losses of $2.0 billion (2015 - $2.8 billion) available for carry forward which expire in the years 2026 through 2030.

At December 31, 2016, Penn West had realized and unrealized net capital losses of $591 million (2015 - $223 million). A deferred tax asset has not been recognized in respect of these losses as they may only be applied against future capital gains.

13. Shareholders' equity

a) Authorized

i) An unlimited number of Common Shares.

ii) 90,000,000 preferred shares issuable in one or more series.

Previously, Penn West had a Dividend Reinvestment and Optional Share Purchase Plan (the "DRIP") that provided eligible shareholders the opportunity to reinvest quarterly cash dividends into additional common shares at a potential discount.

If issued, preferred shares of each series would rank on parity with the preferred shares of other series with respect to accumulated dividends and return on capital. Preferred shares would have priority over the Common shares with respect to the payment of dividends or the distribution of assets.

b) Issued

Shareholders' capital	Common Shares		Amount
Balance, January 1, 2015	497,320,087	$	8,983
Issued on exercise of equity compensation plans [1]	-		1
Issued to dividend reinvestment plan	4,843,076		10
Balance, December 31, 2015	**502,163,163**	**$**	**8,994**
Issued on exercise of equity compensation plans [1]	**600,775**		**3**
Cancellation of dividend reinvestment plan [2]	**(175)**		**-**
Balance, December 31, 2016	**502,763,763**	**$**	**8,997**

(1) Upon exercise of options, the net benefit is recorded as a reduction of other reserves and an increase to shareholders' capital.
(2) In March 2016, the Company cancelled its dividend reinvestment plan.

	Year ended December 31			
Other Reserves		**2016**		2015
Balance, beginning of year	**$**	**92**	$	89
Share-based compensation expense		**7**		4
Net benefit on options exercised [1]		**(2)**		(1)
Balance, end of year	**$**	**97**	$	92

(1) Upon exercise of options, the net benefit is recorded as a reduction of other reserves and an increase to shareholders' capital.

Preferred Shares

No Preferred Shares were issued or outstanding.

14. Share-based compensation

Stock Option Plan

Penn West has an Option Plan that allows Penn West to issue options to acquire common shares to officers, employees and other service providers.

Under the terms of the plan the number of options reserved for issuance under the Option Plan shall not exceed 4.25 percent of the aggregate number of issued and outstanding common shares of Penn West. The grant price of options is equal to the volume-weighted average trading price of the common shares on the TSX for a five-trading-day period immediately preceding the date of grant. Options granted to date vest over a four-year period and expire five years after the date of grant.

	Year ended December 31			
	2016		2015	
Options	**Number of Options**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**10,595,728**	**$ 10.21**	14,460,158	$ 13.91
Granted	**3,557,250**	**1.20**	5,122,600	1.85
Exercised	**(600,775)**	**1.53**	-	-
Forfeited	**(5,939,578)**	**11.08**	(8,987,030)	11.39
Outstanding, end of year	**7,612,625**	**$ 6.01**	10,595,728	$ 10.21
Exercisable, end of year	**2,804,426**	**$ 11.10**	3,907,426	$ 17.21

	Options Outstanding			Options Exercisable	
Range of Grant Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
$1.00 - $1.99	3,954,775	$ 1.44	3.8	379,300	$ 1.80
$2.00 - $9.99	1,881,650	7.40	2.4	890,126	7.67
$10.00 - $21.99	1,776,200	14.70	0.7	1,535,000	15.39
	7,612,625	$ 6.01	1.6	2,804,426	$ 11.10

A Black-Scholes option-pricing model was used to determine the fair value of options granted under the Option Plan with the following fair value per option and weighted average assumptions:

	Year ended December 31	
	2016	2015
Average fair value of options granted (per share)	**$ 0.54**	$ 0.63
Expected life of options (years)	**4.0**	4.0
Expected volatility (average)	**61.0%**	43.7%
Risk-free rate of return (average)	**0.6%**	0.6%
Dividend yield (average)	**-**	2.0%

Restricted Share Unit ("RSU") plan

Penn West has a RSU plan whereby Penn West employees receive consideration that fluctuates based on Penn West's share price on the TSX. Eligible employees receive a grant of a specific number of units (each of which notionally represents a common share) that vest over a three-year period. In March 2016, the Board approved that the consideration can now be paid in either cash or shares at their discretion on new grants. The Company believes that future consideration will be in the form of shares purchased on the open market at prevailing market prices. Consideration on all previous grants prior to March 2016 will continue to be paid in cash.

If the service requirements are met, the cash consideration paid is based on the number of units vested and the five-day weighted average trading price of the common shares prior to the vesting date plus dividends declared by Penn West during the period preceding the vesting date. If the consideration is provided in shares, each outstanding RSU would be exchanged for one common share.

As consideration can now be in the form of cash or shares at the Company's discretion, all grants subsequent to March 2016 will be accounted for based on the equity method.

RSU plan (number of shares equivalent)	Year ended December 31 **2016**	2015
Outstanding, beginning of year	**6,325,954**	3,166,476
Granted	**11,745,330**	9,156,290
Vested	**(2,353,989)**	(1,281,077)
Forfeited	**(5,517,700)**	(4,715,735)
Outstanding, end of year	**10,199,595**	6,325,954
Outstanding – liability method	**2,314,805**	6,325,954
Outstanding – equity method	**7,884,790**	-

The fair value of the RSU plan units under the equity method used the following weighted average assumptions:

	Year ended December 31 **2016**	2015
Average fair value of units granted (per unit)	**$ 1.20**	$ -
Expected life of units (years)	**3.0**	-
Expected forfeiture rate	**18.4%**	-

At December 31, 2016, RSU plan obligations of $3 million were classified as a current liability (2015 – $3 million) included in accounts payable and accrued liabilities and $1 million was classified as a non-current liability (2015 – $2 million) included in other non-current liabilities.

Deferred Share Unit ("DSU") plan

The DSU plan allows Penn West to grant DSUs in lieu of cash fees to non-employee directors providing a right to receive, upon retirement, a cash payment based on the volume-weighted-average trading price of the common shares on the TSX for the five trading days immediately prior to the day of payment. Management directors are not eligible to participate in the DSU plan. At December 31, 2016, 745,851 DSUs (2015 – 457,398) were outstanding and $2 million was recorded as a current liability (2015 – $1 million).

Performance Share Unit ("PSU") plan

The PSU plan allows Penn West to grant PSUs to employees of Penn West. Upon meeting the vesting conditions, the employee could receive a cash payment based on performance factors determined by the Board of Directors and the share price. Members of the Board of Directors are not eligible for the PSU Plan.

PSU awards (number of shares equivalent)	Year ended December 31 **2016**	2015
Outstanding, beginning of year	**1,622,881**	771,020
Granted	**2,516,000**	1,483,000
Vested	**(199,843)**	(294,567)
Forfeited	**(2,083,538)**	(336,572)
Outstanding, end of year	**1,855,500**	1,622,881

The PSU obligation is classified as a liability due to the cash settlement feature. The change in the fair value of outstanding PSU awards is charged to income based on the common share price at the end of each reporting period plus accumulated dividends multiplied by a performance factor determined by the Board of Directors. At December 31, 2016, $2 million was classified as a non-current liability included in other non-current liabilities (December 31, 2015 - $1 million).

Share-based compensation

Share-based compensation is based on the fair value of the options and units at the time of grant under the Option Plan and RSU plan (equity method), which is amortized over the remaining vesting period on a graded vesting schedule. Share-based compensation under the RSU plan (liability method), DSU and PSU is based on the fair value of the awards outstanding at the reporting date and is amortized based on a graded vesting schedule. Share-based compensation consisted of the following:

	Year ended December 31	
	2016	2015
Options	**$ 1**	$ 4
PSU plan	**1**	-
DSU plan	**1**	-
RSU plan – equity method	**6**	-
RSU plan – liability method	**3**	2
Share-based compensation	**$ 12**	$ 6

The share price used in the fair value calculation of the RSU plan (liability method), PSU and DSU obligations at December 31, 2016 was $2.37 (2015 – $1.17).

Employee retirement savings plan

Penn West has an employee retirement savings plan (the “savings plan”) for the benefit of all employees. Under the savings plan, employees may elect to contribute up to 10 percent of their salary and Penn West matches these contributions at a rate of $1.50 for each $1.00 of employee contribution. Both the employee’s and Penn West’s contributions are used to acquire Penn West common shares or are placed in low-risk investments. Shares are purchased in the open market at prevailing market prices.

15. Dividends

Dividends were previously paid quarterly at the discretion of the Board of Directors and were deducted from retained earnings as declared. In September 2015, Penn West suspended the Dividend plan effective after the October 15, 2015 payment until further notice. In 2015, Penn West paid dividends of $85 million or $0.17 per share.

16. Per share amounts

The number of incremental shares included in diluted earnings per share is computed using the average volume-weighted market price of shares for the period. In addition, contracts that could be settled in cash or shares are assumed to be settled in shares if share settlement is more dilutive.

	Year ended December 31	
	2016	2015
Net loss – basic and diluted	**$ (696)**	$ (2,646)

The weighted average number of shares used to calculate per share amounts is as follows:

	Year ended December 31	
	2016	2015
Basic and Diluted	**502,316,003**	501,977,401

For 2016, 7.6 million shares (2015 – 10.6 million) that would be issued under the Option Plan were excluded in calculating the weighted average number of diluted shares outstanding as they were considered anti-dilutive.

17. Changes in non-cash working capital (increase) decrease

	Year ended December 31	
	2016	2015
Accounts receivable [1]	**$ 32**	$ 28
Other current assets [2]	**23**	4
Deferred funding obligation	**16**	17
Accounts payable and accrued liabilities [3] [4]	**(191)**	(152)
	(120)	(103)
Operating activities	**(97)**	31
Investing activities	**(23)**	(134)
	$ (120)	$ (103)
Interest paid	**$ 124**	$ 167
Income taxes recovered	**$ -**	$ 2

(1) $9 million of accounts receivable is related to assets classified as held for sale in 2016.
(2) $1 million of other current assets is related to assets classified as held for sale in 2016.
(3) $6 million of accounts payable and accrued liabilities is related to assets classified as held for sale in 2016.
(4) Includes long-term share-based payment plans.

18. Capital management

Penn West manages its capital to provide a flexible structure to support capital programs, production maintenance and other operational strategies. Attaining a strong financial position enables the capture of business opportunities and supports Penn West's business strategy of providing strong shareholder returns.

Penn West defines capital as the sum of shareholders' equity and long-term debt. Shareholders' equity includes shareholders' capital, other reserves and retained earnings (deficit). Long-term debt includes bank loans and senior secured notes.

Management continuously reviews Penn West's capital structure to ensure the objectives and strategies of Penn West are being met. The capital structure is reviewed based on a number of key factors including, but not limited to, current market conditions, hedging positions, trailing and forecast debt to capitalization ratios, debt to EBITDA and other economic risk factors.

The Company is subject to certain quarterly financial covenants under its secured, syndicated credit facility and the senior secured notes. These financial covenants are typical for senior secured lending arrangements and include senior debt and total debt to EBITDA and senior debt and total debt to capitalization as defined in Penn West's lending agreements. As at December 31, 2016, the Company was in compliance with all of its financial covenants under such lending agreements.

(millions, except ratio amounts)		Year ended December 31 2016		2015
Components of capital				
Shareholders' equity	**$**	**2,247**	$	2,935
Long-term debt	**$**	**469**	$	1,940
Ratios [1]				
Senior debt to EBITDA [2]		**2.0**		4.6
Total debt to EBITDA [2]		**2.0**		4.6
Senior debt to capitalization [3]		**17%**		40%
Total debt to capitalization [4]		**17%**		40%
Priority debt to consolidated tangible assets [5]		**-**		-
EBITDA [6]	**$**	**235**	$	427
Credit facility debt and senior notes	**$**	**469**	$	1,940
Letters of credit [7]		**6**		15
Senior debt and total debt		**475**		1,955
Total shareholders' equity		**2,247**		2,935
Total capitalization	**$**	**2,722**	$	4,890

(1) Covenant ratio limits will fluctuate based on the amending agreements which expire on March 30, 2017, the date the covenant relief period ends with the bank syndicate and noteholders.
(2) As at December 31, 2016, less than 4:1 (2015 – less than 5:1).
(3) Not to exceed 50 percent in both 2016 and 2015.
(4) Not to exceed 55 percent in both 2016 and 2015.
(5) Priority debt not to exceed 15% of consolidated tangible assets in both 2016 and 2015.
(6) EBITDA is calculated in accordance with Penn West's lending agreements wherein unrealized risk management and impairment provisions are excluded.
(7) Letters of credit defined as financial under the lending agreements are included in the calculation.

In May 2015, the Company finalized amending agreements with the lenders under its syndicated bank facility and with the holders of its senior notes to, among other things, amend its financial covenants. Please refer to Note 9 for discussion.

The Company intends to continue to actively identify and evaluate hedging opportunities in order to reduce its exposure to fluctuations in commodity prices and protect its future cash flows and capital programs.

19. Commitments and contingencies

Penn West is committed to certain payments over the next five calendar years and thereafter as follows:

	2017	2018	2019	2020	2021	Thereafter
Long-term debt	**$ 27**	$ 33	$ 345	$ 36	$ 17	$ 11
Transportation	**16**	13	8	7	5	3
Power infrastructure	**11**	5	-	-	-	-
Drilling rigs	**9**	-	-	-	-	-
Interest obligations	**17**	15	7	2	1	1
Office lease	**34**	35	35	35	35	108
Decommissioning liability	**$ 20**	$ 10	$ 9	$ 9	$ 8	$ 126

Penn West's syndicated bank facility has $600 million due for renewal on May 6, 2019. In addition, Penn West has an aggregate of $140 million in senior notes maturing between 2017 and 2025.

Penn West's commitments relate to the following:

- Transportation commitments relate to costs for future pipeline access.
- Power infrastructure commitments pertain to electricity contracts.
- Drilling rigs are contracts held with service companies to ensure Penn West has access to specific drilling rigs at the required times.
- Interest obligations are the estimated future interest payments related to Penn West's debt instruments.
- Office leases pertain to total leased office space. A portion of this office space has been sub-leased to other parties to minimize Penn West's net exposure under the leases. The future office lease commitments above will be reduced by sublease recoveries totaling $111 million. For 2016, lease costs, net of recoveries totaled $12 million.
- The decommissioning liability represents the inflated, discounted future reclamation and abandonment costs that are expected to be incurred over the life of the properties.

The Company is involved in various litigation and claims in the normal course of business and records provisions for claims as required.

In February 2016, Penn West announced it had entered agreements to settle all class action proceedings in Canada and United States against the Company related to damages alleged to have been incurred due to a decline in Penn West's share price following the announcement in 2014 that the Company would need to restate certain of its historical financial statements and related MD&A. The settlement agreements provide for a payment of $53 million split evenly between Canadian and US investors that is fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact the Company's cash or financial position. The proposed settlements have received required court approval in each of Alberta, Ontario and Quebec and in New York, and all conditions to settlement have been satisfied. As a result of the approval of these settlements, there is no further exposure to the Company.

20. Goodwill

In 2015, Penn West's goodwill balance was previously associated with a group of CGUs representing light-oil properties in the Cardium, Slave Point, Swan Hills and Edmonton areas of Alberta and the Viking primarily within Saskatchewan. On December 31, 2015, Penn West completed a goodwill impairment test on the group of CGUs and the carrying value exceeded the recoverable amount resulting in an impairment charge of $684 million, thus eliminating the remaining goodwill balance. No goodwill balance remained after this impairment.

21. Business Combination

During the fourth quarter of 2016, the Company closed a transaction and acquired the remaining 50 percent interest from a joint venture partner on certain properties within British Columbia. Upon close of the transaction, Penn West received $21 million of cash proceeds and impaired the deferred funding asset as the remaining balance owed by its joint venture partner was forgiven. Subsequently, in January 2017, the Company closed a transaction to dispose of all its assets in British Columbia.

22. Related-party transactions

Operating entities

The consolidated financial statements include the results of Penn West Petroleum Ltd. and its wholly-owned subsidiaries, notably the Penn West Petroleum Partnership. Transactions and balances between Penn West Petroleum Ltd. and all of its subsidiaries are eliminated upon consolidation.

Compensation of key management personnel

In 2016, key management personnel include the President and Chief Executive Officer, Senior Vice-Presidents and the Board of Directors. The Human Resources & Compensation Committee makes recommendations to the Board of Directors who approves the appropriate remuneration levels for management based on performance and current market trends. Compensation levels of the Board of Directors are recommended by the Corporate Governance committee of the Board. The remuneration of the directors and key management personnel of Penn West during the year is below.

	Year ended December 31	
	2016	2015
Salary and employee benefits	**$ 2**	$ 4
Termination benefits	**2**	1
Share-based payments [(1)]	**2**	-
	$ 6	$ 5

(1) Includes changes in the fair value of PSUs, DSUs and non-cash charges related to the Option Plan and RSU (equity method) for key management personnel.

23. Supplemental Items

In the consolidated financial statements, compensation costs are included in both operating and general and administrative expenses. For 2016, employee compensation costs of $36 million (2015 - $61 million) were included in operating expenses and $44 million (2015 - $87 million) were included in general and administrative expenses.

Corporate Information

Directors

Richard L. George (1)
Chairman
Calgary, Alberta

George H. Brookman (2)(3)
Director
Calgary, Alberta

John Brydson (1)(4)
Director
Greenwich, Connecticut

Raymond D. Crossley (3)(4)
Director
Calgary, Alberta

David L. French
Director
Calgary, Alberta

William A. Friley (1)(2)
Director
Calgary, Alberta

Maureen Cormier Jackson (3)(4)
Director
Calgary, Alberta

Jay W. Thornton (2)
Director
Calgary, Alberta

(1) Member of the Operations and Reserves Committee
(2) Member of the Human Resources and Compensation Committee
(3) Member of the Governance Committee
(4) Member of the Audit Committee

Senior Officers

David L. French
President and Chief Executive Officer

David Hendry
Chief Financial Officer

Tony Berthelet
Vice President, Development & Operations

Andrew Sweerts
Vice President, Production & Technical Services

Mark Hodgson
Vice President, Business Development & Commercial

Independent Reserve Evaluator

Sproule Associates Limited
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
The Bank of Nova Scotia
Royal Bank of Canada
The Toronto Dominion Bank
Citibank, N.A., Canadian Branch
Wells Fargo Bank, N.A., London Branch
HSBC Bank Canada
Sumitomo Mitsui Banking Corporation of Canada
Bank of Tokyo-Mitsubishi UFJ (Canada)
Alberta Treasury Branches
Caisse centrale Desjardins
Canadian Western Bank

Transfer Agent

CST Trust Company
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Investors are encouraged to contact CST Trust Company for information regarding their security holdings. They can be reached at (416) 682-3860 or toll-free throughout North America at 1-800-387-0825
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Toronto Stock Exchange
Trading Symbol: PWT

New York Stock Exchange
Trading Symbol: PWE

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