Northern Blizzard Resources Inc.
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Northern Blizzard Resources Inc. for the three months and year ended December 31, 2016. This information is provided as of March 9, 2017. In this MD&A, references to ''Northern Blizzard'', the ''Company'', ''we'', ''us'' and ''our'' and similar terms refer to Northern Blizzard Resources Inc. and its subsidiaries on a consolidated basis, except where the context requires otherwise. Other terms and abbreviations used in this MD&A have the meanings set forth under the heading "Advisories – Abbreviations". This MD&A should be read in conjunction with the consolidated financial statements for the years ended December 31, 2016 and 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All currency is expressed in Canadian dollars unless otherwise indicated. Additional information about Northern Blizzard is available on Northern Blizzard's website at www.northernblizzard.com or SEDAR at www.sedar.com.

Advisories and abbreviations are located at the end of this document.

DESCRIPTION OF THE COMPANY

Northern Blizzard Resources Inc. (the "Company") is incorporated under the Business Corporations Act of Alberta and is engaged in the exploration for and the acquisition, development and production of petroleum and natural gas reserves in western Canada. Northern Blizzard's common shares trade on the Toronto Stock Exchange under the symbol NBZ.

GUIDANCE

The guidance provided is based on a number of material assumptions and factors set out below and under the heading "Forward-Looking Statements". This financial outlook is included to provide readers with an understanding of the Company's operations for 2017. Readers are cautioned that the information may not be appropriate for other purposes. The actual results of Northern Blizzard's operations for the corresponding period will vary from the financial outlook and such variations may be material. See "Forward-Looking Statements" for a discussion of the risks that could cause actual results to vary. This summary has been approved by management as of the date of this MD&A.

The table below provides a summary of Northern Blizzard's operational guidance for 2016 with a comparison to results for the year ended December 31, 2016 and guidance for 2017.

	2016			2017
	Guidance[3]	**Actual**	**Variance (%)**	**Guidance[3]**
Production (boe/d)	19,000	18,407	(3)	17,100
Pricing				
WTI (US$/bbl)	44.86	43.32	(3)	55.00
CAD/USD exchange rate	1.310	1.326	1	1.300
WCS ($/bbl)	40.60	38.90	(4)	52.00
AECO ($/mcf)	2.50	2.16	(14)	2.75
Expenses				
Average royalty rate (%)	9	11	22	11
Operating ($/boe)	17.15	15.91	(7)	15.40
Transportation ($/boe)	2.15	1.82	(15)	1.90
Corporate costs ($/boe)[1]	7.80	7.47	(4)	5.70
Including hedging				
Funds from operations ($ millions)[2]	135	135	-	110
Funds from operations per boe ($/boe)[2]	19.41	20.17	4	17.65
Excluding hedging				
Funds from operations ($ millions)[2]	50	44	(11)	125
Funds from operations per boe ($/boe)[2]	7.19	6.65	(8)	20.15
Capital expenditures ($ millions)	55	52	(5)	60
Payout ratio (%)	83	80	(4)	78

Notes:

(1) Corporate costs include general and administrative expenses, cash finance costs and other cash items.

(2) Non-IFRS measure – see discussion under the heading "Non-IFRS Measures".

(3) Represents 2016 guidance provided by Northern Blizzard in news releases dated February 12, 2016 and June 8, 2016. 2017 guidance provided in a news release dated December 5, 2016. The news releases are available at Northern Blizzard's website at www.northernblizzard.com or at www.sedar.com.

2016 Actuals versus Guidance

Northern Blizzard's production for the year ended December 31, 2016 was 18,407 boe/d versus guidance of 19,000 boe/d. The variance was mainly due to lower than expected volumes at Plover Lake SAGD. In addition, the Company disposed of two properties in the fourth quarter of 2016 for total consideration of $73.3 million. The properties each produced approximately 600 boe/d.

Capital expenditures in 2016 were $52 million (versus guidance of $55 million), which included the drilling of 60 (53.4 net) wells (versus guidance of 46 (42.3 net) wells).

The average royalty rate for 2016 was higher than annual guidance. The difference was due to a lower proportion of total production than expected that benefited from royalty incentives.

Operating expenses of $15.91/boe for the year ended December 31, 2016 were below the annual guidance range of $17.15/boe due to cost saving measures implemented across all fields.

Corporate costs of $7.47/boe for 2016 were slightly below the annual guidance of $7.80/boe.

Funds from operations (including hedging) of $20.17/boe for 2016 were higher than the annual guidance of $19.41/boe due to higher oil prices and a lower cost structure than assumed in the guidance.

2017 Guidance

Capital spending for 2017 has been budgeted at $60 million. Based on budgeted capital spending and the pricing and expense assumptions in the table above, Northern Blizzard forecasts production for 2017 of 17,100 boe/d and funds from operations (including hedging) of $110 million.

Northern Blizzard operates and controls virtually all of its development program, which provides flexibility in our capital expenditures. We will continue to review and evaluate our capital spending program in light of commodity prices and will align spending with the appropriate economic returns. The Company is in a strong financial position with significant liquidity.

SELECTED ANNUAL INFORMATION

($000s, unless otherwise noted)	2016	2015	2014
Financial			
Oil and natural gas sales	308,754	422,305	697,215
Funds from operations[(1)]	134,980	165,566	228,673
Per share – basic	1.14	1.53	2.61
Per share – diluted	1.11	1.50	2.55
Net loss	(196,213)	(124,171)	(2,347)
Per share – basic	(1.66)	(1.15)	(0.03)
Per share – diluted	(1.66)	(1.15)	(0.03)
Total assets	1,475,953	1,703,630	1,887,720
Total long-term financial liabilities	403,322	383,801	387,368
Net debt[(1)]	252,348	400,508	405,677
Total capital expenditures[(2)]	51,758	70,035	262,774
Total dispositions	73,266	-	-
Dividends declared	54,397	81,715	38,857
Per share – diluted	0.460	0.760	0.379
Weighted average shares outstanding, basic	117,955,248	107,877,823	87,706,878
Weighted average shares outstanding, diluted	121,791,997	110,230,580	89,599,379
Shares outstanding, period end	123,505,757	112,789,899	103,386,989
Operating			
Production			
Heavy oil (bbl/d)	17,476	18,940	19,153
Light oil (bbl/d)	538	1,036	430
Natural gas (mcf/d)	2,358	5,447	6,846
Total (boe/d)	18,407	20,884	20,724
Sales (boe/d)	18,295	21,020	20,674
Netbacks ($/boe)			
Average realized price[(3)]	35.09	41.90	74.53
Royalties	(3.69)	(4.62)	(10.33)
Production and operating expenses	(15.91)	(16.72)	(21.04)
Transportation expenses	(1.82)	(1.85)	(1.97)
Operating netback[(1)]	13.67	18.71	41.19
Realized gains (losses) on financial derivative contracts[(4)]	13.97	8.82	(4.13)
General and administrative expenses	(3.22)	(2.76)	(2.88)
Cash finance costs	(4.30)	(4.17)	(4.68)
Other[(5)]	0.05	0.99	0.80
Funds from operations	20.17	21.59	30.30

Notes:

(1) Non-IFRS measure – see discussion under the heading “Non-IFRS Financial Measures”.

(2) Total capital expenditures include cash expenditures for property, plant and equipment, intangible assets and property acquisitions. Property dispositions have been excluded.

(3) Northern Blizzard’s risk management strategy employs both physical delivery contracts (fixed price forward sales) and financial derivative contracts. There were physical delivery contracts in effect in 2015 and 2016, the impact of which has been included in the average realized prices in the table above.

(4) Unrealized gains or losses are not included in the determination of funds from operations.

(5) Other includes realized foreign exchange gains (losses) and other income.

SELECTED QUARTERLY INFORMATION

	2016				2015			
($000s, unless otherwise noted)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Oil and natural gas sales	94,072	76,045	81,977	56,660	79,846	101,853	134,567	106,039
Funds from operations(1)	40,179	34,038	33,971	26,792	8,175	38,850	58,481	60,060
Per share – basic	0.33	0.29	0.29	0.23	0.07	0.36	0.55	0.58
Per share – diluted	0.32	0.28	0.28	0.23	0.07	0.35	0.54	0.56
Net income (loss)	(120,531)	(16,775)	(69,027)	10,120	(14,105)	(55,693)	(10,466)	(43,907)
Per share – basic	(0.99)	(0.14)	(0.59)	0.09	(0.13)	(0.51)	(0.10)	(0.42)
Per share – diluted	(0.99)	(0.14)	(0.59)	0.09	(0.13)	(0.51)	(0.10)	(0.42)
Total assets	1,475,953	1,611,810	1,608,338	1,672,554	1,703,630	1,684,482	1,789,356	1,843,119
Total long-term financial liabilities	403,322	384,784	380,506	365,935	383,801	369,093	357,948	406,395
Net debt(1)	252,348	335,912	337,535	360,621	400,508	372,409	366,508	406,382
Total capital expenditures(2)	14,889	22,111	7,836	6,922	18,417	14,776	14,403	22,439
Total dispositions	73,266	-	-	-	-	-	-	-
Dividends declared	12,229	14,347	14,062	13,758	13,436	17,498	25,641	25,140
Per share	0.100	0.120	0.120	0.120	0.120	0.160	0.240	0.240
Weighted average shares outstanding, basic (000s)	121,914	118,940	116,718	114,208	111,597	108,980	106,492	104,405
Weighted average shares outstanding, diluted (000s)	126,484	122,355	120,350	117,995	115,019	110,817	108,616	106,424
Shares outstanding, period end (000s)	123,506	120,445	117,972	115,494	112,790	110,633	107,572	105,459
Operating								
Production								
Heavy oil (bbl/d)	17,524	16,924	17,209	18,255	17,776	18,751	19,412	19,848
Light oil (bbl/d)	399	480	570	706	598	797	1,204	1,556
Natural gas (mcf/d)	2,146	2,159	2,568	2,562	4,148	5,384	5,894	6,388
Total (boe/d)	18,281	17,764	18,207	19,388	19,065	20,445	21,598	22,469
Sales (boe/d)	18,508	17,457	18,269	18,955	19,087	21,384	21,189	22,448
Netbacks ($/boe)								
Average realized price(3)	42.93	38.08	37.68	22.07	32.91	40.45	54.23	39.32
Royalties	(4.58)	(4.23)	(4.25)	(1.77)	(3.41)	(4.50)	(6.20)	(4.29)
Production and operating expenses	(15.42)	(17.26)	(16.40)	(14.66)	(16.56)	(16.71)	(17.41)	(16.21)
Transportation expenses	(1.97)	(2.03)	(1.95)	(1.37)	(1.94)	(1.56)	(1.92)	(1.98)
Operating netback(1)	20.96	14.56	15.08	4.27	11.00	17.68	28.70	16.84
Realized gains (losses) on financial derivative contracts	8.84	13.44	12.58	20.87	0.27	6.86	9.07	17.92
General and administrative expenses	(2.76)	(2.87)	(2.79)	(4.43)	(3.03)	(2.29)	(3.17)	(2.59)
Cash finance costs	(3.96)	(4.39)	(4.46)	(4.40)	(4.42)	(4.07)	(4.03)	(4.19)
Other(4)	0.52	0.47	0.03	(0.79)	0.82	1.56	(0.23)	1.74
Funds from operations	23.60	21.21	20.44	15.52	4.64	19.74	30.34	29.72

Notes:

(1) Non-IFRS measure – see discussion under the heading "Non-IFRS Financial Measures".

(2) Total capital expenditures include cash expenditures for property, plant and equipment, intangible assets and property acquisitions. Property dispositions have been excluded.

(3) Northern Blizzard's risk management strategy employs both physical delivery contracts (fixed price forward sales) and financial derivative contracts. There were physical delivery contracts in effect in the fourth quarter of 2015 and for the year of 2016, the impact of which has been included in the average realized prices in the table above.

(4) Other includes realized foreign exchange gains (losses) and other income.

Over the past eight quarters, oil and natural gas sales have fluctuated predominantly due to changes in oil prices and changes in production volumes.

Funds from operations were impacted primarily by changes in oil and natural gas sales, associated royalties, production and operating expenses and realized gains or losses on financial derivative contracts.

Changes in net income (loss) were driven primarily by funds from operations, share-based compensation expense, unrealized gains or losses on financial derivative contracts, depletion, depreciation, amortization and impairment and unrealized foreign exchange gains or losses.

Capital expenditures fluctuated over the past eight quarters as a result of timing of the Company's development program and spending on facilities projects during the periods.

The following outlines the significant events over the past eight quarters:

During the third quarter of 2015, as a result of lower forecasted benchmark commodity prices at September 30, 2015 compared to December 31, 2014, the Company recognized an impairment charge of $110.0 million attributed to PP&E.

During the fourth quarter of 2016, Northern Blizzard disposed of its Coleville and Smiley properties for total consideration of $73.3 million. The properties each produced approximately 600 boe/d. The Company also discontinued our Stock Dividend Program in the fourth quarter of 2016 and launched an issuer bid that was completed on February 3, 2017, whereby the Company paid $90.0 million to purchase for cancellation 22.5 million common shares at $4.00 per share. The issuer bid was largely funded with cash from the property dispositions described above. Subsequent to the issuer bid, Northern Blizzard had 101,005,757 common shares issued and outstanding.

RESULTS OF OPERATIONS

Production

	Three months ended December 31			Years ended December 31		
	2016	2015	% Change	**2016**	2015	% Change
Daily Production						
Heavy oil (bbl/d)(1)	**17,524**	17,776	(1)	**17,476**	18,940	(8)
Light oil (bbl/d)	**399**	598	(33)	**538**	1,036	(48)
Natural gas (mcf/d)	**2,146**	4,148	(48)	**2,358**	5,447	(57)
Total (boe/d)	**18,281**	19,065	(4)	**18,407**	20,884	(12)
Production Mix						
Heavy oil (%)	**96**	93	3	**95**	91	4
Light oil (%)	**2**	3	(33)	**3**	5	(40)
Natural gas (%)	**2**	4	(50)	**2**	4	(50)

Note:

(1) Heavy oil sales volumes differ from reported production volumes due to changes in oil inventory. For the three months ended December 31, 2016, heavy oil sales volumes were 227 bbl/d higher (2015 – 22 bbl/d higher) than production volumes. For the year ended December 31, 2016, heavy oil sales volumes were 112 bbl/d lower (2015 – 136 bbl/d higher) than production volumes. See “Netbacks”.

Northern Blizzard’s operations, infrastructure and concentrated land position are focused in southwest Saskatchewan. During the year ended December 31, 2016, 100% of Northern Blizzard’s production volumes were produced from Saskatchewan (2015 – 100%).

Heavy oil production for the fourth quarter of 2016 decreased 1% to 17,524 bbl/d compared to 17,776 bbl/d for the same period in 2015. Increased production at Cactus Lake from the polymer flood and the 2016 development program was offset by natural declines on existing production, lower volumes from Plover Lake SAGD and property dispositions. Natural declines were partially offset by drilling activity during the year. Northern Blizzard reduced its capital program in both 2015 and 2016 as a result of lower oil prices.

Northern Blizzard’s light oil production was from the Viking development at Coleville. During the fourth quarter of 2016, the Company disposed of the Coleville property. Fourth quarter 2016 natural gas production of 2,146 mcf/d compared to 4,148 mcf/d for the same period in 2015 with the change mainly due to wells that were shut-in as a result of economics, natural declines and the disposition of the Smiley property. Combined average daily production for the fourth quarter of 2016 was 18,281 boe/d versus 19,065 boe/d for the same period in 2015.

Heavy oil production for the year ended December 31, 2016 decreased 8% to 17,476 bbl/d compared to 18,940 bbl/d in 2015. The decrease in heavy oil production was primarily due to the reasons discussed above. Light oil production for the year ended December 31, 2016 was 538 bbl/d versus 1,036 bbl/d in 2015. The decrease in light oil production was mainly due to natural declines, partially offset by drilling activity. Natural gas production for 2016 was 2,358 mcf/d compared to 5,447 mcf/d in 2015, with the change mainly due to wells that were shut-in as a result of economics and natural declines. Combined average daily production for the year ended December 31, 2016 was 18,407 boe/d versus 20,884 boe/d in 2015.

Commodity Prices

	Three months ended December 31			Years ended December 31		
	2016	2015	% Change	**2016**	2015	% Change
Average Benchmark Prices & Rates						
WTI oil (US$/bbl)(1)	**49.29**	42.18	17	**43.32**	48.80	(11)
CAD/USD exchange rate	**1.3339**	1.3353	-	**1.3256**	1.2788	4
WTI oil (CAD$/bbl)	**65.74**	56.22	17	**57.26**	62.14	(8)
Edmonton par oil (CAD$/bbl)	**61.58**	52.95	16	**52.99**	57.21	(7)
WCS heavy oil (CAD$/bbl)(2)	**46.63**	36.86	27	**38.90**	44.82	(13)
Heavy oil differential(3)	**29%**	35%	(17)	**33%**	29%	14
AECO natural gas (CAD$/mcf)(4)	**3.09**	2.46	26	**2.16**	2.71	(20)
Northern Blizzard Average Prices						
Excluding physical hedging						
Heavy oil ($/bbl)(5)	**43.48**	33.40	30	**35.74**	42.58	(16)
Light oil ($/bbl)	**55.03**	48.55	13	**46.16**	53.06	(13)
Oil ($/bbl)	**43.73**	33.89	29	**36.05**	43.12	(16)
Natural gas ($/mcf)	**2.97**	2.27	31	**2.01**	2.66	(24)
Combined ($/boe)	**43.23**	33.15	30	**35.54**	41.95	(15)
Including physical hedging(6)						
Heavy oil – excluding physical hedging ($/bbl)	**43.48**	33.40	30	**35.74**	42.58	(16)
Impact of physical delivery contracts ($/bbl)	**(0.32)**	(0.26)	23	**(0.47)**	(0.06)	683
Heavy oil – including physical hedging ($/bbl)	**43.16**	33.14	30	**35.27**	42.52	(17)
Light oil ($/bbl)	**55.03**	48.55	13	**46.16**	53.06	(13)
Oil – including physical hedging ($/bbl)	**43.42**	33.64	29	**35.59**	43.06	(17)
Combined – excluding physical hedging ($/boe)	**43.23**	33.15	30	**35.54**	41.95	(15)
Impact of physical delivery contracts ($/boe)	**(0.30)**	(0.24)	25	**(0.45)**	(0.05)	800
Combined – including physical hedging ($/boe)	**42.93**	32.91	30	**35.09**	41.90	(16)

Notes:

(1) WTI refers to the calendar monthly average based on the NYMEX prompt month.

(2) WCS refers to the calendar monthly average posting price in Canadian dollars for the Western Canadian Select heavy oil blend at Hardisty.

(3) Heavy oil differential refers to the discount of the WCS benchmark price to WTI.

(4) AECO refers to the monthly average of AECO Daily (5A) index price.

(5) Realized heavy oil prices are calculated based on heavy oil sales net of blending expenses. See “Blending, Transportation and Other Expenses”.

(6) Northern Blizzard’s risk management strategy employs both physical delivery contracts (fixed price forward sales) and financial derivative contracts. The impact of financial derivative contracts is disclosed separately

in the consolidated statement of operations. There was a physical contract in effect for 2016 and the fourth quarter of 2015. The impact of physical delivery contracts (when applicable) is included in oil and natural gas sales in the consolidated statement of operations on their settlement dates.

Oil Prices

Northern Blizzard's heavy oil has average gravities of 12 to 18 degrees API. The Company markets heavy oil based on prices linked to the WCS heavy oil stream, adjusted for the quality of Northern Blizzard's oil, specific to each delivery point. The WCS benchmark price is influenced by WTI (a North American benchmark price for light sweet crude oil), the heavy oil differential and the US/Canadian foreign exchange rate. The heavy oil differential is impacted by transportation costs, quality adjustments and the supply of and demand for particular crude oil streams.

Northern Blizzard's light oil production had an average gravity of 36 degrees API. The light oil was typically sold into the light sweet crude stream at Kerrobert and, excluding the heavy oil differential, was generally impacted by the factors discussed above.

During the fourth quarter of 2016, average WTI prices were US$49.29/bbl compared to US$42.18/bbl for the same period in 2015. During 2016, average WTI prices were US$43.32/bbl compared to US$48.80/bbl in 2015.

The WCS differential averaged 29% of WTI in the fourth quarter of 2016 compared to 35% for the same period in 2015. For 2016, the WCS differential averaged 33% of WTI compared to 29% in 2015.

During the fourth quarter of 2016, the Canadian dollar averaged $1.3339 per US dollar, which was close to $1.3353 for the same period in 2015. During 2016, the Canadian dollar averaged $1.3256, weakening from $1.2788 in 2015. A weakening in the Canadian dollar positively impacts oil revenue, whereas a strengthening in the Canadian dollar will decrease oil revenues as sales prices of North American crude oil are denominated in US dollars.

Northern Blizzard's average realized oil price, prior to the effect of physical delivery contracts, increased to $43.73/bbl in the fourth quarter of 2016 from $33.89/bbl for the same period in 2015. The 29% increase in realized oil price was due to higher WTI oil prices and narrower heavy oil differentials. The discount of Northern Blizzard's average realized heavy oil price to WCS largely reflects the cost of blending Northern Blizzard's heavy oil with diluents to meet pipeline specifications.

Northern Blizzard's average realized oil price, prior to the effect of physical delivery contracts, decreased to $36.05/bbl for the year ended December 31, 2016 from $43.12/bbl for 2015. The 16% decrease was due to lower WTI oil prices and wider heavy oil differentials, partially offset by a weaker Canadian dollar.

Natural Gas Prices

Northern Blizzard's natural gas is sold under a marketing arrangement tied to the AECO index. Natural gas prices are impacted by supply and demand dynamics that include natural gas storage levels and weather conditions.

For the fourth quarter of 2016, average realized natural gas prices were $3.09/mcf compared to $2.46/mcf for the same period in 2015. For 2016, average realized natural gas prices were $2.16/mcf compared to $2.71/mcf in 2015. The movements in realized prices corresponded with the changes in AECO benchmark prices.

Risk Management

Northern Blizzard has a comprehensive hedging program in place, including physical delivery and financial derivative contracts, that is designed to protect realized prices on crude oil volumes and maintain the Company's strong financial position. The Company's revolving credit facility allows it to hedge working interest production volumes for up to four years, with certain limitations. In the first two forward years, hedged volumes are limited to 70% of working interest production. In the third and fourth years, hedged volumes are limited to 50% of working interest production. Percentages of working interest production are calculated based on production volumes from the immediately preceding fiscal quarter.

WTI contracts are utilized to protect against price movements in WTI. Northern Blizzard also enters into contracts that protect the realized price against movements in heavy oil differentials (e.g. WTI/WCS differential contracts).

Total hedged volumes as of December 31, 2016 are as follows:

(C$)[1,2]	**2017**	**2018**
WTI		
Hedged volumes (bbl/d)	10,000	6,000
Average price ($/bbl)	66.85	61.03
WTI / WCS differential		
Hedged volumes (bbl/d)	8,000	-
Average price ($/bbl)	(18.28)	-

Notes:

(1) Contracts denominated in US dollars have been converted to Canadian dollars at CAD/USD strip prices as of December 31, 2016.

(2) The prices and volumes in this table represent averages for several contracts over the respective periods presented. The average price of a group of contracts is for indicative purposes only and does not have the same settlement profile as the individual contract. Details of the risk management contracts are disclosed in the notes to the Company's December 31, 2016 consolidated financial statements.

Details of the risk management contracts in place are disclosed in Note 20 of the Company's December 31, 2016 consolidated financial statements.

Physical delivery contracts (when applicable) are included in oil and natural gas sales in the consolidated statement of operations on their settlement dates. The impact of these contracts is not recorded on the consolidated statement of financial position. See "Commodity Prices – Northern Blizzard Average Prices" above.

Financial derivative contracts are recorded at fair value on the consolidated statement of financial position. The fair values are based on an approximation of the amounts that would have been paid to, or received from, counterparties to settle the contracts outstanding as at period end with reference to forward prices and market values provided by independent sources. The actual amounts realized may differ from these estimates. Gains and losses on financial derivative contracts are shown separately on the consolidated statement of operations and comprise both realized and unrealized gains and losses. Realized gains and losses represent the portion of contracts that have settled during the period and unrealized gains or losses represent the change in the fair value of outstanding contracts from one period to the next.

The following is a summary of the gain (loss) on the financial derivative contracts:

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Realized gain	**15,055**	476	3,063	**93,557**	67,654	38
Unrealized gain (loss)	**(48,232)**	42,895	(212)	**(163,630)**	37,769	(533)
Total	**(33,177)**	43,371	(176)	**(70,073)**	105,423	(166)
Realized gain per boe ($)[(1)]	**8.84**	0.27	3,174	**13.97**	8.82	58

Note:

(1) Realized gain (loss) per boe is calculated using sales volumes. See "Production".

During the fourth quarter of 2016, Northern Blizzard realized $15.1 million in gains on financial derivative contracts compared to $0.5 million for the same period in 2015. During the three months ended December 31, 2016 and 2015, gains realized on Canadian dollar WTI contracts were mainly due to lower than hedged oil prices.

During the year ended December 31, 2016, Northern Blizzard realized $93.6 million in gains on financial derivative contracts compared to $67.7 million in 2015. The gains in 2016 and 2015 were due to the reason discussed above.

For the fourth quarter of 2016, an unrealized mark-to-market loss of $48.2 million was recorded on financial derivative contracts compared to a gain of $42.9 million for the same period in 2015. For the three months ended December 31, 2016, the unrealized losses were due to stronger forward Canadian dollar WTI prices at December 31, 2016 compared to September 30, 2016 and contracts that settled upon maturity that were previously recorded as unrealized gains. The unrealized losses were partially offset by unrealized gains on WTI/WCS differential contracts due to wider differentials at December 31, 2016 compared to September 30, 2016. In 2015, the unrealized gain was due primarily to weaker forward Canadian dollar WTI prices at December 31, 2015 compared to September 30, 2015.

For the year ended December 31, 2016, an unrealized mark-to-market loss of $163.6 million was recorded on financial derivative contracts compared to a gain of $37.8 million in 2015. The unrealized loss in 2016 was due to 2016 financial derivative contracts that were realized during the period and losses on contracts entered into during the period due to higher than hedged WTI prices. The unrealized losses were partially offset by unrealized gains due to wider than hedged WTI/WCS differential contracts. The unrealized gain in 2015 was due primarily to weaker forward WTI prices at December 31, 2015 compared to December 31, 2014, partially offset by a weaker Canadian dollar and contracts that settled upon maturity that were previously recorded as unrealized gains.

The following table summarizes the sensitivity of the fair value of the Company's financial derivative positions as at December 31, 2016 to fluctuations in oil prices, with all other variables held constant. For purposes of assessing the potential impact of these oil price changes, the Company has used a volatility measure of 10 percent. Fluctuations in oil prices potentially could have resulted in unrealized gains (losses) impacting income after tax as follows:

($000s)	December 31, 2016		December 31, 2015	
	Decrease 10%	Increase 10%	Decrease 10%	Increase 10%
Value of derivative positions(1)	27,400	(24,778)	23,136	(23,420)

Note:

(1) Value of derivative positions at December 31, 2016 was a liability of $52.9 million (December 31, 2015 – asset of $110.7 million).

The following table shows the impact of Northern Blizzard's hedging program on average realized oil prices and operating netbacks:

	Three months ended December 31			Years ended December 31		
	2016	2015	% Change	**2016**	2015	% Change
Average Realized Oil Prices ($/bbl)						
Excluding physical hedging	**43.73**	33.89	29	**36.05**	43.12	(16)
Impact of physical delivery contracts	**(0.31)**	(0.25)	24	**(0.46)**	(0.06)	667
Impact of financial derivative contracts	**9.02**	0.28	3,121	**14.28**	9.22	55
Including hedging	**52.44**	33.92	55	**49.87**	52.28	(5)
Operating Netbacks ($/boe)(1)						
Excluding physical hedging	**21.26**	11.24	89	**14.12**	18.76	(25)
Impact of physical delivery contracts	**(0.30)**	(0.24)	25	**(0.45)**	(0.05)	800
Impact of financial derivative contracts	**8.84**	0.27	3,174	**13.97**	8.82	58
Including hedging	**29.80**	11.27	164	**27.64**	27.53	-

Note:

(1) See "Netbacks".

For the fourth quarter of 2016, physical delivery and financial derivative contracts added $8.71/bbl to Northern Blizzard's average realized oil price and $8.54/boe to operating netbacks.

For 2016, physical delivery and financial derivative contracts added $13.82/bbl to Northern Blizzard's average realized oil price and $13.52/boe to operating netbacks.

Financial Instruments and Other Instruments

The Company utilizes financial derivative contracts and physical delivery contracts to reduce its exposure to fluctuations in commodity prices. These instruments are discussed in "Results of Operations – Commodity Prices" above. Currently, no additional risk management instruments are outstanding in order to mitigate other risks to which the Company is exposed.

Oil and Natural Gas Sales

	Three months ended December 31			Years ended December 31		
($000s)	**2016**	2015	% Change	**2016**	2015	% Change
Heavy oil sales(1)	**91,467**	76,306	20	**297,929**	396,966	(25)
Light oil sales	**2,018**	2,673	(25)	**9,092**	20,056	(55)
Natural gas sales	**587**	867	(32)	**1,733**	5,283	(67)
Total	**94,072**	79,846	18	**308,754**	422,305	(27)

Note:

(1) Heavy oil produced by Northern Blizzard requires blending with diluents to reduce its viscosity to meet pipeline specifications. Northern Blizzard also purchases, blends and sells third party crude oil. Heavy oil sales includes the sale of Northern Blizzard's proprietary volumes, the sale of third party crude oil and the sale of diluent volumes used for blending. See "Blending, Transportation and Other Expenses".

Oil accounted for approximately 99% of total sales revenue for both the fourth quarter of 2016 and for the year ended December 31, 2016, consistent with the respective comparative periods.

Oil and natural gas sales increased 18% to $94.1 million in the fourth quarter of 2016 from $79.8 million for the same period in 2015. The increase was primarily due to higher benchmark oil prices, partially offset by lower sales volumes.

Oil and natural gas sales decreased 27% to $308.8 million for the year ended December 31, 2016 from $422.3 million for 2015. The decrease was primarily due to lower benchmark oil prices and lower sales volumes.

Royalties

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Royalty expenses	**7,801**	5,982	30	**24,716**	35,451	(30)
Average royalty rate (%)(1)	**11.1**	10.9	2	**10.9**	11.5	(5)
$ per boe	**4.58**	3.41	34	**3.69**	4.62	(20)

Note:

(1) Average royalty rate is calculated on oil and natural gas sales, exclusive of hedging, less blending and transportation expenses.

Royalty expenses includes Crown royalties, freehold royalties, the Saskatchewan resource surcharge, freehold production taxes and overriding royalties. Crown royalties and freehold royalties include amounts paid to the owners of mineral rights. The Saskatchewan resource surcharge and the freehold production tax are levied by provincial legislation. Overriding royalties are typically paid to third parties as a result of a contract created by a farm-in arrangement or prospect development.

Royalties are dependent on commodity prices, well productivity and well vintage. Crown royalties are calculated using a sliding scale where lower rates are applied during low commodity price environments and to wells that are less productive.

Enhanced oil recovery ("EOR") wells (e.g. polymer flood and SAGD) qualify for the Government of Saskatchewan's reduced Crown royalty rate of 1% until payout. Horizontal wells qualify for the Government of Saskatchewan's reduced Crown royalty rate of 2.5% for up to 37,700 barrels of oil produced from the well. The applicable oil royalty rates apply thereafter, including Crown and additional non-Crown royalties (e.g. Saskatchewan resource surcharge and/or overriding royalties).

Royalty expenses were $7.8 million in the fourth quarter of 2016 compared to $6.0 million for the same period in 2015. Northern Blizzard's average royalty rate for the fourth quarter of 2016 was 11.1% versus 10.9% for the same period in 2015. The increase in the average royalty rate was mainly due to higher oil prices. During the fourth quarter of 2016, royalties paid to the Government of Saskatchewan represented approximately 80% of the total royalties paid (2015 – 79%).

Royalty expenses were $24.7 million for the year ended December 31, 2016 compared to $35.5 million in 2015. Northern Blizzard's average royalty rate for 2016 was 10.9% compared to 11.5% in 2015. The decrease in the average royalty rate was primarily due to lower oil prices. During 2016, royalties paid to the Government of Saskatchewan represented approximately 77% of the total royalties paid (2015 – 76%).

Production and Operating Expenses

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Production and operating expenses	**26,264**	29,076	(10)	**106,542**	128,265	(17)
$ per boe	**15.42**	16.56	(7)	**15.91**	16.72	(5)

The most significant components of Northern Blizzard's production and operating expenses are utilities (primarily power), labour, downhole maintenance and surface maintenance, surface rentals and property taxes.

Production and operating expenses for the fourth quarter of 2016 were $26.3 million ($15.42/boe) compared to $29.1 million ($16.56/boe) for the same period in 2015. Total costs per unit were lower in the fourth quarter of 2016 primarily due to lower chemicals costs, labour related costs, land and property taxes, surface maintenance costs and the benefit of cost saving measures employed across all fields. Chemical costs and surface maintenance costs were lower due to cost saving measures. Labour related costs were lower mainly due to a decrease in compensation levels and a decrease in the number of personnel. Land and property taxes were lower due to adjustments related to the disposal of oil and gas properties.

Production and operating expenses for the year ended December 31, 2016 were $106.5 million ($15.91/boe) compared to $128.3 million ($16.72/boe) in 2015. Total costs per unit were lower in 2016 primarily due to lower surface maintenance costs, a decrease in labour related costs (discussed above), lower utilities costs, lower downhole maintenance costs and a decrease in infield transportation costs. The decrease was partially offset by fixed operating costs over lower sales volumes. Surface maintenance costs were lower due to cost saving measures employed across all fields. Utilities costs were primarily lower due to a decrease in power consumption. Downhole maintenance costs decreased due to a lower number of well servicing events. Infield transportation costs decreased due to reduced rates and less volumes transported as well as infrastructure enhancements that yielded higher flow line utilization.

Blending, Transportation and Other Expenses

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Diluent and other expenses[1,2]	**17,895**	15,640	14	**61,848**	65,272	(5)
Transportation expenses	**3,358**	3,406	(1)	**12,220**	14,180	(14)
Purchases of third party crude oil[2,3]	**3,080**	6,399	(52)	**11,956**	35,613	(66)
Total	**24,333**	25,445	(4)	**86,024**	115,065	(25)
Transportation expenses ($ per boe)	**1.97**	1.94	2	**1.82**	1.85	(2)

Notes:

(1) Heavy oil produced by Northern Blizzard requires blending with diluent to reduce its viscosity to meet pipeline specifications. The cost of diluent is partially recovered in the selling price of blended oil, which is the primary difference between WCS and our realized heavy oil price.

(2) Diluent and other expenses and purchases of third party crude oil are deducted in the calculation of the realized heavy oil sales price. See “Commodity Prices”. Heavy oil sales includes the sale of Northern Blizzard’s proprietary volumes, the sale of third party crude oil and the sale of diluent volumes used for blending.

(3) Northern Blizzard purchases, blends and sells third party crude oil. The cost of third party oil is recorded in blending expenses. The revenue from the sale of third party oil is recorded in oil and natural gas sales.

Blending expenses for the fourth quarter of 2016 were $17.9 million compared to $15.6 million for the same period in 2015. Higher diluent and other expenses resulted mainly from an increase in the cost of diluent. The cost of third party crude oil purchases decreased due to lower volumes purchased from third parties. During the fourth quarter 2016, blend sales represented approximately 88% of the Company’s oil sales volumes (2015 – 85%).

Blending expenses for the year ended December 31, 2016 were $61.8 million compared to $65.3 million in 2015. The decrease was primarily due to a decrease in the cost of diluent. During 2016, blend sales represented approximately 86% of the Company’s oil sales volumes (2015 – 83%).

The Company incurs transportation expenses to transport oil to points of sale. These expenses include clean oil trucking, pipeline tariffs and terminal fees. Northern Blizzard does not incur transportation costs on natural gas production as it is flow-lined through the Company’s natural gas gathering lines and sold into main line pipelines at metering stations at the boundaries of the Company’s facilities.

Transportation expenses for the fourth quarter of 2016 of $3.4 million ($1.97/boe) was consistent with $3.4 million ($1.94/boe) for the same period in 2015. Lower clean oil trucking costs were largely offset by higher tariffs. Clean oil trucking costs decreased due to lower trucking rates and less volumes transported. Tariffs increased due to higher throughput volumes on certain pipelines.

Transportation expenses for the year ended December 31, 2016 were $12.2 million ($1.82/boe) compared to $14.2 million ($1.85/boe) in 2015. Transportation expenses decreased due to lower clean oil trucking costs, terminal fees and tariffs. Clean oil trucking costs decreased due to the reasons discussed above. Terminal fees decreased as a result of lower throughput volumes. Tariffs decreased in 2016 mainly due to lower third party pipeline operating costs and metering adjustments and lower overall throughput volumes. The decrease was partially offset by higher throughput volumes on certain pipelines.

General and Administrative ("G&A") Expenses

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Total G&A costs	**6,943**	8,086	(14)	**29,754**	34,159	(13)
Operating recoveries	**(1,578)**	(1,709)	(8)	**(6,438)**	(7,000)	(8)
Capitalized to oil and natural gas properties	**(665)**	(1,054)	(37)	**(1,734)**	(5,976)	(71)
G&A expensed	**4,700**	5,323	(12)	**21,582**	21,183	2
$ per boe	**2.76**	3.03	(9)	**3.22**	2.76	17

G&A costs relate primarily to personnel, occupancy costs, IT systems and professional services. Consistent with industry practice, Northern Blizzard burdens company operated wells and facilities with an overhead recovery and capitalizes development related personnel costs to oil and natural gas properties.

G&A expensed during the fourth quarter of 2016 of $4.7 million ($2.76/boe) was 12% lower than $5.3 million ($3.03/boe) for the same period in 2015. Total G&A costs were 14% lower than the same period in 2015 mainly due to lower compensation levels and a decrease in the number of personnel. The decrease was partially offset by expenditures associated with staff reductions and lower capital recoveries as a result of less time spent on capital activities. G&A expensed on a boe basis for the fourth quarter of 2016 was impacted by lower sales volumes as compared to the same period in 2015.

G&A expensed during 2016 of $21.6 million ($3.22/boe) was 2% higher than $21.2 million ($2.76/boe) in 2015. Total G&A costs were 13% lower in 2016 due to the reasons discussed above. During 2016, Northern Blizzard reduced the number of employees by 23% and incurred associated expenditures of approximately $3.1 million. G&A expensed on a boe basis for the year ended December 31, 2016 was also impacted by lower sales volumes as compared to 2015.

Finance Costs

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Interest expense	**6,740**	7,759	(13)	**28,805**	32,006	(10)
Amortization of debt issuance costs	**234**	234	-	**936**	936	-
Accretion of decommissioning provision	**903**	1,109	(19)	**2,779**	4,816	(42)
Finance costs	**7,877**	9,102	(13)	**32,520**	37,758	(14)
Cash finance costs ($ per boe)	**3.96**	4.42	(10)	**4.30**	4.17	3

Finance costs are comprised of interest expense, amortization of debt issuance costs and accretion of decommissioning provision. Interest expense, the cash component of finance costs, includes interest and fees paid on Northern Blizzard's revolving credit facility and the 7.25% senior unsecured notes (see Notes 8 and 9 to the Company's December 31, 2016 consolidated financial statements). Northern Blizzard's interest rates on the revolving credit facility are based on a margin grid and the interest rates vary depending on the ratio of the Company's senior debt to EBITDA ratio (see "Liquidity and Capital Resources – Financial Covenants"). The amortization of debt issuance costs relates to the recognition of deferred costs regarding the issuance of the senior unsecured notes. Accretion expense relates to the increase in the carrying amount of the decommissioning provision in respect of decommissioning the Company's oil and natural gas assets due to the passage of time.

Finance costs for the fourth quarter of 2016 were $7.9 million compared to $9.1 million for the same period in 2015. The decrease was mainly due to lower interest expense. Interest expense decreased as a result of higher interest income, lower interest expense paid on the senior unsecured notes and lower standby charges during the fourth quarter of 2016 compared to the same period in 2015. Interest income was higher mainly due to interest received on the property dispositions as a result of the effective dates of the respective transactions relative to when the dispositions closed. Interest expense on the senior unsecured notes was lower due to a stronger Canadian dollar relative to the US dollar in the fourth quarter of 2016 versus the same period in 2015. Standby charges were lower due to a reduced credit facility. Cash finance costs on a dollar per boe basis decreased 10% to $3.96/boe in the fourth quarter of 2016 from $4.42/boe for the same period in 2015 as lower sales volumes partially offset the decrease on an absolute dollar basis.

Finance costs for the year ended December 31, 2016 were $32.5 million compared to $37.8 million in 2015. The decrease was due to lower interest expense and lower accretion expense. Interest expense was lower mainly due to the reasons discussed above and lower amounts drawn on the credit facility during 2016 as compared to 2015. Cash finance costs on a dollar per boe basis increased 3% to $4.30/boe in 2016 from $4.17/boe in 2015 as lower sales volumes offset the decrease on an absolute dollar basis.

Foreign Exchange (Gain) Loss

	Three months ended December 31			Years ended December 31		
($000s)	**2016**	2015	% Change	**2016**	2015	% Change
Realized gain	**(881)**	(1,392)	(37)	**(151)**	(7,471)	(98)
Unrealized (gain) loss	**8,563**	13,664	(37)	**(11,399)**	61,852	(118)
Foreign exchange (gain) loss	**7,682**	12,272	(37)	**(11,550)**	54,381	(121)

Foreign exchange gains or losses arise from a different foreign currency exchange rate at the transaction date versus the settlement date and from the translation to Canadian dollars of assets and liabilities denominated in a foreign currency. Northern Blizzard's foreign exchange gains or losses arise primarily from US dollar denominated oil sales, the US dollar denominated senior unsecured notes, realized gains and losses on financial derivative contracts denominated in US dollars and US dollar purchases. Gains or losses are also recorded on US dollar cash balances as a result of changes in exchange rates during the respective period.

During the fourth quarter of 2016, Northern Blizzard recorded a realized foreign exchange gain of $0.9 million compared to $1.4 million for the same period in 2015. The realized gain was primarily due to a weakening of the Canadian dollar between the transaction and settlement dates for US dollar denominated sales transactions.

During 2016, Northern Blizzard recorded a realized foreign exchange gain of $0.2 million compared to $7.5 million in 2015. The realized gain was primarily due to the reason discussed above.

During the fourth quarter of 2016, the Company recorded an unrealized foreign exchange loss of $8.6 million compared to $13.7 million in 2015. The unrealized loss was due to the translation of the outstanding principal amount of the senior unsecured notes as a result of a weaker Canadian dollar on December 31, 2016 relative to September 30, 2016.

During 2016, the Company recorded an unrealized foreign exchange gain of $11.4 million compared to a loss of $61.9 million in 2015. The unrealized gain was due to the translation of the outstanding principal amount of the senior unsecured notes as a result of a stronger Canadian dollar on December 31, 2016 relative to December 31, 2015.

Netbacks

	Three months ended December 31			Years ended December 31		
($/boe)	**2016**	2015	% Change	**2016**	2015	% Change
Sales volumes (boe/d)[(1)]	**18,508**	19,087	(3)	**18,295**	21,020	(13)
Average realized price[(2)]	**42.93**	32.91	30	**35.09**	41.90	(16)
Royalties	**(4.58)**	(3.41)	34	**(3.69)**	(4.62)	(20)
Production and operating expenses	**(15.42)**	(16.56)	(7)	**(15.91)**	(16.72)	(5)
Transportation expenses	**(1.97)**	(1.94)	2	**(1.82)**	(1.85)	(2)
Operating netback[(3)]	**20.96**	11.00	91	**13.67**	18.71	(27)
Realized gains on financial derivative contracts	**8.84**	0.27	3,174	**13.97**	8.82	58
G&A expenses	**(2.76)**	(3.03)	(9)	**(3.22)**	(2.76)	17
Cash finance costs	**(3.96)**	(4.42)	(10)	**(4.30)**	(4.17)	3
Other[(4)]	**0.52**	0.82	(37)	**0.05**	0.99	(95)
Funds from operations	**23.60**	4.64	409	**20.17**	21.59	(7)

Notes:

(1) Per unit amounts in operating netbacks and funds from operations per boe calculations are determined using sales volumes.

(2) Realized prices include the impact of physical delivery contracts when applicable. See “Commodity Prices”. There was a physical delivery contract in effect during 2016 and the fourth quarter of 2015.

(3) Non-IFRS measure – see discussion under the heading “Non-IFRS Financial Measures”.

(4) Other includes realized foreign exchange gains and other income.

The Company uses operating netback and funds from operations per boe as indicators of operating performance and profitability on a per unit basis.

Share-based Compensation

	Three months ended December 31			Years ended December 31		
($000s)	**2016**	2015	% Change	**2016**	2015	% Change
Total share-based compensation	**1,776**	3,759	(53)	**11,066**	20,066	(45)
Capitalized to oil and natural gas properties	**(158)**	(474)	(67)	**(655)**	(3,819)	(83)
Revaluation of share-based compensation liability	**47**	(406)	(112)	**(776)**	(2,840)	(73)
Share-based compensation expense	**1,665**	2,879	(42)	**9,635**	13,407	(28)

Share-based compensation expense

Share-based compensation expense for the fourth quarter of 2016 was $1.7 million compared to $2.9 million for the same period in 2015. Lower total share-based compensation was partially offset by a positive revaluation of the share-based compensation liability and a lower amount capitalized to oil and natural gas properties as a result of less time spent on capital activities. Total share-based compensation decreased as staffing reductions reduced the number of Awards (as defined below) outstanding and the Awards that became payable during the fourth quarter of 2016 had a lower fair value on grant date than the Awards that became payable during the same period in 2015.

Share-based compensation expense for the year ended December 31, 2016 was $9.6 million compared to $13.4 million in 2015. The decrease was mainly due to a decrease in total share-based compensation for the reasons discussed above.

Incentive plan

Share-based compensation represents grants of time-based and performance awards (collectively the "Awards") under the Company's Compensation Award Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for the grant of Awards to directors, officers, employees, consultants and other service providers of the Company. The number of common shares reserved for issuance from time to time under the Incentive Plan cannot exceed 6.5% of the total number of common shares outstanding.

The Company has the option of settling the value of Awards that become payable in common shares, cash or a combination thereof. The value of Awards that become payable is adjusted to account for dividends paid on the underlying common shares from the date of the grant to the applicable Award payment date.

The value of the performance awards is adjusted for a payout multiplier which can be 0x, 1x or 2x and is dependent upon the performance of the Company relative to pre-defined corporate measures, determined by the Board of Directors.

The payment schedule for Awards granted under the Incentive Plan is determined by the Board of Directors at the time of grant. Awards initially granted to individuals under the Incentive Plan typically become payable over a three year period. Awards subsequently granted to the same individuals under the plan typically become payable three years from the date of grant.

A performance multiplier of 1x is assumed for the performance awards. Share-based compensation expense is recognized in earnings using graded vesting over the relevant service period.

Common shares used to settle the Awards that have become payable are purchased in the open market and held by an independent trustee until the Awards are settled with employees. Common shares held in trust for the Incentive Plan are recorded as a reduction of share capital.

At December 31, 2016, the Company had 4.4 million Awards outstanding.

Depletion, Depreciation and Amortization ("DD&A")

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Depletion of oil and natural gas properties and equipment	**28,991**	34,041	(15)	**126,068**	147,188	(14)
Depreciation of other fixed assets	**168**	206	(18)	**655**	741	(12)
Amortization of other intangible assets	**282**	282	-	**1,127**	1,128	-
DD&A	**29,441**	34,529	(15)	**127,850**	149,057	(14)
Impairment	**-**	-	-	**-**	110,000	(100)
DD&A and impairment	**29,441**	34,529	(15)	**127,850**	259,057	(51)
$ per boe, before impairment	**17.29**	19.66	(12)	**19.09**	19.43	(2)
$ per boe	**17.29**	19.66	(12)	**19.09**	33.77	(43)

DD&A relates to the depletion of the Company's oil and natural gas properties and equipment, the depreciation of other fixed assets and the amortization of other intangible assets. Depletion is calculated based on the unit-of-production method which references the ratio of production in the period to proved plus probable reserves, taking into account the estimated future development costs required to bring those reserves into production. Costs are segregated and depleted on an area-by-area basis relative to their respective underlying reserves base, and as such, the Company's depletion rate will vary depending on the capital additions, changes in future development costs within the various areas as well as changes to the reserves base.

During the fourth quarter of 2016, Northern Blizzard recorded DD&A of $29.4 million ($17.29/boe) compared to $34.5 million ($19.66/boe) for the same period in 2015. The decrease in DD&A in the fourth quarter of 2016 was mainly due to the dispositions of the Coleville and Smiley properties and changes to reserves in certain areas.

During the year ended December 31, 2016, Northern Blizzard recorded DD&A of $127.9 million ($19.09/boe) compared to $259.1 million ($19.43/boe) in 2015. The decrease in DD&A in 2016 was mainly due to the reasons discussed above.

Taxes

	Three months ended December 31			Years ended December 31		
($000s)	**2016**	2015	% Change	**2016**	2015	% Change
Deferred income tax expense (recovery)	**(40,835)**	12,760	(420)	**(74,745)**	(12,562)	495

During the fourth quarter of 2016, the Company recorded a deferred income tax recovery of $40.8 million compared to a deferred tax expense $12.8 million for the same period in 2015. The recovery was primarily due to losses on the disposal of oil and natural gas properties and losses on financial derivative contracts.

During the year ended December 31, 2016, the Company recorded a deferred income tax recovery of $74.7 million compared to $12.6 million in 2015. The increase in the recovery was primarily due to losses on financial derivative contracts, lower oil and natural gas sales and losses on the disposal of oil and natural gas properties, partially offset by the impairment charge recorded in the third quarter of 2015 and lower blending costs.

The Company has estimated future income tax deductions available, as set out below:

($000s)	**December 31, 2016**	December 31, 2015	Rate (%)
Canadian exploration expenditures	**40,997**	41,080	100
Canadian development expenditures	**175,525**	271,745	30
Canadian oil and gas property expenditures	**297,354**	393,932	10
Undepreciated capital costs	**260,458**	333,755	4 – 100
Non-capital losses	**198,549**	76,891	100
Finance costs	**21,916**	30,027	20 (straight line)
Other	**1,251**	1,345	7 – 100
Total	**996,050**	1,148,775	

Cash Flow From Operating Activities, Funds from Operations and Net Loss

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Cash flow from operating activities – IFRS	**50,917**	25,476	100	**117,327**	178,835	(34)
Changes in non-cash operating working capital	**(11,011)**	(17,675)	(15)	**13,771**	(18,462)	(175)
Decommissioning costs incurred	**167**	221	(24)	**461**	982	(53)
Cash settlement of Incentive Plan Awards	**33**	27	22	**1,419**	922	54
Share purchases for Incentive Plan	**73**	126	(42)	**2,002**	3,289	(39)
Funds from operations – non – IFRS	**40,179**	8,175	391	**134,980**	165,566	(18)
Per share – basic	**0.33**	0.07	371	**1.14**	1.53	(26)
Per share – diluted	**0.32**	0.07	357	**1.11**	1.50	(26)
Net loss	**(120,531)**	(14,105)	**(755)**	**(196,213)**	(124,171)	**(58)**
Per share – basic	**(0.99)**	(0.13)	**(662)**	**(1.66)**	(1.15)	**(44)**
Per share – diluted	**(0.99)**	(0.13)	**(662)**	**(1.66)**	(1.15)	**(44)**
Total Payout ratios (%)						
Excluding stock dividends	**46**	271	**(83)**	**49**	58	**(16)**
Including stock dividends	**73**	389	**(81)**	**80**	94	**(15)**

Note:

(1) Total payout ratio equals dividends paid plus development capital expenditures divided by funds from operations (see discussion under the heading "Non-IFRS Financial Measures").

Cash flow from operating activities for the fourth quarter of 2016 were $50.9 million compared to $25.5 million for the same period in 2015 and funds from operations for the fourth quarter of 2016 were $40.2 million compared to $8.2 million for the same period in 2015. The increase was primarily due to increased realized gains on financial derivative contracts and higher oil and natural gas sales.

Cash flow from operating activities for the year ended December 31, 2016 were $117.3 million compared to $178.8 million in 2015 and funds from operations for the year ended December 31, 2016 were $135.0 million compared to $165.6 million in 2015. The decrease was primarily due to lower oil and natural gas sales, partially offset by lower blending expenses, increased realized gains on financial derivative contracts and lower production and operating expense.

Net loss of $120.5 million for the fourth quarter of 2016 was mainly due to the loss on disposal of oil and natural gas properties, unrealized losses on financial derivative contracts, depletion, depreciation and amortization expense and unrealized foreign exchange losses, partially offset by funds from operations. Net loss of $14.1 million for the fourth quarter of 2015 was mainly due to depreciation, depletion and amortization and unrealized foreign exchanges losses, partially offset by gains on unrealized financial derivative contracts and funds from operations.

Net loss of $196.2 million for the year ended December 31, 2016 was mainly due to unrealized losses on financial derivative contracts, depletion, depreciation and amortization expense and the loss on disposal of oil and natural gas properties, partially offset by funds from operation and unrealized foreign exchange gains. Net loss of $124.2 million for the year ended December 31, 2015 was mainly due to the impairment charge and unrealized foreign exchanges losses, partially offset by funds from operations and unrealized financial derivative contracts.

Capital Expenditures

	Years ended December 31,	
($000s)	**2016**	2015
Land acquisition & retention	**668**	500
Geological & geophysical	**61**	342
Drilling, completions and equipment	**22,685**	30,335
Recompletions & workovers	**5,974**	3,247
Facilities and pipelines	**21,767**	30,510
Development and exploration	**51,155**	64,934
Net property acquisitions (dispositions)	**(72,954)**	4,546
Total oil and natural gas expenditures	**(21,799)**	69,480
Corporate assets	**290**	555
Total capital expenditures	**(21,509)**	70,035
Relating to exploration and evaluation assets	**-**	1
Relating to property, plant and equipment	**(21,509)**	70,034
Total capital expenditures	**(21,509)**	70,035

Development and exploration expenditures totalled $51.2 million for the year ended December 31, 2016 compared to $64.9 million for 2015. Spending on drilling, completions and equipment of $22.7 million in 2016 was lower than $30.3 million in 2015. The difference was due to cost savings, partially offset by an increase in the number of wells drilled. Spending on facilities and pipelines of $21.8 million in 2016 was lower than $30.5 million in 2015. The difference was mainly due to the optimization of our polymer powder cost structure at Cactus Lake.

The table below summarizes Northern Blizzard's drilling program for the year ended December 31, 2016:

	2016		2015	
Field	**Gross**	**Net**	Gross	Net
Cactus Lake(1)	**29**	**29.0**	25	25.0
Winter(2)	**17**	**14.6**	13	11.1
Coleville	**14**	**9.8**	8	8.0
Plover Lake SAGD(3)	**-**	**-**	1	1.0
Luseland	**-**	**-**	1	1.0
Total	**60**	**53.4**	48	46.1

Notes:

(2) There were no service wells drilled at Cactus Lake in 2016 (2015 – 6 (6.0 net)).

(3) There was 1 (1.0 net) service well drilled at Winter in 2016 (2015 – 2 (1.5 net)).

(4) The well drilled at Plover Lake SAGD in 2015 was a service well.

Property Dispositions

During the fourth quarter of 2016, the Company closed the dispositions of our Coleville and Smiley properties which resulted in a loss of $108.0 million. Taking into consideration customary closing adjustments, Northern Blizzard received $73.3 million on closing of the dispositions.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series. As at December 31, 2016, Northern Blizzard had 123,505,757 common shares issued and outstanding, no preferred shares outstanding and Awards entitling the holders thereof to receive 4,374,584 common shares (assuming a performance multiplier of 1x for performance awards and including dividend equivalents).

Subsequent to December 31, 2016, the Company completed an issuer bid pursuant to which the Company purchased and cancelled 22.5 million of its common shares at a price of $4.00 per common share for a total cost of $90.0 million. As at March 9, 2017, Northern Blizzard had 101,005,757 common shares issued and outstanding, no preferred shares outstanding and Awards entitling the holders thereof to receive 4,382,930 common shares (assuming a performance multiplier of 1x for performance awards and including dividend equivalents).

DIVIDENDS

	Three months ended December 31			Years ended December 31		
($000s, unless otherwise noted)	**2016**	2015	% Change	**2016**	2015	% Change
Accumulated dividends						
Beginning of period	**162,739**	107,136	52	**120,572**	38,857	210
Dividends declared	**12,230**	13,436	(9)	**54,397**	81,715	(33)
End of period	**174,969**	120,572	45	**174,969**	120,572	45
Accumulated dividends per share						
Beginning of period	**1.499**	1.019	47	**1.139**	0.379	201
Dividends declared	**0.100**	0.120	(17)	**0.460**	0.760	(39)
End of period	**1.599**	1.139	40	**1.599**	1.139	40

Northern Blizzard has a dividend policy under which dividends are paid on a monthly basis. During 2016, the Company had a stock dividend program that enabled shareholders to receive dividends in the form of cash or common shares. The stock dividend program was discontinued subsequent to the dividend payment on December 15, 2016.

On January 16, 2017, the Company declared a dividend of $0.02 per common share payable on February 15, 2017 to shareholders of record on January 31, 2017. The dividends of $2,470,000 were paid on February 15, 2017.

On February 15, 2017, the Company declared a dividend of $0.02 per common share payable on March 15, 2017 to shareholders of record on February 28, 2017.

Northern Blizzard continually assesses dividend levels in light of commodity prices, capital expenditure programs and production volumes to ensure that dividends are in line with the Company's long-term strategy and objectives. The actual amount of future monthly dividends is subject to the approval of the Board of Directors.

LIQUIDITY AND CAPITAL RESOURCES

Capital Structure and Net Debt

The Company's capital structure is as follows:

($000s, unless otherwise indicated)	**December 31, 2016**	December 31, 2015
Bank loan – principal amount	**-**	-
Long-term debt – principal amount	**370,921**	382,330
Onerous contract provision[1]	**4,545**	-
Working capital (surplus) deficiency[2]	**(123,118)**	18,178
Net debt[3]	**252,348**	400,508
Shareholders' equity	**784,215**	986,683
Total capitalization	**1,036,563**	1,387,191
Net debt as a percentage of total capitalization (%)	**24.3**	28.9
Net debt to funds from operations[4]	**1.9x**	2.4x

Notes:

(1) Onerous contract provision relates to an onerous office lease contract (see Note 11 to the Company's December 31, 2016 consolidated financial statements).

(2) Working capital consists of current assets (2016 – $180.3 million; 2015 – $133.7 million) less current liabilities (2016 – $80.2 million; 2015 – $59.1 million), excluding the fair value of financial derivative contracts of a net liability of $22.1 million (2015 – $93.6 million asset) and the share-based compensation liability of $0.9 million (2015 – $0.8 million)

(3) Non-IFRS measure – see discussion under the heading "Non-IFRS Financial Measures".

(4) Net debt to funds from operations is calculated as net debt divided by the trailing four quarters funds from operations. The credit facility financial covenant is a separate calculation – see "Financial Covenants" below.

Liquidity

At December 31, 2016, Northern Blizzard had cash of $131.1 million and a $285.0 million credit facility that was undrawn. Subsequent to December 31, 2016, Northern Blizzard purchased 22.5 million common shares at $4.00 per common share at a total cost of $90.0 million. The revolving period of the credit facility is extendible annually by 364 days at the Company's request, subject to approval by each lender in the syndicate. If the credit facility is not renewed at the end of the revolving period, currently July 14, 2017, outstanding borrowings under the credit facility are converted to a one year term loan. At the beginning of each revolving period, the credit facility is effectively a two year arrangement.

The credit facility is subject to semi-annual review and re-determination of the borrowing base by May 31 and October 31 of each year, or in the event of a material adverse effect. Any re-determination of the borrowing base is effective immediately and, if the borrowing base is reduced, the Company has 60 days to repay any shortfall.

Northern Blizzard had US$276.3 million principal amount of senior unsecured notes outstanding at December 31, 2016 (referred to as long-term debt on the statement of financial position). The senior unsecured notes are due February 1, 2022 and bear interest at 7.25% per annum, payable semi-annually in arrears on February 1 and August 1 of each year. This debt is unsecured and subordinated to the Company's credit facility (see Note 9 to the Company's December 31, 2016 consolidated financial statements) and is jointly and severally guaranteed by each subsidiary of the Company that guarantees obligations under the bank credit facility. The senior unsecured notes are US dollar denominated debt and therefore a weakening in the Canadian dollar will increase the value on the balance sheet, while a strengthening in the Canadian dollar will reduce the value on the balance sheet.

Northern Blizzard remains focused on creating value for its shareholders by continually evaluating and aligning its capital program and dividends with funds from operations. Northern Blizzard has implemented a number of measures to ensure financial flexibility and long-term sustainability in a low oil price environment. These measures include a comprehensive review of capital, operating and administrative expenditures and a continued commitment to our hedging program to protect our financial position.

Northern Blizzard's capital expenditure forecast for 2017 is approximately $60.0 million. Northern Blizzard anticipates that funds from operations, together with the cash balances and revolving credit facility, will be sufficient to finance current operations, cash dividends, planned capital expenditures and any working capital requirements for the next twelve months and foreseeable future.

Northern Blizzard operates and controls over 95% of its development program, which allows the Company to control virtually all of its capital expenditures. The timing of most of the capital expenditures is discretionary and there are no material long-term capital expenditure commitments.

The Company believes that its counterparties currently have the financial capacities, in the normal course of business, to honour their outstanding obligations to the Company. Northern Blizzard periodically reviews the financial capacity of its counterparties and, in certain circumstances, the Company may seek enhanced credit protection from a counterparty or purchase accounts receivable insurance.

Financial Covenants

Northern Blizzard's senior unsecured notes indenture does not contain maintenance financial covenants. The Company assesses prescribed incurrence tests prior to entering into certain transactions detailed in the indenture. Northern Blizzard's credit facility (i.e. bank loan) includes two financial covenants that are calculated quarterly and are described below. The calculation for each financial covenant is based on specific definitions and in some circumstances cannot be calculated by referring to Northern Blizzard's consolidated financial statements. At December 31, 2016, the Company was in compliance with the financial covenants. The financial covenants are as follows:

(a) Senior debt to EBITDA ratio: Debt other than the 7.25% senior unsecured notes and permitted refinancing debt (as defined in the credit agreement) shall not exceed 3.0 times trailing 12-month net income before non-cash items, income taxes, interest expense and non-recurring losses, adjusted for material acquisitions or dispositions as if they occurred on the first day of the calculation period;

(b) Interest coverage ratio: Trailing 12-month net income before non-cash items, income taxes, interest expense and non-recurring losses, adjusted for material acquisitions or dispositions as if they occurred on the first day of the calculation period, shall not be less than 2.5 times the trailing 12-month cash interest expense.

Covenant description	**Covenant**	**Position at December 31, 2016**
Senior debt to EBITDA ratio [(1)]	Less than 3.0	**0.0**
Interest coverage ratio [(1)]	Greater than 2.5	**5.5**

Note:

(1) The calculation of trailing 12-month net income before non-cash items, income taxes, interest expense and non-recurring losses, adjusted for material acquisitions or dispositions as if they occurred on the first day of the calculation period has been provided in the table below. This calculation is used solely in calculating the financial covenants described above and is not used as an indicator of operating performance or profitability of the Company.

($000s)	Q1/16	Q2/16	Q3/16	Q4/16	Total
Net income (loss)	10,120	(69,027)	(16,775)	(120,531)	(196,213)
Finance costs	8,370	7,828	8,445	7,877	32,520
Unrealized loss on financial derivative contracts	6,600	95,158	13,640	48,232	163,630
DD&A	33,868	32,010	32,531	29,441	127,850
Unrealized foreign exchange (gain) loss	(23,551)	(1,932)	5,521	8,563	(11,399)
Share based compensation	3,089	3,383	1,498	1,665	9,635
Loss on onerous contract	-	-	-	4,545	4,545
Loss on disposition of properties	-	-	-	107,962	107,962
Income tax recovery	(4,115)	(26,029)	(3,766)	(40,835)	(74,745)
Incentive Plan cash payments	(66)	(1,338)	(1,911)	(106)	(3,421)
Non-recurring losses	1,400	-	-	2,400	3,800
Adjustment for material dispositions	(432)	(1,952)	(1,194)	(1,683)	(5,261)
	35,283	38,101	37,989	47,530	158,903

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has a number of contractual obligations and commitments that are incurred in the ordinary course of business. These obligations and commitments at December 31, 2016, and their expected timing of funding, are noted below.

($000s)	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities	49,912	49,912	-	-	-
Dividends payable	2,470	2,470	-	-	-
Share-based compensation	2,472	927	1,545	-	-
Financial derivative contracts	57,707	26,851	30,856	-	-
Long-term debt(1)	507,622	26,892	53,784	53,784	373,162
Fixed commitments(2)	27,212	5,073	8,065	7,356	6,718
Total	647,395	112,125	94,250	61,140	379,880

Notes:

(1) Amounts include future interest payments on the 7.25% senior unsecured notes.

(2) Fixed commitments relate to non-cancellable payments for operating leases and transportation commitments.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain fixed lease arrangements which were entered into in the normal course of operations. All leases are treated as operating leases, where the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability has been recorded for these leases on the statement of financial position at December 31, 2016 or December 31, 2015, except for the onerous contract provision. These fixed lease arrangements are disclosed in the notes to the annual consolidated financial statements of Northern Blizzard (see Note 23 of the Company's consolidated financial statements for the years ended December 31, 2016 and 2015).

Northern Blizzard did not have any physical delivery contracts outstanding at December 31, 2016. The Company had one physical delivery contract outstanding at December 31, 2015 and an asset or liability was not recorded on the statement of financial position.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Northern Blizzard evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Northern Blizzard's DC&P were effective as at December 31, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Northern Blizzard;

2. are designed to 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 Northern Blizzard are being made in accordance with authorizations of management and Directors of Northern Blizzard; and

3. are designed to 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.

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for Northern Blizzard. They have, as at the financial year ended December 31, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Northern Blizzard conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2016. Based on this evaluation, the officers concluded that as of December 31, 2016, Northern Blizzard maintained effective ICFR. It should be noted that while Northern Blizzard's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

There were no changes during the period from October 1, 2016 to December 31, 2016 that have materially affected, or are reasonably likely to materially affect, Northern Blizzard's ICFR.

CRITICAL ACCOUNTING ESTIMATES

A summary of Northern Blizzard's significant accounting policies can be found in Note 3 to the consolidated financial statements for the years ended December 31, 2016 and 2015. The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Oil and natural gas reserves

Proved and probable reserves have been estimated by internal and external experts and are based on a number of underlying assumptions including oil and natural gas prices, future costs, oil and natural gas in place and reservoir performance, all of which are inherently uncertain. Established industry techniques are used to generate these estimates, however the reserves that are ultimately recovered from any field cannot be known with certainty until the end of the field's life. Changes in reserves estimates could have a material impact on unit-of-production rates used for depletion, timing of decommissioning obligations and impairment of oil and natural gas properties.

Impairment of property, plant and equipment and intangible assets

The Company has significant investments in property, plant and equipment and intangible assets. Changes in circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired requiring the carrying value to be written down to its recoverable amount. Evaluating whether an asset is impaired requires a high degree of judgment in estimating relevant future cash flows, based on assumptions about the future market prices, production output, and discount rates.

The recoverability of the carrying amounts of property, plant and equipment is assessed at the cash generating unit (CGU) level. CGUs are the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets Determination of what constitutes a CGU is subject to management's judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Decommissioning provision

The Company has obligations in respect of decommissioning its oil and natural gas properties. The present value of the obligation is calculated based on estimated future cash flows, timing of remediation activities and the risk-free discount rate applied.

Onerous contract provision

A provision for an onerous contract is recognized when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The provision is measured as the present value of the estimated future cash flows associated with the contract. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as any changes in the discount rate. The net amount of actual costs incurred and sublease recoveries earned are charged against the onerous contract provision.

Valuation of derivative financial instruments

The calculation of the fair value of derivative financial instruments is estimated by discounting the difference between the contractual price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on Government of Canada bonds). Estimated amounts may differ from what will eventually be realized based on subsequent fluctuations in commodity prices.

Share-based compensation

The expense recorded for the time-based and performance share awards is dependent on the number of awards that have become payable and management's assessment of the performance multiplier. Material fluctuations in the expense may be a result of changes to the forfeiture rate or to the estimates used in determining the performance multiplier.

Income taxes

The calculation of deferred income tax assets and liabilities is based on management's interpretation of applicable laws, regulations, relevant court decisions, and estimates regarding the timing of reversals of temporary differences.

CHANGES IN ACCOUNTING POLICIES AND RECENT PRONOUNCEMENTS

The Company has established a compensation award incentive plan. Prior to May 31, 2015, the Company accounted for the Awards as equity settled. Effective May 31, 2015, the Company determined to settle the Awards that became payable in 2015 with both cash and common shares. Withholding tax was settled with cash and the balance due to service providers was settled with common shares. This resulted in a modification to the accounting treatment for the Incentive Plan and the Company began accounting for the portion of the Awards to be settled with common shares as equity settled and the withholding tax portion as cash settled.

Information on standards and interpretations issued but not yet effective can be found in the notes to the consolidated financial statements and management's discussion and analysis for the years ended December 31, 2016 and 2015.

Future Accounting Pronouncements

At the date of this MD&A, the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements. There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported income or net assets of the Company.

ASSESSMENT OF BUSINESS RISKS

The following are the primary risks associated with the business of Northern Blizzard. These risks are similar to those affecting other companies competing in the conventional oil and natural gas sector. These risks and other risks are described in more detail under the heading “Risk Factors” in the Company’s annual information form for the year ended December 31, 2016. The Company’s financial position and results of operations are directly impacted by these factors and include:

Operational risk associated with the production of oil and natural gas:

- Reserve risk in respect to the quantity and quality of recoverable reserves;
- Exploration and development risk of being able to add new reserves economically;
- Market risk relating to the availability of transportation systems to move the product to market;
- Commodity risk as crude oil and natural gas prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;

- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry; and
- Continued participation of Northern Blizzard's lenders.

Northern Blizzard seeks to mitigate these risks by:

- Acquiring properties with established production trends to reduce technical uncertainty as well as undeveloped land with development potential;
- Maintaining a low cost structure to maximize product netbacks and reduce impact of commodity price cycles;
- Diversifying properties to mitigate individual property and well risk;
- Maintaining product mix to balance exposure to commodity prices;
- Conducting industry-standard reviews of all property acquisitions;
- Monitoring pricing trends and developing a mix of contractual arrangements for the marketing of products with creditworthy counterparties;
- Maintaining a hedging program to hedge commodity prices with creditworthy counterparties;
- Adhering to the Company's safety program and adhering to current industry-standard operating practices;
- Keeping informed of proposed changes in regulations and laws to properly respond to and plan for the effects that these changes may have on our operations;
- Carrying industry standard insurance;
- Establishing and maintaining resources to fund future abandonment and site restoration costs; and
- Monitoring our joint venture partners' obligations to us and cash calling for capital projects to limit the Company's credit risk.

ADVISORIES

Abbreviations

Crude Oil		Natural Gas	
bbl	barrel	mcf	thousand cubic feet
bbl/d	barrels per day	mcf/d	thousand cubic feet per day
WTI	West Texas Intermediate	AECO	natural gas storage facility located at Suffield, AB
WCS	Western Canadian Select	GJ	gigajoule

Other	
API	American Petroleum Institute
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
CGU	cash generating unit
EOR	Enhanced oil recovery
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
NYMEX	New York Mercantile Exchange
NGP IX	NGP IX Northern Blizzard S.àr.l.
PP&E	Property, Plant & Equipment
R/C Canada	R/C Canada Coöperatief U.A.
SAGD	Steam-assisted gravity drainage
US	United States

BOE Conversion

In this MD&A, natural gas has been converted to boe based on a conversion rate of six thousand cubic feet of natural gas to one barrel (6 mcf : 1 bbl), which represents an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead. While it is useful for comparative measures, it may not accurately reflect individual product values and may be misleading if used in isolation.

Non-IFRS Financial Measures

This MD&A makes reference to certain terms that do not have any standardized meaning prescribed by IFRS, referred to as “non-IFRS measures”. Management uses “operating netback”, “net debt”, “funds from operations” and “net debt to funds from operations” in the evaluation of the Company’s operating and financial performance and to provide its shareholders with a measure of the Company’s efficiency and its ability to generate cash to fund capital expenditures, pay dividends and/or repay debt. The reader is cautioned that these amounts should not be used to make comparisons to measures for other companies where similar terminology is used.

“Operating netback” is used as an indicator of operating performance and profitability relative to current commodity prices, calculated on a per barrel of oil equivalent basis. Operating netback is calculated as oil and natural gas sales (net of blending expenses) less royalties, production and operating expenses and transportation expenses divided by barrels of oil equivalent sales volume for the period. There are no IFRS measures that are reasonably comparable to operating netback. A reconciliation of the IFRS measures and the non-IFRS measures can be found under “Netbacks”.

“Total payout ratio” is calculated as dividends paid (including and excluding stock dividends) plus development capital expenditures dividend by funds from operations.

“Net debt” is calculated as the principal amount drawn on bank loans, the long-term debt and the onerous contract provision plus current liabilities less current assets (excluding the fair value of financial derivative contracts and the share-based compensation liability), and is used by the Company to assess liquidity and general financial strength. Net debt should not be considered an alternative to, or more meaningful than, current assets or current liabilities as determined in accordance with IFRS. A reconciliation of the IFRS measures and the non-IFRS measures can be found under the heading “Capital Structure and Net Debt” in this MD&A.

“Funds from operations” is used by the Company to analyze operating performance and its ability to fund capital investments. Funds from operations is calculated as cash flow from operating activities (as determined in accordance with IFRS) before shares purchased and held for the Company’s incentive plan, payable Awards settled with cash, decommissioning costs incurred and changes in non-cash operating working capital. A reconciliation of the IFRS measure and the non-IFRS measure can be found in the table under the heading “Funds from Operations and Net Loss” in this MD&A. Management considers funds from operations to be a key measure of the results generated by its principal business activities before the consideration of how those activities are financed or how the results are taxed and before decommissioning expenditures. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. Funds from operations per boe is calculated using barrels of oil equivalent sales volume for the period. Funds from operations per share is calculated using the weighted average diluted shares used in calculating net income per share.

“Net debt to funds from operations” is calculated as net debt divided by the trailing four quarters funds from operations.

Forward-Looking Statements

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to as “forward-looking statements”) within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements contain words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, or similar words suggesting future outcomes.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- Business plans and strategies;
- Capital expenditure, development and drilling programs for 2017;
- Methods and ability to finance operations, dividends, capital expenditure programs and working capital requirements;
- Anticipated oil and natural gas production levels for 2017;
- Timing and success of development and exploitation activities;

- Future oil and natural gas prices for 2017;
- Future costs including operating, transportation and corporate costs and royalty rates for 2017;
- Future cash flows and funds from operations for 2017;
- Estimated future income tax deductions; and
- Payment of dividends.

In addition, statements relating to “reserves” are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

With respect to forward-looking statements contained in this MD&A, management has made assumptions regarding future production levels; future oil and natural gas prices; future operating costs; timing and amount of capital expenditures; the ability to obtain financing on acceptable terms; availability of skilled labour and drilling and related equipment; general economic and financial market conditions; continuation of existing tax and regulatory regimes; and the ability to market oil and natural gas successfully to current and new customers. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that the goals or figures contained in forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with fluctuations in market prices for crude oil, natural gas and diluent, general economic, market and business conditions, substantial capital requirements, uncertainties inherent in estimating quantities of reserves and resources, extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time, the need to obtain regulatory approvals on projects before development commences, environmental risks and hazards and the cost of compliance with environmental regulations, aboriginal claims, inherent risks and hazards with operations such as fire, explosion, blowouts, mechanical or pipe failure, cratering, oil spills, vandalism and other dangerous conditions, potential cost overruns, variations in foreign exchange rates, diluent supply shortages, competition for capital, equipment, new leases, pipeline capacity and skilled personnel, credit risks associated with counterparties, the failure of the Company or the holder of licenses, leases and permits to meet requirements of such licenses, leases and permits, reliance on third parties for pipelines and other infrastructure, changes in royalty regimes, failure to accurately estimate decommissioning costs, inaccurate estimates and assumptions by management, effectiveness of internal controls, the potential lack of available drilling equipment and other restrictions, failure to obtain or keep key personnel, title deficiencies with the Company’s assets, geo-political risks, risks that the Company does not have adequate insurance coverage, risk of litigation and risks arising from future acquisition activities. Additionally, the payment of dividends is dependent on the satisfaction of the applicable liquidity and solvency tests imposed by the Business Corporations Act (Alberta). The foregoing risks and other risks are described in more detail in the Company’s annual information form for the year ended December 31,

2016. Readers are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved may vary from the information provided herein and the variations could be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Furthermore, the forward-looking statements contained in this MD&A are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

Additional information about Northern Blizzard, including Northern Blizzard's consolidated financial statements and notes thereto, and Northern Blizzard's annual information form for the year ended December 31, 2016, is available on Northern Blizzard's website at www.northernblizzard.com or SEDAR at www.sedar.com.