UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

(Check One)

¨ **Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2015

Commission file number 1-32895

PENN WEST PETROLEUM LTD.

(Exact name of registrant as specified in its charter)

Alberta, Canada	**1311**	**Not applicable**
(Province or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number (if applicable))**	**(I.R.S. Employer Identification Number (if Applicable))**

Suite 200, 207 – 9th Avenue SW, Calgary, Alberta, Canada T2P 1K3
(403) 777-2500
(Address and Telephone Number of Registrant's Principal Executive Offices)

DL Services Inc., Columbia Center, 701 Fifth Avenue, Suite 6100, Seattle, Washington 98104-7043
(206) 903-5448
(Name, Address (Including Zip Code) and Telephone Number (Including Area Code) of Agent For Service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
Common Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

For annual reports, indicate by check mark the information filed with this Form:

x **Annual Information Form** x **Audited Annual Financial Statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **502,163,163**

Indicate by check mark whether Penn West: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that Penn West was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ¨ No ¨

Principal Documents

The following documents, filed as Exhibits 99.1, 99.2, 99.3 and 99.4 to this Annual Report on Form 40-F, are hereby incorporated by reference into this Annual Report on Form 40-F:

(a) Annual Information Form for the fiscal year ended December 31, 2015;

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015;

(c) Audited Consolidated Financial Statements for the fiscal year ended December 31, 2015, prepared under International Financial Reporting Standards as issued by the International Accounting Standards Board; and

(d) Supplemental Oil and Gas information.

ADDITIONAL DISCLOSURE

Certifications and Disclosure Regarding Controls and Procedures.

(a) Certifications. See Exhibits 99.5, 99.6, 99.7 and 99.8 to this Annual Report on Form 40-F.

(b) Disclosure Controls and Procedures. As of the end of Penn West Petroleum Ltd.'s ("Penn West") fiscal year ended December 31, 2015, an evaluation of the effectiveness of Penn West's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) was carried out by the management of Penn West, with the participation of the President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO") of Penn West. Based upon that evaluation, the CEO and CFO have concluded that as of the end of that fiscal year, Penn West's disclosure controls and procedures were effective to ensure that information required to be disclosed by Penn West in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (the "Commission") rules and forms and (ii) accumulated and communicated to the management of Penn West, including the CEO and CFO, to allow timely decisions regarding required disclosure.

It should be noted that while the CEO and CFO believe that Penn West's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that Penn West's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

(c) Management's Annual Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over Penn West's financial reporting. Penn West's internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that Penn West's assets are safeguarded.

Management has assessed the effectiveness of Penn West's internal control over financial reporting as at December 31, 2015. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control – Integrated Framework (2013) to evaluate the effectiveness of Penn West's internal control over financial reporting. Based on this assessment, management has concluded that Penn West's internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of Penn West's internal control over financial reporting as at December 31, 2015 has been audited by Ernst & Young LLP, as stated in their Report of Independent Registered Public Accounting Firm on Penn West's internal control over financial reporting that accompanies Penn West's Audited Consolidated Financial Statements for the fiscal year ended December 31, 2015, filed as Exhibit 99.3 to this Annual Report on Form 40-F.

(d) Attestation Report of the Registered Public Accounting Firm. The required disclosure is included in the Report of Independent Registered Public Accounting Firm on Penn West's internal control over financial reporting that accompanies Penn West's Audited Consolidated Financial Statements for the fiscal year ended December 31, 2015, filed as Exhibit 99.3 to this Annual Report on Form 40-F.

(e) Changes in Internal Control Over Financial Reporting ("ICFR"). The required disclosure is included under the heading "Changes in Internal Control Over Financial Reporting" in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

Notices Pursuant to Regulation BTR.

None.

Audit Committee Financial Expert.

Penn West's board of directors has determined that Raymond Crossley, a member of Penn West's audit committee, qualifies as an "audit committee financial expert" (as such term is defined in Form 40-F). Mr. Crossley is "independent" as that term is defined in the rules of the New York Stock Exchange.

Code of Business Conduct.

On July 29, 2015, Penn West has adopted a new Code of Business Conduct and Ethics that applies to all employees, officers and directors of Penn West, which replaced Penn West's codes of conduct and ethics that were in effect prior to the adoption of the new Code of Business Conduct and Ethics. This Code constitutes a "code of ethics" as defined in Form 40-F and is referred to in this Annual Report on Form 40-F as the "Code of Ethics". The Code of Ethics was designed to combine the two original policies to clarify expectations on the subject matters contained in the documents.

The Code of Ethics is available for viewing on Penn West's website at www.pennwest.com, is available in print to any shareholder who requests a copy, and a copy of the Code of Ethics has been filed as an exhibit to this Annual Report on Form 40-F. Requests for copies of the Code of Ethics should be made by contacting: investor relations by phone at (888) 770-2633 or by e-mail to investor_relations@pennwest.com.

During the year ended December 31, 2015, there have not been any amendments to, or waivers, including implicit waivers, from, any provision of the Code of Ethics or the codes of conduct and ethics in effect prior to the adoption of the Code of Ethics.

If any amendment to the Code of Ethics is made, or if any waiver from the provisions thereof is granted, Penn West may elect to disclose the information about such amendment or waiver required by Form 40-F to be disclosed, by posting such disclosure on Penn West's website, which may be accessed at www.pennwest.com.

Principal Accountant Fees and Services.

The required disclosure is included under the heading "External Auditor Service Fees" in Penn West's Annual Information Form for the fiscal year ended December 31, 2015, filed as Exhibit 99.1 hereto.

Pre-Approval Policies and Procedures.

(a) The terms of the engagement of Penn West's external auditors to provide audit services, including the budgeted fees for such audit services and the representations and disclaimers relating thereto, must be pre-approved by the entire audit committee.

With respect to any engagements of Penn West's external auditors for non-audit services, Penn West must obtain the approval of the audit committee or the Chairman of the audit committee prior to retaining the external auditors to complete such engagement. If such pre-approval is provided by the Chairman of the audit committee, the Chairman shall report to the audit committee on any non-audit service engagement pre-approved by him at the audit committee's first scheduled meeting following such pre-approval.

If, after using its reasonable best efforts, Penn West is unable to contact the Chairman of the audit committee on a timely basis to obtain the pre-approval contemplated by the preceding paragraph, Penn West may obtain the required pre-approval from any other member of the audit committee, provided that any such audit committee member shall report to the audit committee on any non-audit service engagement pre-approved by him at the audit committee's first scheduled meeting following such pre-approval.

(b) Of the fees reported in this Annual Report on Form 40-F under the heading "Principal Accountant Fees and Services", none of the fees billed by Ernst & Young LLP were approved by Penn West's audit committee pursuant to the *de minimus* exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Off-Balance Sheet Arrangements.

Penn West has off-balance-sheet financing arrangements consisting of operating leases. The operating lease payments are summarized below in the Tabular Disclosure of Contractual Obligations.

Tabular Disclosure of Contractual Obligations.

(CDN$ millions)

		Payment due by period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Transportation	609	27	134	152	296
Power infrastructure	62	19	18	18	7
Drilling rigs	18	11	7	—	—
Office lease (1)	595	65	124	126	280
Long-term debt (2)(3)	1,940	222	613	926	179
Decommissioning liability (4)	2,543	21	44	44	2,434
Total	**5,767**	**365**	**940**	**1,266**	**3,196**

(1) Future office lease commitments will be reduced by sublease recoveries of $337 million.
(2) Penn West's syndicated bank facility is due for renewal on May 6, 2019. Penn West and its predecessors have successfully extended its credit facility on each renewal date since 1992.
(3) Interest payments have not been included since future debt levels and rates are not known at this time.
(4) These amounts represent the undiscounted future reclamation and abandonment costs that are expected to be incurred over the life of the properties.

Identification of the Audit Committee.

Penn West has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are: Raymond Crossley, John Brydson and Jay W. Thornton.

Mine Safety Disclosure.

Not applicable.

Disclosure Pursuant to the Requirements of the New York Stock Exchange.

Director Independence

Penn West's board of directors is responsible for determining whether or not each director is independent. In making these determinations, the board of directors considers all relationships of the directors with Penn West, including business, family and other relationships. Penn West's board of directors also determines whether each member of Penn West's audit committee is independent pursuant to Sections 1.4 and 1.5 of Multilateral Instrument 52-110 Audit Committees and Rule 10A-3 under the Exchange Act.

Penn West's board of directors has determined that George H. Brookman, John Brydson, Raymond Crossley, Gillian H. Denham, William A. Friley, Richard L. George, Maureen Cormier Jackson and Jay W. Thornton are each "independent" as that term is defined in the rules of the New York Stock Exchange, in that they have no material relationship with Penn West (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In reaching this determination in respect of George H. Brookman, the board of directors considered that although West Canadian Digital Imaging Inc., of which Mr. Brookman is a shareholder and the Chief Executive Officer, provides printing and related services to Penn West, Mr. Brookman is not involved with the services provided by West Canadian to Penn West and the amounts paid by Penn West to West Canadian are immaterial to both parties. In reaching this determination in respect of Raymond Crossley, the board of directors considered that although Mr. Crossley was, until March 6, 2015, a partner with PricewaterhouseCoopers LLP ("PwC"), which provided certain non-audit accounting advisory services to Penn West during 2014 and 2015, Mr. Crossley's appointment to the board of directors only became effective upon his retirement from PwC and he did not personally provide any service or advice to Penn West. In reaching this determination in respect William A. Friley, the board of directors considered that although Titan Energy Services Ltd. ("Titan"), of which Mr. Friley is a board member, provided sub-contracting services for Shark Tank Ltd., which was initially awarded work from Penn West, the amount of the work was immaterial and the decision to subcontract the work to Titan was completed independent of Penn West.

Presiding Director at Meetings of Non-Management Directors

Penn West schedules regular executive sessions in which Penn West's "non-management directors" (as that term is defined in the rules of the New York Stock Exchange) meet without management participation. Richard L. George, the Chairman of the board of directors, serves as the presiding director (the "Presiding Director") at such sessions.

Communication with Non-Management Directors

Shareholders may send communications to Penn West's non-management directors by writing to George H. Brookman, Chairman of the governance committee of the board of directors, care of Investor Relations, Penn West Petroleum Ltd., 200, 207 – 9th Avenue SW, Calgary, Alberta, T2P 1K3 Canada. Communications will be referred to the Presiding Director for appropriate action. The status of all outstanding concerns addressed to the Presiding Director will be reported to the board of directors as appropriate.

Corporate Governance Guidelines

In accordance with the rules of the New York Stock Exchange, Penn West has adopted corporate governance guidelines, entitled "Governance Guidelines", which are available for viewing on Penn West's website at www.pennwest.com and are available in print to any shareholder who requests a copy of them. Requests for copies of the Governance Guidelines should be made by contacting: investor relations by phone (888) 770-2633 or by e-mail to investor_relations@pennwest.com.

Board Committee Mandates

The Mandates of Penn West's audit committee, human resources and compensation committee, governance committee, operations and reserves committee are each available for viewing on Penn West's website at www.pennwest.com, and are available in print to any shareholder who requests them. Requests for copies of these documents should be made by contacting: investor relations by phone (888) 770-2633 or by e-mail to investor_relations@pennwest.com.

NYSE Statement of Governance Differences

As a Canadian corporation listed on the NYSE, Penn West is not required to comply with most of the NYSE corporate governance standards, so long as it complies with Canadian corporate governance practices. In order to claim such an exemption, however, Penn West must disclose the significant difference between its corporate governance practices and those required to be followed by U.S. domestic companies under the NYSE's corporate governance standards. Penn West has included a description of such significant differences in corporate governance practices on its website which may be accessed at www.pennwest.com.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking.

Penn West undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process.

Penn West has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the agent for service of process of Penn West shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of Penn West.

SIGNATURES

Pursuant to the requirements of the Exchange Act, Penn West Petroleum Ltd. certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 10, 2016.

Penn West Petroleum Ltd.

By: /s/ David E. Roberts
Name: David E. Roberts
Title: President and Chief Executive Officer

EXHIBIT INDEX

Exhibit	Description
99.1	Annual Information Form for the fiscal year ended December 31, 2015
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2015
99.4	Supplemental Oil and Gas information
99.5	Certification of President & Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14 of the Securities Exchange Act of 1934
99.6	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14 of the Securities Exchange Act of 1934
99.7	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.8	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
99.9	Consent of Ernst & Young LLP
99.10	Consent of KPMG LLP
99.11	Consent of Sproule Associates Limited
99.12	Code of Business Conduct and Ethics

Exhibit 99.1

PennWest

PENN WEST PETROLEUM LTD.

Annual Information Form
for the year ended December 31, 2015

March 9, 2016

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APPENDIX A – RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Appendix A-1 – Report of Management and Directors on Reserves Data and Other Information
Appendix A-2 – Report on Reserves Data
Appendix A-3 – Statement of Reserves Data and Other Oil and Gas Information

APPENDIX B – MANDATE OF THE AUDIT COMMITTEE

GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Annual Information Form.

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, C. B-9, as amended, including the regulations promulgated thereunder.

"**Annual Information Form**" means this annual information form dated March 9, 2016.

"**Board**" or "**Board of Directors**" means the board of directors of Penn West.

"**Common Shares**" means common shares in the capital of Penn West.

"**Engineering Report**" means the report prepared by Sproule dated February 3, 2016 where they evaluated one hundred percent of the crude oil, natural gas and natural gas liquids reserves of Penn West and the net present value of future net revenue attributable to those reserves effective as at December 31, 2015.

"**Form 40-F**" means our Annual Report on Form 40-F for the fiscal year ended December 31, 2015 filed with the SEC.

"**Gross**" or "**gross**" means:

(a) in relation to our interest in production or reserves, our "company gross reserves", which are our working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of ours;

(b) in relation to wells, the total number of wells in which we have an interest; and

(c) in relation to properties, the total area of properties in which we have an interest.

"**Handbook**" means the Chartered Professional Accountant Canada Handbook, as amended from time to time.

"**IFRS**" means International Financial Reporting Standards, being the standards and interpretations issued by the International Accounting Standards Board, as amended from time to time. The changeover date to IFRS was January 1, 2011 with retrospective adoption from January 1, 2010 onwards. For periods relating to financial years beginning on or after January 1, 2011, Canadian generally accepted accounting principles applicable to publicly accountable enterprises is determined with reference to Part I of the Handbook, which is IFRS.

"**MD&A**" means management's discussion and analysis.

"**Net**" or "**net**" means:

(a) in relation to our interest in production or reserves, our working interest (operating or non-operating) share after deduction of royalty obligations, plus our royalty interests in production or reserves;

(b) in relation to our interest in wells, the number of wells obtained by aggregating our working interest in each of our gross wells; and

(c) in relation to our interest in a property, the total area in which we have an interest multiplied by the working interest we own.

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* .

"**Non-Resident**" means: (i) a person who is not a resident of Canada for the purposes of the Tax Act; or (ii) a partnership that is not a Canadian partnership for the purposes of the Tax Act.

"**NYSE**" means the New York Stock Exchange.

"**OPEC**" means the Organization of the Petroleum Exporting Countries.

"**Penn West**", the "**Company**", the "**Corporation**", "**we**", "**us**" or "**our**" each mean Penn West Petroleum Ltd., a corporation existing under the ABCA. Where the context requires, these terms also include all of Penn West's Subsidiaries on a consolidated basis.

"**SEC**" means the United States Securities and Exchange Commission.

"**Senior Notes**" means our guaranteed, secured senior notes consisting of US$937 million principal amount of notes, Cdn$73 million principal amount of notes, £49 million principal amount of notes and €6 million principal amount of notes, all as described under the heading "*Capitalization of Penn West – Debt Capital – Senior Notes*".

"**Shareholders**" means holders of our Common Shares.

"**Sproule**" means Sproule Associates Limited, independent petroleum consultants of Calgary, Alberta.

"**Subsidiaries**" has the meaning ascribed thereto in the *Securities Act* (Ontario) and, for greater certainty, includes all corporations and partnerships owned, controlled or directed, directly or indirectly, by Penn West.

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, C. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time.

"**TSX**" means the Toronto Stock Exchange.

"**undeveloped land**" and "**unproved property**" each mean a property or part of a property to which no reserves have been specifically attributed.

"**United States**" or "**U.S.**" means the United States of America.

CONVENTIONS

Certain terms used herein are defined in the "*Glossary of Terms*". Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

All dollar amounts in this document are expressed in Canadian dollars, except where otherwise indicated. References to "**$**" or "**Cdn$**" are to Canadian dollars, references to "**US$**" are to United States dollars, references to "**£**" are to pounds sterling, and references to "**€**" are to Euros. On March 9, 2016, the exchange rate based on the noon rate as reported by the Bank of Canada, was Cdn$1.00 equals US$0.7555.

All financial information herein has been presented in accordance with IFRS.

ABBREVIATIONS

Oil and Natural Gas Liquids

bbl	barrel or barrels
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
NGLs	natural gas liquids
MMboe	million barrels of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day

Natural Gas

GJ	gigajoule
GJ/d	gigajoules per day
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m^3	cubic metres
MMbtu	million British thermal units

Other

AECO	the Alberta benchmark price for natural gas.
BOE or boe	barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one barrel of oil.
WTI	West Texas Intermediate, the reference price paid in United States dollars at Cushing, Oklahoma for crude oil of standard grade.
API	American Petroleum Institute.
°API	the measure of the density or gravity of liquid petroleum products derived from a specific gravity.
psi	pounds per square inch.
MM$	million dollars.
MW	megawatt.
MWh	megawatt hour.
CO_2	carbon dioxide.

OIL AND GAS INFORMATION ADVISORIES

Where any disclosure of reserves data is made in this Annual Information Form (including the Appendices hereto) that does not reflect all of the reserves of Penn West, the reader should note that the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

All production and reserves quantities included in this Annual Information Form (including the Appendices hereto) have been prepared in accordance with Canadian practices and specifically in accordance with NI 51-101. These practices are different from the practices used to report production and to estimate reserves in reports and other materials filed with the SEC by United States companies.Nevertheless, as part of Penn West's Form 40-F for the year ended December 31, 2015 filed with the SEC, Penn West has disclosed proved reserves quantities using the standards contained in SEC Regulation S-X, and the standardized measure of discounted future net cash flows relating to proved oil and gas reserves determined in accordance with the U.S. Financial Accounting Standards Board, "Disclosures About Oil and Gas Producing Activities", which disclosure complies with the SEC's rules for disclosing oil and gas reserves.

References in this Annual Information Form to land and properties held, owned, acquired or disposed by us, or in respect of which we have an interest, refer to land or properties in respect of which we have a lease or other contractual right to explore for, develop, exploit and produce hydrocarbons underlying such land or properties.

Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis is misleading as an indication of value.

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbl	cubic metres	0.159
cubic metres	bbl	6.293
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.500
gigajoules (at standard)	MMbtu	0.948
MMbtu (at standard)	gigajoules	1.055
gigajoules (at standard)	Mcf	1.055

EFFECTIVE DATE OF INFORMATION

Except where otherwise indicated, the information in this Annual Information Form is presented as at the end of Penn West's most recently completed financial year, being December 31, 2015.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In the interest of providing our securityholders and potential investors with information regarding Penn West, including management's assessment of Penn West's future plans and operations, certain statements contained and incorporated by reference in this document constitute forward-looking statements or information (collectively "**forward-looking statements**") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "budget", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "objective", "aim", "potential", "target" and similar words suggesting future events or future performance. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future. In particular, this document and the documents incorporated by reference herein contain, without limitation, forward-looking statements pertaining to the following: our focus on profitability and goals of growing production per share, cash flow per share and strengthening our balance sheet position; our commitment to maximizing the efficiency of our capital programs and the reliability of our production base while growing the oil and liquids weighting of our total production; our belief that our long-term plan to deleverage our balance sheet, continue operational and cost control improvements, and focus on light oil development integrated with waterflood programs concentrated in our Cardium, Slave Point and Viking plays is the best strategy available to maximize Shareholder value; the objective of our long-term plan to provide Shareholders with compound annual per share growth in oil production and funds flow subsequent to a deleveraging period and provide Shareholders with a return through a sustainable dividend; our intention to defer certain longer cycle time projects, waterflood project capital and other non-development capital projects until the industry returns to a stable and higher oil price environment; the details of our 2016 capital budget, which limits total expenditure to funds flow from operations, and our average production guidance for 2016; the details of our class action lawsuit settlement; the details of our ongoing acquisition, disposition, farm-out and financing strategy; our dividend policy, including the amount of dividends that we intend to pay, the proposed timing of such payments, the factors that may affect the amount of dividends that we pay and the anticipated timing of the Board's review of our dividend policy; our expectations regarding the operational and financial impact that climate change regulations in the jurisdictions in which we operate will have on us; our belief that the trend towards heightened and additional standards in environmental legislation and regulation will continue and our expectation that we will be making increased expenditures as a result of the expansion of our operations and the adoption of new

legislation relating to the protection of the environment; our commitment to mitigating the environmental impact from our operations and involving stakeholders throughout the exploration, development, production and abandonment process; pursuing a program of environmental impact reduction aimed at minimizing these future corporate liabilities without hampering field productivity; being committed to meeting responsibilities to protect the environment wherever it operates; believing that the Company is currently in compliance with applicable environmental laws and regulations in all material respects; our assessment of the operational and financial impacts that certain risks factors could have on us and the value of our Common Shares should such risk factors materialize; the quantity of our oil, natural gas liquids and natural gas reserves, the recoverability thereof, and the net present values of future net revenue to be derived from our reserves using forecast prices and costs, including the disclosure set forth in Appendix A-3 under "Statement of Reserves Data and Other Oil and Gas Information – Reserves Data"; the amount of royalties, operating costs, development costs, abandonment and reclamation costs and income taxes that we will incur in connection with the production of our reserves; our outlook for oil, natural gas liquids and natural gas prices; our expectations regarding future currency exchange rates and inflation rates; our expectations regarding how we will fund the development costs of our reserves; our expectation that interest and other funding costs will not make the development of any of our properties uneconomic; our expectations regarding the timing for developing our proved undeveloped reserves and probable undeveloped reserves and the amount of future capital expenditures required to develop such reserves; our expectations regarding the significant economic factors and other significant uncertainties that could affect our reserves data; the number of net well bores, facilities and the length of pipeline in respect of which we expect to incur abandonment and reclamation costs and the total amount of such costs that we expect to incur and the timing thereof; the details of our exploration and development plans in each of our Cardium, Slave Point and Viking resource plays in 2016, including that the Cardium and Viking capital budgets are expected to be minimal in response to the weak commodity price environment as the Company targets its capital expenditures to be within funds flow from operations and in Slave Point that the Company has no development capital activity planned in the area but will continue to assess and monitor production results; the details of how our waterflood programs will be dealt with in the current commodity market; the details of our 2016 capital budget; the expected lands that will be surrendered unless we qualify them in some manner; our expectations regarding when we will be required to pay income taxes; our production volume estimates for 2016; our intention to continue to actively identify and evaluate hedging opportunities in order to reduce our exposure to fluctuations in commodity prices and protect our future cash flows and capital programs; and the nature of, effectiveness of, and benefits to be derived from, our future marketing arrangements and risk management strategies.

With respect to forward-looking statements contained or incorporated by reference in this document, we have made assumptions regarding, among other things: 2016 prices of $33.00 per barrel WTI and $2.45 per Mcf AECO and a 2016 US$/Cdn$ foreign exchange rate of $1.45; that the Company does not dispose of additional material producing properties; the terms and timing of asset sales anticipated to be completed under our ongoing program to sell non-core assets; our ability to execute our long-term plan as described herein and in our other disclosure documents and the impact that the successful execution of such plan will have on us and our shareholders; the economic returns anticipated from expenditures on our assets; future crude oil, natural gas liquids and natural gas prices and differentials between light, medium and heavy oil prices and Canadian, WTI and world oil and natural gas prices; future capital expenditure levels and capital programs; future crude oil, natural gas liquids and natural gas production levels; the laws and regulations that we will be required to comply with, including laws and regulations relating to taxation, royalty regimes and environmental protection, and the continuance of those laws and regulations; that we will have the financial resources required to fund our capital and operating expenditures and requirements as needed; drilling results and the recoverability of our reserves; the estimates of our reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; the amount of royalties, operating costs, development costs, abandonment and reclamation costs and income taxes that we will incur in connection with the production of our reserves; future exchange rates, inflation rates and interest rates; future debt levels; future income tax rates; the amount of tax pools available to us; the cost of expanding our property holdings; our ability to execute our capital programs as planned without significant adverse impacts from various factors beyond our control, including weather, infrastructure access and delays in obtaining regulatory approvals and third party consents; our ability to obtain equipment in a timely manner to carry out development activities and the costs thereof; our ability to market our oil and natural gas successfully to current and new customers; our ability to reduce our exposure to commodity price fluctuations and counterparty risks through our risk management programs; the impact of increasing competition; our ability to obtain financing on acceptable terms, including our ability to renew or replace our credit facility and our ability to finance the repayment of our senior secured notes on maturity; that our conduct and results of operations will be consistent with expectations; our ability to add production and reserves through our development and exploitation activities; our ability to negotiate further definitive amending agreements in respect of our credit facilities and senior notes that are mutually satisfactory to the parties thereto, if necessary; and that we will have the ability to develop our oil and gas properties in the manner currently contemplated. In addition, many of the forward-looking statements contained or incorporated by reference

in this document are located proximate to assumptions that are specific to those forward-looking statements, and such assumptions should be taken into account when reading such forward-looking statements: see in particular the assumptions identified in Appendix A-3 under “Statement of Reserves Data and Other Oil and Gas Information – Reserves Data” and “Statement of Reserves Data and Other Oil and Gas Information – Notes to Reserves Data Tables”.

Although Penn West believes that the expectations reflected in the forward-looking statements contained or incorporated by reference in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included or incorporated by reference in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements contained herein will not be correct, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the possibility that we are unable to execute some or all of our ongoing non-core asset disposition program on favourable terms or at all, whether due to the failure to receive requisite regulatory or other third party approvals or satisfy applicable closing conditions or for other reasons that we cannot anticipate; the possibility that we will not be able to successfully execute our long-term plan in part or in full, and the possibility that some or all of the benefits that we anticipate will accrue to us and our securityholders as a result of the successful execution of such plan do not materialize; the impact of weather conditions on seasonal demand; the impact of weather conditions on our ability to execute capital programs; the risk that we will be unable to execute our capital programs as planned without significant adverse impacts from various factors beyond our control, including weather, infrastructure access and delays in obtaining regulatory approvals and third party consents; risks inherent in oil and natural gas operations; uncertainties associated with estimating reserves and resources; competition for, among other things, capital, acquisitions of reserves, resources, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions, including the historical acquisitions discussed herein; geological, technical, drilling and processing problems; general economic and political conditions in Canada, the U.S., Europe and globally, and in particular, the effect that those conditions have on commodity prices and our access to capital; industry conditions, including fluctuations in the price of crude oil, natural gas liquids and natural gas, price differentials for crude oil and natural gas produced in Canada as compared to other markets and transportation restrictions, including pipeline and railway capacity constraints; royalties payable in respect of our oil and natural gas production and changes to government royalty frameworks in jurisdictions in which we operate and the impact that such changes may have on us; changes in government regulation of the oil and natural gas industry, including environmental regulation; fluctuations in foreign exchange or interest rates; unanticipated operating events or environmental events that can reduce production or cause production to be shut-in or delayed, including extreme cold during winter months, wild fires and flooding; failure to obtain regulatory, industry partner and other third-party consents and approvals when required, including for acquisitions, dispositions, joint ventures, partnerships and mergers; failure to realize the anticipated benefits of dispositions, acquisitions, joint ventures and partnerships, including the historical dispositions, acquisitions, joint ventures and partnerships discussed herein; changes in taxation and other laws and regulations that affect us and our securityholders; the potential failure of counterparties to honour their contractual obligations; stock market volatility and market valuations; the ability of OPEC to control production and balance global supply and demand of crude oil at desired price levels; political uncertainty, including the risks of hostilities, in the petroleum producing regions of the world; delays in exploration and development activities if drilling and related equipment is unavailable or if access to drilling locations is restricted; the impact of pipeline interruptions and apportionments and the actions or inactions of third party operators; the possibility that we are unable to enter into further amendments to the agreements governing our credit facility and senior notes on the terms described herein or at all and that as a result we breach one or more of the financial covenants in such agreements and default thereunder; and the other factors described under “Risk Factors” in this document and in Penn West’s public filings available in Canada at www.sedar.com and in the United States at www.sec.gov. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained and incorporated by reference in this document speak only as of the date of this document. Except as expressly required by applicable securities laws, Penn West does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained and incorporated by reference in this document are expressly qualified by this cautionary statement.

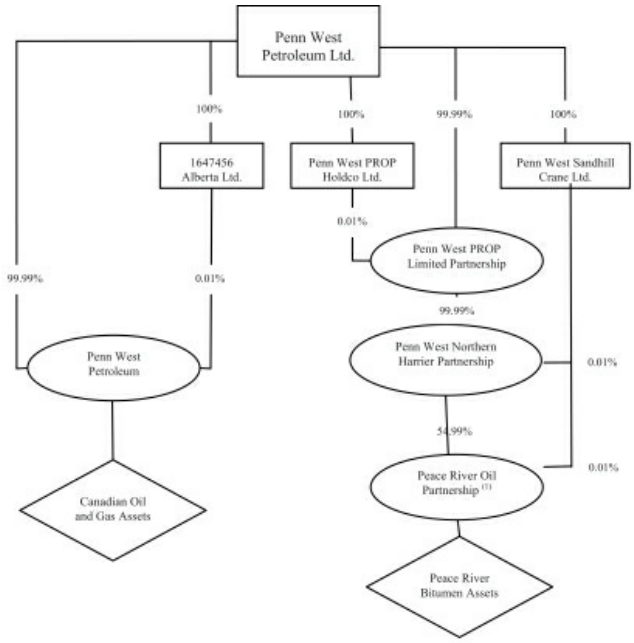
GENERAL AND ORGANIZATIONAL STRUCTURE

General

Penn West is a corporation amalgamated under the ABCA. It operates under the trade names “Penn West” and “Penn West Exploration”. Penn West’s head and registered office is located at Suite 200, 207 – 9th Avenue S.W., Calgary, Alberta, T2P 1K3.

Our Organizational Structure

The following diagram sets forth the organizational structure of Penn West and its material Subsidiaries as at the date hereof.



Notes:

(1) The remaining 45% interest in Peace River Oil Partnership is owned by Winter Spark Resources, Inc., an affiliate of China Investment Corporation.
(2) Each of the entities identified in the diagram was incorporated, continued, formed or organized, as the case may be, under the laws of the Province of Alberta.

DESCRIPTION OF OUR BUSINESS

Overview

Penn West is one of the largest conventional oil and natural gas producers in Canada. Penn West operates a significant portfolio of opportunities with a dominant position in light oil in Canada. Based in Calgary, Alberta, Penn West operates throughout western Canada on a land base encompassing approximately 4 million net acres. Penn West is a development and production company focused on profitability with goals of growing production per share, cash flow per share and strengthening its balance sheet position. We are committed to maximizing the efficiency of our capital programs and the reliability of our production base while growing the oil and liquids weighting of our total production. As at December 31, 2015, Penn West had approximately 718 employees.

Reserves Data

See Appendices A-1, A-2 and A-3 for complete NI 51-101 oil and gas reserves disclosure for Penn West as at December 31, 2015.

General Development of the Business

The following is a description of the general development of Penn West's business over the last three completed financial years.

Year Ended December 31, 2013

Board, Management and Staffing Changes

The Board underwent a renewal process in May 2013 that resulted in John Brussa (Chairman), William Andrew (Vice-Chairman) and Shirley McClellan retiring from the Board and Rick George (Chairman), Allan Markin (Vice-Chairman) and Jay Thornton joining the Board.

In June 2013, Murray Nunns (President and Chief Executive Officer) retired from both his Board and management positions. David Roberts joined Penn West in June 2013 as President and Chief Executive Officer and was added to the Board.

In July 2013, Allan Markin (Vice-Chairman) resigned from the Board.

Penn West streamlined its management structure in July 2013 which resulted in management changes. This led to David Middleton (Executive Vice-President, Operations Engineering and Managing Director, Peace River Oil Partnership), Bob Shepherd (Senior Vice-President, Enhanced Oil Recovery and Cordova Joint Venture) and Rob Wollmann (Senior Vice President, Exploration) leaving Penn West.

In 2013, in an effort to operate in a more efficient manner, Penn West reduced its staffing levels by over 25 percent.

Change to Quarterly Dividend Payment

In June 2013, Penn West announced a change to its quarterly dividend payment. Effective for the 2013 third quarter dividend, Penn West reduced its quarterly dividend payment from $0.27 per Common Share to $0.14 per Common Share.

Strategic Alternatives Review

In June 2013, the Board formed a special committee (the "**Special Committee**") to review strategic alternatives to increase Shareholder value. In November 2013, Penn West announced that the review was complete and that the Board, based on recommendations from management, the Special Committee and its financial advisor, had determined that Penn West's long-term plan to deleverage its balance sheet, continue operational and cost control improvements, and focus on light oil development integrated with waterflood programs concentrated in its Cardium, Slave Point and Viking plays was the best strategy available to maximize Shareholder value. Penn West announced that the objective of the long-term plan was to

provide Shareholders with compound annual per share growth in oil production and funds flow subsequent to a deleveraging period and provide Shareholders with a return through a sustainable dividend. In furtherance of the plan, Penn West announced its intention to sell $1.5 to 2.0 billion of non-core assets in order to deleverage its balance sheet.

Aggregate Acquisition and Disposition Activity

Penn West completed non-core property dispositions, net of acquisitions, of approximately $540 million in 2013. Total production associated with the combined divestments was approximately 11,000 boe per day. Divested assets were located primarily in the East Central, North West and Southern areas of Alberta and represented mature, base assets in Penn West's asset portfolio which had minimal capital allocated to them in the long-term plan. The net proceeds of the dispositions were used to repay a portion of the indebtedness outstanding under our bank credit facilities.

Year Ended December 31, 2014

Renewal of Credit Facilities

In May 2014, Penn West renewed its unsecured, revolving credit facility with a syndicate of Canadian and international banks. Penn West chose to reduce the borrowing capacity under its renewed facility to an aggregate borrowing limit of $1.7 billion as less credit capacity is required under Penn West's long-term plan. The facility consists of two tranches with different maturity dates: (a) tranche one has a borrowing limit of $1.2 billion with a maturity date of May 6, 2019; and (b) tranche two provides a $500 million borrowing limit with a maturity date of June 30, 2016.

Board and Management Changes

In 2014, the Board continued its renewal process, which resulted in Daryl H. Gilbert, Frank Potter and Jack Schanck retiring from the Board and John Brydson joining the Board. Penn West also announced that Raymond Crossley would join the Board in late February 2015.

In March 2014, Todd Takeyasu (Executive Vice President and Chief Financial Officer) retired from his position. In May 2014, David Dyck joined Penn West as Senior Vice President and Chief Financial Officer.

In 2014, as part of our ongoing effort to operate in a more efficient manner, Penn West reduced its staffing levels by a further 21 percent.

Internal Review of Accounting Practices and Filing of Restated Financial Statements

In July 2014, Penn West announced that it was conducting a voluntary internal review (the " **Review**") of certain of its accounting practices through the Audit Committee of the Board. In September 2014, Penn West announced the results of the Review and completed the restatement of certain financial statements and related management's discussion and analysis. It also confirmed that the Audit Committee's findings did not impact Penn West's strategic direction. For further details, see Penn West's news release dated September 18, 2014.

Long-Term Plan Update

In November 2014, Penn West provided an update on its long term plan, which centered on reliability and deliverability of operational performance, key components of which are effective cost control and development, including integrated waterflood support concentrated in our large, light oil resource plays. For further details, see Penn West's news release dated November 17, 2014.

Aggregate Acquisition and Disposition Activity

Penn West completed non-core property dispositions, net of acquisitions, of approximately $560 million in 2014. Total production associated with the combined divestments was approximately 14,700 boe per day with production weighted approximately 60% toward natural gas. Divested assets were located primarily in the central and southwestern areas of Alberta and represented non-core, base assets in Penn West's asset portfolio which had minimal capital allocated to them in the long-term plan. The net proceeds of the dispositions were used to repay a portion of the indebtedness outstanding under our bank credit facilities.

Suspension of DRIP

In December 2014, Penn West announced that commencing with its first quarter 2015 dividend, payable on April 15, 2015, the Board had suspended Penn West's Dividend Reinvestment and Optional Common Share Purchase Plan until further notice.

Change to Quarterly Dividend Payment

In December 2014, Penn West announced a change to its quarterly dividend payment from $0.14 per Common Share to $0.03 per Common Share, which was subsequently further reduced to $0.01 per Common Share effective for its first quarter 2015 dividend, payable on April 15, 2015.

2015 Capital Expenditure Budget and Production and Funds Flow Guidance

In November 2014, the Company announced that it had approved a 2015 capital budget of approximately $840 million and that it anticipated 2015 average production to be between 95,000 and 105,000 boe per day and 2015 funds flow to be between $875 and $925 million.

In December 2014, the Company announced that in response to significant changes in the commodity price environment, and in order to maintain financial flexibility, Penn West's capital budget had been reduced by approximately $215 million from $840 million to $625 million. The $215 million capital budget reduction reflects capital that is being deferred on longer cycle time projects, certain waterflood project capital and other non-development capital projects until the industry returns to a stable and higher oil price environment. Much of the remaining $625 million budget would be allocated primarily toward development activities in the Cardium and Viking core light oil areas. As a result, the Company's production guidance for 2015 was reduced to a range of 90,000 to 100,000 boe per day and the Company's funds flow guidance for 2015 was reduced to a range of $500 to $550 million.

Year Ended December 31, 2015

Board and Management Changes

Messrs. Raymond Crossley and William Friley joined the Board on March 6, 2015 and March 12, 2015, respectively. Effective March 12, 2015, Mr. Crossley was appointed as Chair of the Audit Committee and Mr. Friley was been appointed Chair of the Operations and Reserves Committee. In 2015, James Allard and James Smith retired from the Board.

In June 2015, Keith Luft (General Counsel and Senior Vice President, Corporate Services) retired from his position.

In 2015, as part of our ongoing effort to operate in a more efficient manner, Penn West reduced its staffing levels by over 35 percent.

Amendments to Bank Facility and Senior Notes

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

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

The Company also agreed to the following:

- to temporarily grant floating charge security over all of its property in favor of the lenders and the noteholders on a pari passu basis, which security will be fully released upon the Company achieving both (i) a Senior Debt to EBITDA ratio of 3:1 or less for four consecutive quarters, and (ii) an investment grade rating on its senior secured debt;
- to cancel the $500 million tranche of the Company's existing $1.7 billion syndicated bank facility that was set to expire on June 30, 2016, the remaining $1.2 billion tranche of the syndicated bank facility remains available to the Company in accordance with the terms of the agreements governing such facility;
- to temporarily reduce its quarterly dividend commencing in the first quarter of 2015 to $0.01 per share or less until the earlier of (i) the Senior Debt to EBITDA being less than 3:1 for two consecutive quarters ending on or after September 30, 2015, and (ii) March 30, 2017; and
- until March 30, 2017, to use net proceeds from any asset dispositions to repay at par $650 million of the outstanding principal amounts owing to noteholders, with corresponding pro rata amounts from such asset dispositions to be used to repay any outstanding amounts drawn under its syndicated bank facility. As at December 31, 2015, Penn West has accumulated $800 million in net proceeds from asset dispositions that it has put towards its debt prepayments and syndicated bank facility.

2015 Capital Expenditure Budget and Production and Funds Flow Guidance

In July 2015, the Company reduced its Canadian crude oil pricing assumption for the full year 2015 to $60.00 per barrel. Consequently, the Company updated its funds flow from operations guidance range from $500 - $550 million to $350 - $400 million and the capital budget reduced from $625 million to $575 million.

In September 2015, the Company announced that in response to continued and further significant changes in the commodity price environment, and in order to maintain financial flexibility, Penn West's capital budget had been reduced by approximately $75 million to $500 million, representing capital expenditures of approximately $245 million in the second half of 2015 with the revised 2015 production guideline range to be between 86,000 to 90,000 boe per day.

In November 2015, the Company refined the range of the annual production guidance to 85,000 to 87,000 boe per day. The capital budget for the year remained unchanged at $500 million.

Responding to the Commodity Price Environment

In September 2015, Penn West provided an update in response to the commodity price environment which focused on limiting capital expenditures to funds flow from operation by year-end 2015, suspending the dividend, reducing board compensation and significantly reducing the cost structure though a 35 percent workforce reduction. For further details, see Penn West's news release dated September 1, 2015.

Change to Quarterly Dividend Payment and NYSE – Continued Listing Standard Notification

In September 2015, Penn West announced a change to its quarterly dividend payment from $0.01 per Common Share to no dividend until further notice, effective after the 2015 third quarter dividend payable on October 15, 2015.

Penn West also received notification from the NYSE in September 2015 that it had fallen below the NYSE's continued listing standard, which requires a minimum average closing price of US$1.00 over a consecutive 30 trading day period. Penn West regained compliance at the close of trading on November 30, 2015 since the average closing price of its common stock for the consecutive 30 trading days ended November 30, 2015 and the closing price of its common stock on November 30, 2015 both exceeded US$1.00. For further details, see Penn West's news release dated December 2, 2015.

Aggregate Acquisition and Disposition Activity

Penn West completed non-core property dispositions of $800 million in 2015. Total production associated with the combined divestments was approximately 11,500 boe per day with production weighted approximately 20% toward natural gas. Divested assets were located in Alberta, Saskatchewan and Manitoba and represented non-core, base assets in Penn West's asset portfolio which had minimal capital allocated to them in the long-term plan. The net proceeds of the dispositions were used to repay a portion of the indebtedness outstanding under our bank facility and senior notes, as agreed to in the amending agreements.

2016 Developments

2016 Capital Expenditure Budget and Production

In January 2016, the Company announced its 2016 capital budget of $50 million. This capital budget was consistent with the strategy announced on September 1, 2015, which limits our total expenditures to funds flow from operations, in response to the current weak commodity price environment. The Company's average production guidance for 2016 was also set at 60,000 to 64,000 boe per day.

NYSE – Continued Listing Standard Notification

In January 2016, Penn West received notification from the NYSE that we were no longer in compliance with one of the NYSE's continued listing standards applicable to us because the average closing price of our Common Shares was less than US$1.00 per share over a consecutive 30 day trading period. Under the NYSE's rules, we have a period of six months from the date of the NYSE notification to regain compliance with the NYSE's price listing standard and avoid delisting. Penn West can regain compliance if, during the applicable cure period, on the last trading day of any calendar month, Penn West's Common Shares have a closing price and a 30 trading day average closing price of at least U.S.$1.00 per share. In the event that at the expiration of the applicable cure period Penn West has not regained compliance, the NYSE will commence suspension and delisting procedures.

Settlement of Class Action Lawsuit

In February 2016, Penn West announced that it entered into agreements to settle all class action proceedings in Canada and United States against the Company related to damages alleged to have been incurred due to a decline in share price related to the restatement of certain of Penn West's historical financial statements and related MD&A in 2014. The settlement agreements provide for a payment of $53 million split evenly between Canadian and US investors that will be fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact the Company's cash or financial position. The proposed settlements are subject to the satisfaction of the conditions stated in the settlement documents as well as the receipt of court approval in each of Alberta, Ontario and Quebec and in New York. There can be no assurance that these conditions will be satisfied or that the settlements will be approved by the courts. The receipt of such court approvals is dependent on a number of factors and therefore the timing thereof cannot be predicted at this time

Board Changes

Ms. Maureen Cormier Jackson joined the Board on March 8, 2016.

Long Term Retention and Incentive Plan becomes Restricted Share Unit Plan

In March 2016, Penn West announced that the Board had approved amendments to the Restricted Share Unit Plan (formerly the Long Term Retention and Incentive Plan) to allow for the administrators the discretion to make payments on future grants of restricted share units (formerly incentive awards) in either cash or Common Shares.

Termination of DRIP

In March 2016, Penn West announced that the Board had decided to terminate the Penn West's Dividend Reinvestment and Optional Common Share Purchase Plan, which had been suspended since December 2014, pursuant to the terms and conditions set forth in the plan.

Ongoing Acquisition, Disposition, Farm-Out and Financing Activities

Potential Acquisitions

Penn West continues to evaluate potential acquisitions of all types of petroleum and natural gas and other energy-related assets as part of its ongoing asset portfolio management program. At times, Penn West could be in the process of evaluating several potential acquisitions which individually or in the aggregate could be material. As of the date hereof, Penn West has not reached agreement on the price or terms of any potential material acquisitions. Penn West cannot predict whether any current or future opportunities will result in one or more acquisitions for Penn West.

Potential Dispositions and Farm-Outs

Penn West continues to evaluate potential dispositions of its petroleum and natural gas assets as part of its ongoing portfolio asset management program. In particular, Penn West has announced its intention to sell additional non-core assets.

In addition, Penn West continues to consider potential farm-out opportunities with other industry participants in respect of its petroleum and natural gas assets in circumstances where Penn West believes it is prudent to do so based on, among other things, its capital program, development plan timelines and the risk profile of such assets. Penn West is normally in the process of evaluating several potential dispositions of its assets and farm-out opportunities at any one time, which individually or in the aggregate could be material. As of the date hereof, Penn West has not reached agreement on the price or terms of any potential material dispositions or farm-outs. Penn West cannot predict whether any current or future opportunities will result in one or more dispositions or farm-outs for Penn West.

Potential Financings

Penn West continuously evaluates its capital structure, liquidity and capital resources, and financing opportunities that arise from time to time. Penn West may in the future complete financings of Common Shares or debt (including debt which may be convertible into Common Shares) for purposes that may include the financing of acquisitions, the financing of Penn West's operations and capital expenditures, and the repayment of indebtedness. As of the date hereof, Penn West has not reached agreement on the pricing or terms of any potential material financing. Penn West cannot predict whether any current or future financing opportunity will result in one or more material financings being completed.

Significant Acquisitions

Penn West did not complete an acquisition during its most recently completed financial year that was a significant acquisition for the purposes of Part 8 of National Instrument 51-102.

CAPITALIZATION OF PENN WEST

Share Capital

The authorized capital of Penn West consists of an unlimited number of Common Shares without nominal or par value and 90,000,000 preferred shares without nominal or par value. A description of the share capital of Penn West is set forth below. This description is a summary only. Shareholders are encouraged to read the full text of such share provisions, which are available on SEDAR at www.sedar.com.

Common Shares

Shareholders are entitled to notice of, to attend and to one vote per Common Share held at any meeting of the shareholders of Penn West (other than meetings of a class or series of shares of Penn West other than the Common Shares).

Shareholders are entitled to receive dividends as and when declared by the Board of Directors on the Common Shares as a class, subject to prior satisfaction of all preferential rights to dividends attached to shares of other classes of shares of Penn West ranking in priority to the Common Shares in respect of dividends.

The holders of Common Shares are entitled in the event of any liquidation, dissolution or winding-up of Penn West, whether voluntary or involuntary, or any other distribution of the assets of Penn West among its Shareholders for the purpose of winding-up its affairs, and subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of Penn West ranking in priority to the Common Shares in respect of return of capital on dissolution, to share rateably, together with the holders of shares of any other class of shares of Penn West ranking equally with the Common Shares in respect of return of capital on dissolution, in such assets of Penn West as are available for distribution.

As at March 9, 2016, 502,163,163 Common Shares were issued and outstanding.

Preferred Shares

Preferred shares of Penn West may at any time or from time to time be issued in one or more series. Before any shares of a particular series are issued, the Board shall, by resolution, fix the number of shares that will form such series and shall, subject to the limitations set out in Penn West's articles, by resolution fix the designation, rights, privileges, restrictions and conditions to be attached to the preferred shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, the rate, amount or method of calculation of dividends thereon, the time and place of payment of dividends, the consideration for and the terms and conditions of any purchase for cancellation, retraction or redemption thereof, conversion or exchange rights (if any), and whether into or for securities of Penn West or otherwise, voting rights attached thereto (if any), the terms and conditions of any share purchase or retirement plan or sinking fund, and restrictions on the payment of dividends on any shares other than preferred shares or payment in respect of capital on any shares in the capital of Penn West or creation or issue of debt or equity securities; the whole subject to filing of Articles of Amendment setting forth a description of such series, including the designation, rights, privileges, restrictions and conditions attached to the shares of such series. Notwithstanding the foregoing, other than in the case of a failure to declare or pay dividends specified in any series of preferred shares, the voting rights attached to the preferred shares shall be limited to one vote per preferred share at any meeting where the preferred shares and Common Shares vote together as a single class.

As at the date hereof, no preferred shares are issued and outstanding.

Debt Capital

Penn West has issued the Senior Notes and has a syndicated credit facility. A description of the debt capital of Penn West is set forth below. This description is a summary only. Shareholders are encouraged to read the full text of the agreements governing Penn West's Senior Notes and credit facility, which are available on SEDAR at www.sedar.com.

Senior Notes

Penn West has issued the Senior Notes, which consist of US$937 million principal amount of notes, Cdn$73 million principal amount of notes, £49 million principal amount of notes and €6 million principal amount of notes. The Senior Notes are guaranteed by Penn West's material subsidiaries, are secured and rank equally with our bank credit facilities. The following is a brief summary of certain of the material terms of each series of our Senior Notes.

Series	Currency / Principal Amount	Interest Rate [1]	Issue Date	Maturity Date
Series B	US$ 98 million	7.30%	May 31, 2007	May 31, 2017
Series C	US$ 85 million	7.40%	May 31, 2007	May 31, 2019
Series D	US$ 10 million	7.55%	May 31, 2007	May 31, 2022
Series E	US$ 118 million	7.62%	May 29, 2008	May 29, 2016
Series F	US$ 180 million	7.80%	May 29, 2008	May 29, 2018
Series G	US$ 36 million	7.90%	May 29, 2008	May 29, 2020
Series H	Cdn$ 30 million	7.66%	May 29, 2008	May 29, 2018
Series I	£ 35 million[2]	6.95%[2]	July 31, 2008	July 31, 2018
Series K	US$ 18 million	10.39%	May 5, 2009	May 5, 2016
Series L	US$ 32 million	10.82%	May 5, 2009	May 5, 2019
Series M	US$ 15 million	10.39%	May 5, 2009	May 5, 2019 [3]
Series N	£ 14 million[4]	9.15%[4]	May 5, 2009	May 5, 2019
Series O	€ 6 million[5]	9.22%[5]	May 5, 2009	May 5, 2019
Series R	US$ 51 million	6.79%	March 16, 2010	March 16, 2017
Series S	US$ 74 million	7.35%	March 16, 2010	March 16, 2020
Series T	US$ 13 million	7.45%	March 16, 2010	March 16, 2022
Series U	US$ 10 million	7.60%	March 16, 2010	March 16, 2025
Series W	US$ 18 million	5.67%	December 2, 2010	December 2, 2017
Series X	US$ 60 million	6.38%	December 2, 2010 and January 4, 2011	December 2, 2020
Series Y	US$ 18 million	6.48%	December 2, 2010	December 2, 2022
Series Z	US$ 25 million	6.73%	December 2, 2010 and January 4, 2011	December 2, 2025
Series BB	Cdn$ 27 million	6.88%	December 2, 2010	December 2, 2020
Series CC	US$ 20 million	5.14%	November 30, 2011	November 30, 2016
Series DD	US$ 3 million	5.73%	November 30, 2011	November 30, 2018
Series EE	US$ 53 million	6.29%	November 30, 2011	November 30, 2021
Series FF	Cdn$ 16 million	6.13%	November 30, 2011	November 30, 2018

Notes:

(1) Interest rate per note can fluctuate based on consolidated debt to EBITDA ratio which expires on March 30, 2017, the date the covenant relief period ends with the bank syndicate and noteholders.
(2) Penn West has entered into contracts to fix the interest rate of the Series I Senior Notes at 6.95% in Canadian dollars and to fix the exchange rate on repayment.
(3) Penn West is obligated to repay US$5 million of the total US$25 million principal amount of the Series M notes outstanding on May 5 of each year ending in 2019.
(4) Penn West has entered into contracts to fix the interest rate of the Series N Senior Notes at 9.15% and to fix the exchange rate on repayment.
(5) Penn West has entered into contracts to fix the interest rate of the Series O Senior Notes at 9.22% and to fix the exchange rate on repayment.

Credit Facility

Penn West has a secured, revolving credit facility with a syndicate of Canadian and international banks. The credit facility currently has an aggregate borrowing limit of $1.2 billion and an extendible five-year term (May 6, 2019 maturity date).

Additional Information

Effective May 22, 2015, the Company reached agreements with the lenders under its syndicated bank facility and with the holders of its Senior Notes to, among other things, amend the financial covenants in the bank facility and Senior Notes. As a result, the $500 million tranche of the Company's $1.7 billion revolving, syndicated bank facility that was set to expire on June 30, 2016 was cancelled.

For additional information regarding our Senior Notes and our credit facility, see " *Description of Our Business – General Development of the Business – 2015 Developments*" in this Annual Information Form, Notes 9 and 18 to our audited consolidated financial statements for the year ended December 31, 2015 (collectively, the "**Financial Statement Disclosure**"), and "Financing" and "Liquidity and Capital Resources" in our related MD&A (collectively, the "**MD&A Disclosure**"), both of which are available on SEDAR at www.sedar.com. The Financial Statement Disclosure and the MD&A Disclosure and are both incorporated by reference into this Annual Information Form.

DIRECTORS AND EXECUTIVE OFFICERS OF PENN WEST

The following table sets forth, as at March 9, 2016, the name, province and country of residence and positions and offices held for each of the directors and executive officers of Penn West, together with their principal occupations during the last five years. The directors of Penn West will hold office until the next annual meeting of Shareholders or until their respective successors have been duly elected or appointed.

Name, Province and Country of Residence	Positions and Offices Held with Penn West	Principal Occupations during the Five Preceding Years
George H. Brookman(2)(4) Alberta, Canada	Director since August 3, 2005	Chief Executive Officer of West Canadian Industries Group Inc. (a digital printing and document management company).

Name, Province and Country of Residence	Positions and Offices Held with Penn West	Principal Occupations during the Five Preceding Years
John Brydson(1)(3) Connecticut, United States	Director since June 4, 2014	Private investor since 2012. From 2010 until the end of 2012, Chairman of Hestan Consulting Group, a full-service management consulting firm that he founded. Prior thereto, a Managing Director with Credit Suisse First Boston (now Credit Suisse).
Raymond Crossley(1)(4) Alberta, Canada	Director since March 6, 2015	Partner with PricewaterhouseCoopers LLP since 1996 where he served as the Managing Partner, Western Canada, from 2011 to 2013. Currently a director of Pure Technologies Ltd. and the Canada West Foundation.
Gillian H. Denham(4) Ontario, Canada	Director since June 13, 2012	Corporate director. On the Board of Directors of Morneau Shepell Inc., National Bank of Canada and Markit Group Holdings Limited. Held senior positions at Canadian Imperial Bank of Commerce from 1983 to 2005. She holds an Honours Business Administration degree from University of Western Ontario School of Business and an MBA from Harvard Business School.
William A. Friley(2)(3) Alberta, Canada	Director since March 12, 2015	President and CEO of Telluride Oil and Gas Ltd. and Skyeland Oils Ltd. On the board of directors of: OSUM Oil Sands Corp., Titan Energy Services, and Advanced Flow Technologies. Also, on the Alberta Region board of the Nature Conservancy of Canada.
Richard L. George(3) Alberta, Canada	Chairman of the Board and director since May 3, 2013	Partner of Novo Investment Group Ltd. (a Calgary-based investment management company) ("**Novo**"). Chief Executive Officer of Suncor Energy Inc. ("**Suncor**") (an integrated energy company) prior to May 2012 and President and Chief Executive Officer of Suncor prior to December 2011.
Maureen Cormier Jackson Alberta, Canada	Director since March 8, 2016	Former Senior Vice President, Chief Process and Information Officer at Suncor, from 2011 to 2013, with a broad range of experiences including Environment Health & Safety, Finance, Major Projects, Business Development and Energy Management in her 30 year career. Currently on the Dean's Advisory Board of Dean of Medicine and the University of Calgary and previous director of various private companies. She holds a Bachelor of Commerce, Memorial University, St. John's, a Chartered Professional Accountant (CPA, CGA) and an Institute of Corporate Directors certification (ICD.D).

Name, Province and Country of Residence	Positions and Offices Held with Penn West	Principal Occupations during the Five Preceding Years
David E. Roberts Alberta, Canada	Director, President and Chief Executive Officer since June 19, 2013	President and Chief Executive Officer of Penn West since June 2013. Prior thereto, Executive Vice-President and Chief Operating Officer of Marathon Oil Corporation ("**Marathon**") (an independent energy company) from July 2011 to December 2012. Executive Vice-President Upstream of Marathon from April 2008 to July 2011.
Jay W. Thornton(1)(2) Alberta, Canada	Director since June 5, 2013	Partner of Novo. Prior thereto, various operating and corporate executive positions with Suncor.
David A. Dyck Alberta, Canada	Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer of Penn West since May 2014. Prior thereto, Chief Financial Officer at Synergia Polygen Ltd. from September 2012 until he joined Penn West. Prior thereto, President and Chief Operating Officer of Ivanhoe Energy Inc. from May 2010 to August 2012. Prior thereto, Executive Vice President, Capital Markets at Ivanhoe Energy Inc. from October 2009 to May 2010.
Gregg Gegunde Alberta, Canada	Senior Vice President, Exploitation, Production and Delivery	Senior Vice President, Exploitation, Production and Delivery of Penn West since May 2014. Prior thereto, Senior Vice President, Production and Delivery of Penn West since June 2013. Prior thereto, Vice President, Production of Penn West since February 2012. Prior thereto, various Vice President roles in the development and production engineering areas with Penn West.

Notes:

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

As at the date hereof, the directors and executive officers of Penn West, as a group, beneficially owned, or controlled or directed, directly or indirectly, approximately 3.0 million Common Shares, or less than one percent of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Penn West, except as otherwise set forth herein, no director or executive officer of Penn West (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, Chief Executive Officer or Chief Financial Officer of any company (including Penn West), that:

(a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

On July 29, 2014, Penn West announced that the Audit Committee of the Board was conducting a voluntary, internal review of certain of the Company's accounting practices and that certain of the Company's historical financial statements and related MD&A must be restated, which might result in the release of its second quarter 2014 financial results being delayed (which ultimately proved to be the case). Furthermore, the Company advised that its historical financial statements and related audit reports and MD&A should not be relied on. As a result, the Alberta Securities Commission issued a Management Cease Trade Order on August 5, 2014 (the "**ASC MCTO**") against Messrs. Roberts, Dyck, Gegunde, George, Brookman, Brydson, and Thornton and Ms. Denham. The Ontario Securities Commission issued a Temporary Management Cease Trade Order on August 8, 2014 and a Permanent Management Cease Trade Order on August 20, 2014 (the "**OSC MCTO**"), in each case against Ms. Denham (the only one of the aforementioned individuals who was resident in Ontario). On September 18, 2014, Penn West filed restated audited annual financial statements for the years ended December 31, 2013 and 2012, restated unaudited interim financial statements for the three months ended March 31, 2014 and 2013, restated MD&A for the year ended December 31, 2013 and the quarter ended March 31, 2014, and related amended documents. Penn West also filed its unaudited interim financial statements for the three and six month periods ended June 30, 2014 and 2013 and the related MD&A and management certifications. The ASC MCTO and the OSC MCTO were each revoked on September 23, 2014.

To the knowledge of Penn West, no director or executive officer of Penn West or shareholder holding a sufficient number of securities of Penn West to affect materially the control of Penn West (nor any personal holding company of any of such persons):

(a) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including Penn West) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of Penn West, no director or executive officer of Penn West or shareholder holding a sufficient number of securities of Penn West to affect materially the control of Penn West (nor any personal holding company of any of such persons), has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision;

provided that for the purposes of the foregoing, a late filing fee, such as a filing fee that applies to the late filing of an insider report, is not considered to be a "penalty or sanction".

Conflicts of Interest

The Board of Directors approved an amendment to the Code of Business Conduct and Ethics (the " **Code**") in July of 2015 which made the Code the applicable policy in regards to conflicts of interest (whereas previously there was also the Code of Ethics for Directors, Officers and Senior Financial Management). In general, the private investment activities of employees, directors and officers are not prohibited; however, should an existing investment pose a potential conflict of interest, the potential conflict is required by the Code to be disclosed to an officer or a member of Penn West's legal department or to the

Board of Directors. Any other activities posing a potential conflict of interest are also required by the Code to be disclosed to an officer or to a member of Penn West's legal department. Any such potential conflicts of interests will be dealt with openly with full disclosure of the nature and extent of the potential conflicts of interests with Penn West.

It is acknowledged in the Code that the directors may be directors or officers of other entities engaged in the oil and gas business, and that such entities may compete directly or indirectly with Penn West. Passive investments in public or private entities of less than one per cent of the outstanding shares will not be viewed as "competing" with Penn West. No executive officer or employee of Penn West should be a director, employee, contractor, consultant or officer of any entity that is or may be in competition with Penn West unless expressly authorized by an executive officer or the Board of Directors. Any director of Penn West who is a director or officer of, or who is otherwise actively engaged in the management of, or who owns an investment of one per cent or more of the outstanding shares, in public or private entities shall disclose such holding to the Board of Directors. In the event that any circumstance should arise as a result of such positions or investments being held or otherwise which in the opinion of the Board of Directors constitutes a conflict of interest which reasonably affects such person's ability to act with a view to the best interests of Penn West, the Board of Directors will take such actions as are reasonably required to resolve such matters with a view to the best interests of Penn West. Such actions, without limitation, may include excluding such directors, officers or employees from certain information or activities of Penn West.

The ABCA provides that in the event that an officer or director is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction, such officer or director shall disclose the nature and extent of his or her interest and shall refrain from voting to approve such contract or transaction.

As of the date hereof, Penn West is not aware of any existing or potential material conflicts of interest between Penn West or a Subsidiary of Penn West and any director or officer of Penn West or of any Subsidiary of Penn West.

Promoters

No person or company has been, within the two most recently completed financial years or during the current financial year, a "promoter" (as defined in the *Securities Act* (Ontario)) of Penn West or of a Subsidiary of Penn West.

AUDIT COMMITTEE DISCLOSURES

National Instrument 52-110 Audit Committees (" **NI 52-110**") relating to audit committees has mandated certain disclosures for inclusion in this Annual Information Form. The text of the Audit Committee's mandate is attached as Appendix B to this Annual Information Form.

Composition of the Audit Committee and Relevant Education and Experience

As of the date hereof, the members of the Audit Committee are Raymond Crossley (Chairman), John Brydson, and Jay W. Thornton, each of whom is independent and financially literate within the meaning of NI 52-110. The following comprises a brief summary of each member's education and experience that is relevant to the performance of his or her responsibilities as an Audit Committee member.

John Brydson

Mr. Brydson has over 30 years of experience in the financial sector and has occupied senior roles in both major investment and commercial banks. Since 2012, Mr. Brydson has been a private investor. From 2010 until the end of 2012, he was Chairman of a small full-service management consulting firm, Hestan Consulting Group ("**HCG**"), which he founded. Prior to HCG, Mr. Brydson was a Managing Director with Credit Suisse First Boston, now Credit Suisse ("**CS**"), from 1995 until 2009, where he was in charge of the Multi-Product Event Trading group. He was also a Managing Director with Lehman Brothers in a similar function from 1983 until he joined CS. The early years of his career were spent as an equity analyst before joining Chase Manhattan Bank ("**Chase**") in London in 1977. He transferred to the head office in New York in 1980 where he became a Vice President in the Project Finance Group, specializing in international projects in the energy, mining and metals sectors. He left Chase to join Lehman Brothers in 1983. Mr. Brydson holds an Honors Degree in Economics from Heriot-Watt University in Edinburgh, Scotland. Mr. Brydson served over 10 years as the President and a Board Member of The American Friends of Heriot-Watt University, a charitable organization, and remains on its Board.

Raymond Crossley (Chairman)

Mr. Crossley is a corporate director. He serves as chair of the audit committee of Pure Technologies Ltd. Mr. Crossley has served as a member of the Financial Review Committee of the Alberta Securities Commission ("**ASC**") and has been a member of the Financial Advisory Committee of the ASC. Mr. Crossley retired in 2015 from the accounting firm of PricewaterhouseCoopers ("**PwC**") after serving for more than 33 years. He joined the firm in 1981 and had been a partner since 1996, working with a number of large publicly traded corporations operating in the natural resource and utilities sectors. Mr. Crossley served as an elected member of the Partnership Board (PwC's governing body), from 2001-2005. From 2005-2011, Mr. Crossley was the Managing Partner of PwC's Calgary office. From 2011-2013 Mr. Crossley acted as Managing Partner, Western Canada. Mr. Crossley is a member of the Chartered Professional Accountants of Alberta. He graduated from the University of Western Ontario with a degree in Economics and Political Science.

Jay W. Thornton

Mr. Thornton is a partner of Novo Investment Group Ltd., a Calgary-based investment management company. Mr. Thornton has over 27 years of oil and gas experience. He spent the first part of his career in various management positions with Shell. From 2000 to 2012, he held various operating and corporate executive positions with Suncor. He spent four years in Fort McMurray at Suncor's oil sands mining operations. His most recent position with Suncor was Executive Vice-President of Supply, Trading and Development. He has held previous board positions with both the Canadian Association of Petroleum Producers (CAPP) and the Canadian Petroleum Products Institute (CPPI). He was a past board member of the YMCA Fort McMurray and is currently a member of the board of North American Energy Partners Inc. Mr. Thornton is a graduate of McMaster University with an Honours degree in Economics. He is also a graduate of the Institute of Corporate Directors' (ICD) Directors Education Program.

Pre-Approval Policies and Procedures for Audit and Non-Audit Services

The terms of the engagement of Penn West's external auditors to provide audit services, including the budgeted fees for such audit services and the representations and disclaimer relating thereto, must be pre-approved by the entire Audit Committee.

With respect to any engagements of Penn West's external auditors for non-audit services, Penn West must obtain the approval of the Audit Committee or the Chairman of the Audit Committee prior to retaining the external auditors to complete such engagement. If such pre-approval is provided by the Chairman of the Audit Committee, the Chairman must report to the Audit Committee on any non-audit service engagement pre-approved by him at the Audit Committee's first scheduled meeting following such pre-approval.

If, after using its reasonable best efforts, Penn West is unable to contact the Chairman of the Audit Committee on a timely basis to obtain the pre-approval contemplated by the preceding paragraph, Penn West may obtain the required pre-approval from any other member of the Audit Committee, provided that any such Audit Committee member shall report to the Audit Committee on any non-audit service engagement pre-approved by him or her at the Audit Committee's first scheduled meeting following such pre-approval.

External Auditor Service Fees

The following table summarizes the fees billed to Penn West by KPMG LLP (for 2014) and Ernst & Young (for 2015) for external audit and other services during the periods indicated.

Year	Audit Fees[1] ($)	Audit-Related Fees[2] ($)	Tax Fees[3] ($)	All Other Fees[4] ($)
2015	900,000	35,000	6,000	—
2014	1,746,200	84,400	—	—

Notes:

(1) The aggregate fees billed by our external auditor in each of the last two fiscal years for audit services, including fees for the integrated audit of Penn West's annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements, reviews in connection with acquisitions and Sarbanes-Oxley Act related services, long-form comfort letters related to the public offering of securities and review procedures on the unaudited interim consolidated financial statements. In 2014, amounts included audit fees related to the restatement of prior years' financial statements.
(2) The aggregate fees billed in each of the last two fiscal years by our external auditor for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements (and not included in audit services fees in note (1)). The services comprising the fees disclosed under this category principally consisted of Penn West's portion of fees for the Peace River Oil Partnership audit and French translation services in 2014.
(3) The aggregate fees billed in the applicable fiscal year by our external auditor for professional services for tax compliance, tax advice and tax planning.
(4) The aggregate fees billed in the applicable fiscal year by our external auditor for products and services other than the services described in notes (1), (2) and (3).

Reliance on Exemptions

At no time since the commencement of Penn West's most recently completed financial year has Penn West relied on any of the exemptions contained in Sections 2.4, 3.2, 3.4 or 3.5 of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 thereof. In addition, at no time since the commencement of Penn West's most recently completed financial year has Penn West relied upon the exemptions in Subsection 3.3(2) or Section 3.6 of NI 52-110. Furthermore, at no time since the commencement of Penn West's most recently completed financial year has Penn West relied upon Section 3.8 of NI 52-110.

Audit Committee Oversight

At no time since the commencement of Penn West's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Board of Directors.

DIVIDENDS AND DIVIDEND POLICY

Dividend Policy

In September 2015, the Board of Directors adopted a no dividend policy (effective after the 2015 third quarter payment of $0.01 per Common Share on October 15, 2015) until further notice.

The amount of future cash dividends, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, compliance with any restrictions on the declaration and payment of dividends contained in any agreement to which Penn West is a party from time to time (including, without limitation, the agreements governing Penn West's credit facilities and Senior Notes), and the satisfaction of liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends.

The Board intends to review Penn West's dividend policy on a quarterly basis. **Depending on the foregoing factors and any other factors that the Board deems relevant from time to time, many of which are beyond the control of our Board and management team, the Board may change our dividend policy following any such quarterly review or at any other time that the Board deems appropriate.** See "*Risk Factors*".

The credit agreement governing our syndicated credit facility and each of the note purchase agreements governing our Senior Notes also contain provisions which restrict our ability to pay dividends to Shareholders in the event of the occurrence of certain events of default. The full text of the agreements governing our credit facility and our Senior Notes is available on SEDAR at www.sedar.com. For additional information regarding our credit facility and our Senior Notes, see "*Capitalization of Penn West – Debt Capital*".

Dividend Reinvestment and Optional Common Share Purchase Plan

Penn West had a Dividend Reinvestment and Optional Common Share Purchase Plan (the " **DRIP**") that historically provided eligible Shareholders with the opportunity to acquire additional Common Shares by reinvesting their dividends. At the Company's discretion, Common Shares were acquired with dividends either on the TSX at prevailing market rates or from treasury at 95% of the "average market price" (as defined in the DRIP).

Eligible Shareholders could also make optional cash payments of a minimum of $500 up to a maximum of $15,000 per quarter to purchase additional Common Shares. Common Shares purchased with optional cash payments were acquired either on the TSX at prevailing market rates or from treasury at the average market price (without a discount).

Shareholders who were residents of Canada were eligible to participate in the dividend reinvestment component of the DRIP and to purchase new Common Shares with optional cash payments. Shareholders who were resident in the United States were eligible to participate in the dividend reinvestment component of the DRIP. United States residents were not eligible to make optional cash payments to purchase additional Common Shares pursuant to the DRIP. With the exception of the foregoing, Shareholders who were not residents of Canada were not entitled to participate, directly or indirectly, in the DRIP.

In December 2014, Penn West announced that commencing with its first quarter 2015 dividend, payable on April 15, 2015, the Board had suspended the DRIP until further notice. Shareholders who had elected to participate in the DRIP received cash dividends on the payment date. On March 9, 2016, Penn West announced that the Board had decided to terminate the DRIP pursuant to the terms and conditions set forth in the plan.

Dividends Declared Payable to Shareholders of Penn West

During the financial years ended December 31, 2013, 2014 and 2015, Penn West declared payable the following amount of cash dividends per Common Share:

Quarter	2015 Dividends Declared Payable ($)	2014 Dividends Declared Payable ($)	2013 Dividends Declared Payable ($)
First Quarter	0.01	0.14	0.27
Second Quarter	0.01	0.14	0.27
Third Quarter	0.01	0.14	0.14
Fourth Quarter	0.00	0.14	0.14
Total	0.03	0.56	0.82

In September 2015, Penn West announced a change to its quarterly dividend payment from $0.01 per Common Share to no dividend per Common Share (effective after the 2015 third quarter payment of $0.01 per Common Share on October 15, 2015) until further notice.

MARKET FOR SECURITIES

Trading Price and Volume

The following tables set forth certain trading information for the Common Shares in 2015 as reported by the TSX and the NYSE.

	TSX		
Period	Common Share price ($) High	Common Share price ($) Low	Volume
January	$ 2.48	$ 1.78	138,925,362
February	$ 3.32	$ 2.14	181,041,870
March	$ 2.42	$ 1.76	123,057,471
April	$ 3.04	$ 2.15	94,505,018
May	$ 2.95	$ 2.30	70,538,317
June	$ 2.62	$ 2.15	61,172,743
July	$ 2.14	$ 1.53	62,356,553
August	$ 1.70	$ 0.77	93,009,356
September	$ 0.90	$ 0.61	95,961,812
October	$ 1.64	$ 0.67	177,644,986
November	$ 1.99	$ 1.31	116,898,896
December	$ 1.43	$ 1.06	109,705,818

	NYSE		
Period	Common Share price ($US) High	Common Share price ($US) Low	Volume
January	$ 2.10	$ 1.44	102,012,035
February	$ 2.67	$ 1.69	144,204,236
March	$ 1.95	$ 1.37	108,342,739
April	$ 2.48	$ 1.68	86,087,630
May	$ 2.43	$ 1.89	62,675,734
June	$ 2.11	$ 1.73	47,137,290
July	$ 1.73	$ 1.17	55,278,581
August	$ 1.28	$ 0.60	67,916,352
September	$ 0.67	$ 0.45	58,876,194
October	$ 1.25	$ 0.50	130,499,746
November	$ 1.53	$ 0.97	61,808,066
December	$ 1.07	$ 0.79	46,994,075

Prior Sales

Other than incentive securities issued pursuant to Penn West's director and employee compensation plans and the Senior Notes, Penn West does not have any classes of securities that are outstanding but that are not listed or quoted on a market place.

Escrowed Securities and Securities Subject to Contractual Restriction on Transfer

To Penn West's knowledge, no securities of Penn West are held in escrow, are subject to a pooling agreement, or are subject to a contractual restriction on transfer (except in respect of pledges made to lenders and except in respect of incentive securities issued pursuant to Penn West's director and employee compensation plans).

INDUSTRY CONDITIONS

Companies operating in the oil and natural gas industry are subject to extensive regulation and control of operations (including land tenure, exploration, development, production, refining, upgrading, transportation and marketing) as a result of legislation enacted by various levels of government and with respect to the pricing and taxation of oil and natural gas through policy enacted by the governments of Canada, Alberta, British Columbia, Saskatchewan and Manitoba, all of which should be carefully considered by investors in the oil and gas industry. All current legislation is a matter of public record and we are unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in western Canada.

Pricing and Marketing

Oil

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Worldwide supply and demand factors primarily determine oil prices; however, prices are also influenced by regional market and transportation issues. The specific price depends in part on oil quality, prices of competing fuels, distance to market, availability of transportation, value of refined products, the supply/demand balance, and contractual terms of sale. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "**NEB**"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB. The NEB is currently undergoing a consultation process to update the regulations governing the issuance of export licences. The updating process is necessary to meet the criteria set out in the federal *Jobs, Growth and Long-term Prosperity Act* (Canada) (the "**Prosperity Act**"). In this transitory period, the NEB has issued, and is currently following, an "Interim Memorandum of Guidance concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the *National Energy Board Act* (Canada).

Natural Gas

Canada's natural gas market has been deregulated since 1985. Supply and demand determine the price of natural gas and price is calculated at the sale point, being the wellhead, the outlet of a gas processing plant, on a gas transmission system such as the Alberta "NIT" (Nova Inventory Transfer), at a storage facility, at the inlet to a utility system or at the point of receipt by the consumer. Accordingly, the price realized for natural gas is dependent upon such producer's own arrangements (whether long or short term contracts and the specific point of sale). As natural gas is also traded on trading platforms such as the Natural Gas Exchange (NGX), Intercontinental Exchange or the New York Mercantile Exchange (NYMEX) in the United States, spot and future prices can also be influenced by supply and demand fundamentals on these platforms. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m^3/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 40 years) or for a larger quantity requires an exporter to obtain an export licence from the NEB.

The North American Free Trade Agreement

The North American Free Trade Agreement (" **NAFTA**") among the governments of Canada, the United States and Mexico came into force on January 1, 1994. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply. All three signatory countries are prohibited from imposing a minimum or maximum export price requirement in any circumstance where any other form of quantitative restriction is prohibited. The signatory countries are also prohibited from imposing a minimum or maximum import price requirement except as permitted in enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of those changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, all of which are important for Canadian oil and natural gas exports. NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes.

Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations that govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production and oil sands projects. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally, the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are generally introduced when commodity prices are low to encourage exploration and development activity by improving earnings and cash flow within the industry.

The Government of Canada has signaled that it will, among other things, phase out subsidies for the oil and gas industry, which would include only allowing the use of the Canadian Exploration Expenses tax deduction in cases of successful exploration, implementing more stringent reviews for pipelines, and establishing a pan-Canadian framework for combating climate change within ninety days of the 2015 Paris Climate Conference, which concluded on December 12, 2015. These changes could adversely affect, among other things, the earnings of companies operating in the oil and natural gas industry.

Alberta

On January 29, 2016, the Government of Alberta released and accepted the Royalty Review Advisory Panel's recommendations, which outlined the implementation of a "Modernized Royalty Framework" for Alberta (the "**MRF**"). The MRF will take effect on January 1, 2017. Wells drilled prior to January 1, 2017 will continue to be governed by the current "Alberta Royalty Framework" for a period of 10 years until January 1, 2027. The MRF is structured in three phases: (i) Pre-Payout, (ii) Mid-Life, and (iii) Mature. During the Pre-Payout phase, a fixed 5% royalty will apply until the well reaches payout. Well payout occurs when the cumulative revenue from a well is equal to the Drilling and Completion Cost Allowance (determined by a formula that approximates drilling and completion costs for wells based on depth, length and historical costs). The new royalty rate will be payable on gross revenue generated from all production streams (oil, gas, and natural gas liquids), eliminating the need to label a well as "oil" or "gas". Post-payout, the Mid-Life phase will apply a higher royalty rate than the Pre-Payout phase. While the metrics for calculating the Mid-Life phase royalty have yet to be released, the rate will be determined based on commodity prices and are intended, on average, to yield the same internal rate of return as under the current Alberta Royalty Framework. In the Mature phase, once a well reaches the tail end of its cycle and production falls below a Maturity Threshold, currently estimated to be 20 bbl/d for oil and 200 mcf/d for gas, the royalty rate will move to a sliding scale (based on volume and price) with a minimum royalty rate of 5%. The downward adjustment of the royalty rate in the Mature phase is intended to account for the higher per-unit fixed cost involved in operating an older well. Details of the MRF, including the applicable royalty rates and formulas, are scheduled to be released by March 31, 2016.

Oil sands projects are also subject to Alberta's royalty regime. The MRF does not change the oil sands royalty framework, however, the method and figures by which the royalties are calculated will be released to the public. Prior to payout of an oil sands project, the royalty is payable on gross revenues of an oil sands project. Gross revenue royalty rates range between 1 and 9 percent depending on the market price of oil, determined using the average monthly price, expressed in Canadian dollars, for WTI crude oil at Cushing, Oklahoma: rates are 1 percent when the market price of oil is less than or equal to $55 per barrel and increase for every dollar of market price of oil increase to a maximum of 9 percent when oil is priced at $120 or higher. After payout, the royalty payable is the greater of the gross revenue royalty based on the gross revenue royalty rate of 1 to 9 percent and the net revenue royalty based on the net revenue royalty rate. Net revenue royalty rates start at 25 percent and increase for every dollar of market price of oil increase above $55 up to 40 percent when oil is priced at $120 or higher.

Currently, producers of oil and natural gas from Crown lands in Alberta are required to pay annual rental payments, at a rate of $3.50 per hectare, and make monthly royalty payments in respect of oil and natural gas produced.

Royalties, for wells drilled prior to January 1, 2017, are paid pursuant to "The New Royalty Framework" (implemented by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*) and the "Alberta Royalty Framework" until January 1, 2027. Royalty rates for conventional oil are set by a single sliding rate formula, which is applied monthly and incorporates separate variables to account for production rates and market prices. The maximum royalty payable under the royalty regime is 40%. Royalty rates for natural gas under the royalty regime are similarly determined using a single sliding rate formula with the maximum royalty payable under the royalty regime set at 36%.

Producers of oil and natural gas from freehold lands in Alberta are required to pay annual freehold mineral tax. The freehold mineral tax is a tax levied by the Government of Alberta on the value of oil and natural gas production from non-Crown lands and is derived from the *Freehold Mineral Rights Tax Act* (Alberta). The freehold mineral tax is levied on an annual basis on calendar year production using a tax formula that takes into consideration, among other things, the amount of production, the hours of production, the value of each unit of production, the tax rate and the percentages that the owners hold in the title. The basic formula for the assessment of freehold mineral tax is: revenue less allocable costs equals net revenue divided by wellhead production equals the value based upon unit of production. If payors do not wish to file individual unit values, a default price is supplied by the Crown. On average, the tax levied is four percent of revenues reported from fee simple mineral title properties.

The Government of Alberta has from time to time implemented drilling credits, incentives or transitional royalty programs to encourage oil and gas development and new drilling. For example, the Innovative Energy Technologies Program (the "**IETP**") has the stated objectives of increasing recovery from oil and gas deposits, finding technical solutions to the gas over bitumen issue, improving the recovery of bitumen by in-situ and mining techniques, and improving the recovery of natural gas from coal seams. The IETP provides royalty adjustments to specific pilot and demonstration projects that utilize new or innovative technologies to increase recovery from existing reserves.

In addition, the Government of Alberta has implemented certain initiatives intended to accelerate technological development and facilitate the development of unconventional resources (the "**Emerging Resource and Technologies Initiative**"). These initiatives apply to wells drilled before January 1, 2017, for a 10 year period, until January 1, 2027. Specifically:

- Coalbed methane wells will receive a maximum royalty rate of 5 percent for 36 producing months up to 750 MMcf of production, retroactive to wells that began producing on or after May 1, 2010;
- Shale gas wells will receive a maximum royalty rate of 5 percent for 36 producing months with no limitation on production volume, retroactive to wells that began producing on or after May 1, 2010;
- Horizontal gas wells will receive a maximum royalty rate of 5 percent for 18 producing months up to 500 MMcf of production, retroactive to wells that commenced drilling on or after May 1, 2010; and
- Horizontal oil wells and horizontal non-project oil sands wells will receive a maximum royalty rate of 5 percent with volume and production month limits set according to the depth (including the horizontal distance) of the well, retroactive to wells that commenced drilling on or after May 1, 2010.

While the MRF eliminates the various royalty credits and incentives outlined above for wells drilled after December 31, 2016, the Government of Alberta has committed to creating cost allowance programs for both enhanced oil recovery schemes and higher risk experimental drilling. Details of these programs are scheduled to be released simultaneously with the finalization of the MRF, which is anticipated to occur prior to March 31, 2016.

British Columbia

Producers of oil and natural gas from Crown lands in British Columbia are required to pay annual rental payments and make monthly royalty payments in respect of oil and natural gas produced. The amount payable as a royalty in respect of oil depends on the type and vintage of the oil, the quantity of oil produced in a month and the value of that oil. Generally, oil is classified as either light or heavy and the vintage of oil is classified as either "old oil" produced from a pool discovered

before October 31, 1975, “new oil” produced from a pool discovered between October 31, 1975 and June 1, 1998, and “third-tier oil” produced from a pool discovered after June 1, 1998 or through an enhanced oil recovery (“**EOR**”) scheme. The royalty calculation takes into account the production of oil on a well-by-well basis, the specified royalty rate for a given vintage of oil, the average unit selling price of the oil and any applicable royalty exemptions. Royalty rates are reduced on low productivity wells, reflecting the higher unit costs of extraction, and are the lowest for third-tier oil, reflecting the higher unit costs of both exploration and extraction.

The royalty payable in respect of natural gas produced on Crown lands is determined by a sliding scale formula based on a reference price, which is the greater of the average net price obtained by the producer and a prescribed minimum price. For non-conservation gas (not produced in association with oil), the royalty rate depends on the date of acquisition of the oil and natural gas tenure rights and the spud date of the well and may also be impacted by the select price, a parameter used in the royalty rate formula to account for inflation. Royalty rates are fixed for certain classes of non-conservation gas when the reference price is below the select price. Conservation gas is subject to a lower royalty rate than non-conservation gas. Royalties on natural gas liquids are levied at a flat rate of 20 percent of the sales volume.

Producers of oil and natural gas from freehold lands in British Columbia are required to pay monthly freehold production taxes. For oil, the level of the freehold production tax is based on the volume of monthly production. It is either a flat rate or, beyond a certain production level, is determined using a sliding scale formula based on the production level. For natural gas, the freehold production tax is either a flat rate or, at certain production levels, is determined using a sliding scale formula based on the reference price similar to that applied to natural gas production on Crown land, and depends on whether the natural gas is conservation gas or non-conservation gas. The production tax rate for freehold natural gas liquids is a flat rate of 12.25 percent.

As of January 1, 2017 all liquid natural gas (“ **LNG**”) facilities will be subject to a 3.5% income tax. This income tax is scheduled to increase to 5% in 2037. During the period in which net operating losses and capital investment are deducted, a tax rate of 1.5% will apply to the taxpayer’s net income. Once the net operating losses and capital investment have been depleted, the full rate of 3.5% is payable. To encourage investment, the Government of British Columbia will offer a corporate income tax credit to any LNG taxpayer based on the amount of LNG acquired for an LNG facility.

The Government of British Columbia maintains a number of targeted royalty programs for key resource areas intended to increase the competitiveness of British Columbia’s low productivity natural gas wells. These include both royalty credit and royalty reduction programs, including the following:

- *Deep Well Royalty Credit Program* providing a royalty credit for natural gas wells defined in terms of a dollar amount applied against royalties, which is well specific and applies to drilling and completion costs for vertical wells with a true vertical depth greater than 2,500 metres and horizontal wells with a true vertical depth greater than 1,900 metres (or 2,300 metres if spud before September 1, 2009) and if certain other criteria are met, which is intended to reflect the higher drilling and completion costs. Effective April 1, 2014, there are two tiers to the Deep Well Royalty Credit Program, “tier one” and “tier two”. The pre-existing Deep Well Royalty Credit Program, as described above, will comprise tier two of the program. Tier one of the Deep Well Royalty Credit Program applies to shallower horizontal wells with a true vertical depth less than or equal to 1,900 metres if spud after March 31, 2014. Currently all wells that qualify for the tier one royalty credits are subject to a minimum royalty of 6%, while wells that qualify for the tier two royalty credits are subject to a minimum royalty of 3%. These minimum royalty amounts apply when the net royalty payable would otherwise be zero for a production month;
- *Deep Re-Entry Royalty Credit Program* providing a royalty credit for deep re-entry wells with a true vertical depth to the top of pay if the re-entry well event is greater than 2,300 metres and a re-entry date after November 30, 2003, or if the well was spud on or after January 1, 2009, with a true vertical depth to the completion point of the re-entry well event being greater than 2,300 metres;
- *Deep Discovery Royalty Credit Program* providing the lesser of a 3-year royalty holiday or 283,000,000 m^3 of royalty free gas for deep discovery wells with a true vertical depth greater than 4,000 metres whose surface locations are at least 20 kilometres away from the surface location of any well drilled into a recognized pool within the same formation;

- *Coalbed Gas Royalty Reduction and Credit Program* providing a royalty reduction for coalbed gas wells with average daily production less than 17,000 m^3 as well as a royalty credit for coalbed gas wells equal to $50,000 for wells drilled on Crown land and a tax credit equal to $30,000 for wells drilled on freehold land;
- *Marginal Royalty Reduction Program* providing a monthly royalty reduction for low productivity natural gas wells with an average daily rate of production less than 23 m^3 for every metre of marginal well depth in the first 12 months of production. To be eligible, wells must have been spudded after May 31, 1998 and the first month of marketable gas production must have occurred between June 2003 and August 2008. Once a well passes the initial eligibility test, a reduction is realized in each month that average daily production is less than 25,000 m^3;
- *Ultra-Marginal Royalty Reduction Program* providing royalty reductions for low productivity, shallow natural gas wells. Vertical wells must be less than 2,500 metres and horizontal wells less than 2,300 metres to be eligible. Production in the first 12 months ending after January 2007 must be less than 17 m^3 per metre of depth for exploratory wildcat wells and less than 11 m^3 per metre of depth for development wells and exploratory outpost wells. The well must have been spudded or re-entered after December 31, 2005. A reduction is realized in each month that average daily production is less than 60,000 m^3. Horizontal wells that are spud on or after April 1, 2014 are not eligible for the Ultra-Marginal Royalty Reduction Program due to the potential for overlap with shallower horizontal wells eligible for a royalty credit under the Deep Well Royalty Credit Program; and
- *Net Profit Royalty Reduction Program* providing reduced initial royalty rates to facilitate the development and commercialization of technically complex resources such as coalbed gas, tight gas, shale gas and enhanced-recovery projects, with higher royalty rates applied once capital costs have been recovered.

Oil produced from an oil well that is located on either Crown or freehold land and completed in a new pool discovered subsequent to June 30, 1974 may also be exempt from the payment of a royalty for the first 36 months of production or 11,450 m^3 of production, whichever comes first.

The Government of British Columbia also maintains an Infrastructure Royalty Credit Program which provides royalty credits for up to 50 percent of the cost of certain approved road construction or pipeline infrastructure projects intended to facilitate increased oil and gas exploration and production in under-developed areas and to extend the drilling season.

Saskatchewan

In Saskatchewan, taxes ("**Resource Surcharge**") and royalties are applicable to revenue generated by corporations focused on oil and gas operations.

A Resource Surcharge on the value of sales of oil, natural gas, potash, uranium and coal in Saskatchewan is levied under authority of *The Corporation Capital Tax Act*. For resource corporations, the Resource Surcharge rate is 3% of the value of sales of all potash, uranium and coal produced in Saskatchewan, and oil and natural gas produced from wells drilled in Saskatchewan prior to October 1, 2002. For oil and natural gas produced from wells drilled in Saskatchewan after September 30, 2002, the Resource Surcharge rate is 1.7% of the value of sales. The Resource Surcharge applies to resource trusts in addition to resource corporations.

The amount payable as a Crown royalty or a freehold production tax in respect of oil depends on the type and vintage of oil, the quantity of oil produced in a month, the value of the oil produced and specified adjustment factors determined monthly by the provincial government. For Crown royalty and freehold production tax purposes, conventional oil is divided into "types", being "heavy oil", "southwest designated oil" or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil", "third tier oil", "new oil" and "old oil") depend on the finished drilling date of a well and are applied to each of the three crude oil types slightly differently. Heavy oil is classified as third tier oil (produced from a vertical well having a finished drilling date on or after January 1, 1994 and before October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after January 1, 1994 and before October 1, 2002), fourth tier oil (having a finished drilling date on or after October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after October 1, 2002) or new oil (conventional oil that is not classified as "third tier oil" or "fourth tier oil"). Southwest designated oil uses the same definition of fourth tier oil but third tier oil is defined as conventional oil produced from a vertical well having a finished drilling date on or after

February 9, 1998 and before October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after February 9, 1998 and before October 1, 2002, and new oil is defined as conventional oil produced from a horizontal well having a finished drilling date on or after February 9, 1998 and before October 1, 2002. For non-heavy oil other than southwest designated oil, the same classification as heavy oil is used but new oil is defined as conventional oil produced from a vertical well completed after 1973 and having a finished drilling date prior to 1994, conventional oil produced from a horizontal well having a finished drilling date on or after April 1, 1991 and before October 1, 2002, or incremental oil from new or expanded waterflood projects with a commencement date on or after January 1, 1974 and before 1994 whereas old oil is defined as conventional oil not classified as third or fourth tier oil or new oil. Production tax rates for freehold production are determined by first determining the Crown royalty rate and then subtracting the "Production Tax Factor" ("**PTF**") applicable to that classification of oil. Currently the PTF is 6.9 for "old oil", 10.0 for "new oil" and "third tier oil" and 12.5 for "fourth tier oil". The minimum rate for freehold production tax is zero.

Base prices are used to establish lower limits in the price-sensitive royalty structure for conventional oil and apply at a reference well production rate of 100 m^3 for old oil, new oil and third tier oil, and 250 m^3 per month for fourth tier oil. Where average wellhead prices are below the established base prices of $100 per m^3 for third and fourth tier oil and $50 per m^3 for new oil and old oil, base royalty rates are applied. Base royalty rates are 5 percent for all fourth tier oil, 10 percent for heavy oil that is third tier oil or new oil, 12.5 percent for southwest designated oil that is third tier oil or new oil, 15 percent for non-heavy oil other than southwest designated oil that is third tier or new oil, and 20 percent for old oil. Where average wellhead prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base oil price. Marginal royalty rates are 30 percent for all fourth tier oil, 25 percent for heavy oil that is third tier oil or new oil, 35 percent for southwest designated oil that is third tier oil or new oil, 35 percent for non-heavy oil other than southwest designated oil that is third tier or new oil, and 45 percent for old oil.

The amount payable as a Crown royalty or a freehold production tax in respect of natural gas production is determined by a sliding scale based on the monthly provincial average gas price published by the Government of Saskatchewan, the quantity produced in a given month, the type of natural gas, and the classification of the natural gas. Like conventional oil, natural gas may be classified as "non-associated gas" (gas produced from gas wells) or "associated gas" (gas produced from oil wells) and royalty rates are determined according to the finished drilling date of the respective well. Non-associated gas is classified as new gas (having a finished drilling date before February 9, 1998 with a first production date on or after October 1, 1976), third tier gas (having a finished drilling date on or after February 9, 1998 and before October 1, 2002), fourth tier gas (having a finished drilling date on or after October 1, 2002) and old gas (not classified as either third tier, fourth tier or new gas). A similar classification is used for associated gas except that the classification of old gas is not used, the definition of fourth tier gas also includes production from oil wells with a finished drilling date prior to October 1, 2002, where the individual oil well has a gas-oil production ratio in any month of at least 3,500 m^3 of gas for every m^3 of oil, and new gas is defined as oil produced from a well with a finished drilling date before February 9, 1998 that received special approval, prior to October 1, 2002, to produce oil and gas concurrently without gas-oil ratio penalties.

On December 9, 2010, the Government of Saskatchewan enacted the *Freehold Oil and Gas Production Tax Act, 2010* with the intention to facilitate the efficient payment of freehold production taxes by industry. Two new regulations with respect to this legislation are: (i) *The Freehold Oil and Gas Production Tax Regulations, 2012* which sets out the terms and conditions under which the taxes are calculated and paid; and (ii) *The Recovered Crude Oil Tax Regulations, 2012* which sets out the terms and conditions under which taxes on recovered crude oil that was delivered from a crude oil recovery facility on or after March 1, 2012 are to be calculated and paid.

As with conventional oil production, base prices based on a well reference rate of 250 10^3 m^3 per month are used to establish lower limits in the price-sensitive royalty structure for natural gas. Where average field-gate prices are below the established base prices of $1.35 per gigajoule for third and fourth tier gas and $0.95 per gigajoule for new gas and old gas, base royalty rates are applied. Base royalty rates are 5 percent for all fourth tier gas, 15 percent for third tier or new gas, and 20 percent for old gas. Where average well-head prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base gas price. Marginal royalty rates are 30 percent for all fourth tier gas, 35 percent for third tier and new gas, and 45 percent for old gas**.** The current regulatory scheme provides for **c**ertain differences with respect to the administration of fourth tier gas which is associated gas.

The Government of Saskatchewan currently provides a number of targeted incentive programs. These include both royalty reduction and incentive volume programs, including the following:

- *Royalty/Tax Incentive Volumes for Vertical Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty (a Crown royalty rate of the lesser of "fourth tier oil" Crown royalty rate and 2.5 percent) and freehold tax rates (a freehold production tax rate of 0 percent) on incentive volumes of 8,000 m^3 for deep development vertical oil wells, 4,000 m^3 for non-deep exploratory vertical oil wells and 16,000 m^3 for deep exploratory vertical oil wells (more than 1,700 metres or within certain formations) and after the incentive volume is produced, the oil produced will be subject to the "fourth tier" royalty tax rate;
- *Royalty/Tax Incentive Volumes for Exploratory Gas Wells Drilled on or after October 1, 2002* providing reduced Crown royalty (a Crown royalty rate of the lesser of "fourth tier oil" Crown royalty rate and 2.5 percent) and freehold tax rates (a freehold production tax rate of 0 percent) on incentive volumes of 25,000,000 m^3 for qualifying exploratory gas wells;
- *Royalty/Tax Incentive Volumes for Horizontal Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty (a Crown royalty rate of the lesser of "fourth tier oil" Crown royalty rate and 2.5 percent) and freehold tax rates (a freehold production tax rate of 0%) on incentive volumes of 6,000 m^3 for non-deep horizontal oil wells and 16,000 m^3 for deep horizontal oil wells (more than 1,700 metres total vertical depth or within certain formations) and after the incentive volume is produced, the oil produced will be subject to the "fourth tier" royalty tax rate;
- *Royalty/Tax Incentive Volumes for Horizontal Gas Wells drilled on or after June 1, 2010 and before April 1, 2013* providing for a classification of the well as a qualifying exploratory gas well and resulting in a reduced Crown royalty (a Crown royalty rate of the lesser of "fourth tier oil" Crown royalty rate and 2.5 percent) and freehold tax rates (a freehold production tax rate of 0 percent) on incentive volumes of 25,000,000 m^3 for horizontal gas wells and after the incentive volume is produced, the gas produced will be subject to the "fourth tier" royalty tax rate;
- *Royalty/Tax Regime for Incremental Oil Produced from New or Expanded Waterflood Projects Implemented on or after October 1, 2002* whereby incremental production from approved waterflood projects is treated as fourth tier oil for the purposes of Crown royalty and freehold tax calculations;
- *Royalty/Tax Regime for Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing prior to April 1, 2005* providing lower Crown royalty and freehold tax determinations based in part on the profitability of EOR projects during and subsequent to the payout of the EOR operations;
- *Royalty/Tax Regime for Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing on or after April 1, 2005* providing a Crown royalty of 1 percent of gross revenues on EOR projects pre-payout and 20 percent of EOR operating income post-payout and a freehold production tax of 0 percent pre-payout and 8 percent post-payout on operating income from EOR projects; and
- *Royalty/Tax Regime for High Water-Cut Oil Wells* designed to extend the product lives and improve the recovery rates of high water-cut oil wells and granting "third tier oil" royalty/tax rates with a Saskatchewan Resource Credit of 2.5 percent for oil produced prior to April 2013 and 2.25 percent for oil produced on or after April 1, 2013 to incremental high water-cut oil production resulting from qualifying investments made to rejuvenate eligible oil wells and/or associated facilities.

On June 22, 2011, the Government of Saskatchewan released the Upstream Petroleum Industry Associated Gas Conservation Standards, which are designed to reduce emissions resulting from the flaring and venting of associated gas (the "**Associated Natural Gas Standards**"). The Associated Natural Gas Standards were jointly developed with industry and the implementation of such standards commenced on July 1, 2012 for new wells and facilities licensed on or after such date. The new standards began to apply to existing licensed wells and facilities on July 1, 2015.

Effective April 1, 2014, the Saskatchewan Ministry of the Economy streamlined fees related to licenses and applications in the oil and gas sector by eliminating 11 different licensing fees, which resulted in an aggregate of 20,000 fee transactions per year, and replacing them with a single annual levy based on a company's production and number of wells. While the fees have been streamlined, approvals to conduct the relevant activities are still required.

Manitoba

In Manitoba, the royalty amount payable on oil produced from Crown lands depends on the classification of the oil produced as “old oil” (produced from a well drilled prior to April 1, 1974 that does not qualify as new oil or third tier oil), “new oil” (oil that is not third tier oil and is produced from a well drilled on or after April 1, 1974 and prior to April 1, 1999, from an abandoned well re-entered during that period, from an old oil well as a result of an enhanced recovery project implemented during that period, or from a horizontal well), “third tier oil” (oil produced from a vertical well drilled after April 1, 1999, an abandoned well re-entered after that date, an inactive vertical well activated after that date, a marginal well that has undergone a major workover, or from an old oil well or a new oil well as a result of an enhanced recovery project implemented after that date), or “holiday oil” (oil that is exempt from any royalty or tax payable). Royalty rates are calculated on a sliding scale and based on the monthly oil production from a spacing unit, or oil production allocated to a unit tract under a unit agreement or unit order. For horizontal wells, the royalty on oil produced from Crown lands is calculated based on the amount of oil production allocated to a spacing unit in accordance with the applicable regulations.

Royalties payable on natural gas and NGL production from Crown lands are equal to 12.5 percent of the volume of natural gas sold, calculated for each production month.

Producers of oil, natural gas and NGL from freehold lands in Manitoba are required to pay monthly freehold production taxes. The freehold production tax payable on oil is calculated on a sliding scale based on the monthly production volume and the classification of oil as old oil, new oil, third tier oil and holiday oil. Producers of natural gas from freehold lands in Manitoba are required to pay a monthly freehold production tax equal to 1.2 percent of the volume sold, calculated for each production month. There is no freehold production tax payable on gas consumed as lease fuel.

The Government of Manitoba maintains a Drilling Incentive Program (the “ **Program**”) with the intent of promoting investment in the sustainable development of petroleum resources. The Program provides the licensee of newly drilled wells, or qualifying wells where a major workover has been completed, with a “holiday oil volume” pursuant to which no Crown royalties or freehold production taxes are payable until the holiday oil volume has been produced. Holiday oil volumes must be produced within 10 years of the finished drilling date or the completion date of a major workover. Wells drilled or receiving a marginal well major workover incentive after December 31, 2013 and prior to January 1, 2019 must pay a minimum royalty of 3 percent on Crown production or a minimum tax of 1 percent on freehold production. Wells receiving the *Pressure Maintenance Project Incentive* (outlined below) are not subject to the minimum royalty or minimum tax. Wells drilled for injection, or converted to injection wells, in an approved enhanced recovery project, earn a one year holiday for portions of the project area.

The Program consists of the following components, such components being subject to additional considerations under the

Crown Royalty and Incentives Regulation:

- *Vertical Well Incentive* provides licensees of a vertical development or exploratory well drilled after December 31, 2013 and prior to January 1, 2019 with a holiday oil volume (a “**HOV**”) of 500 m^3. To qualify, the well must be less than 1.6 kilometres from the nearest well cased for production from the same or deeper zone;
- *Exploration and Deep Well Incentive* provides a HOV for exploratory or deep oil development wells drilled after December 31, 2013 and prior to January 1, 2019 as follows:
  - Non-deep exploratory wells drilled more than 1.6 kilometres from the nearest well cased for production from the same or deeper zone earn a HOV of 4,000 m^3;
  - Deep exploratory wells drilled below the Birdbear formation earn a HOV of 8,000 m^3; and
  - Deep development wells completed for production in the Birdbear formation or deeper earn a HOV of 8,000 m^3;
- *Horizontal Well Incentive* provides a HOV of 8,000 m^3 for any horizontal well drilled after December 31, 2013 and prior to January 1, 2019 achieving an angle of at least 80 degrees for a minimum distance of 100 metres;

- *Marginal Well Major Workover Incentive* provides a HOV of 500 m^3 for any marginal well where a major workover is completed prior to January 1, 2019. A marginal oil well is a well or abandoned well that was not operated over the previous 12 months or that produced at an average rate of less than 3 m^3 per operating day;
- *Pressure Maintenance Project Incentive* provides a one-year exemption from the payment of Crown royalties or freehold production taxes for a unit tract in which an injection well is drilled or a well is converted to water injection. This exemption applies to the unit tract in which the vertical injection well is located and for a horizontal injection well to a maximum of four unit tracts within the drainage unit of the well. For a well that is converted to injection after December 31, 2013 and before January 21, 2019 and that has a remaining HOV, the exemption will be extended to 18 months; and
- *Solution Gas Conservation Incentive* provides a royalty and tax exemption on gas until December 31, 2018 for projects that capture solution gas implemented after December 31, 2013.

The Holiday Oil Volume Account, which allowed the movement of HOV to and from wells under specific conditions, was eliminated as of January 1, 2015. Previously, the holder of an existing account was able to make a one-time transfer of 2,000 m^3 to a well drilled between January 1 and December 31, 2014.

Land Tenure

The respective provincial governments predominantly own the rights to crude oil and natural gas located in the western provinces, with the exception of Manitoba where private ownership accounts for approximately 80 percent of the crude oil and natural gas rights in the southwestern portion of the province. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits for varying terms and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. Private ownership of oil and natural gas also exists in such provinces and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Each of the provinces of Alberta, British Columbia, Saskatchewan and Manitoba have implemented legislation, in some cases, providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or license.

The Government of British Columbia expanded its policy of deep rights reversion for leases issued after March 29, 2007 to provide for the reversion of both shallow and deep formations, in some cases, that cannot be shown to be capable of production at the end of their primary term.

Alberta also has a policy of “shallow rights reversion” which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for all leases and licenses issued after January 1, 2009 at the conclusion of the primary term of the lease or license.

Production and Operation Regulations

The oil and natural gas industry in Canada is highly regulated and subject to significant control by provincial regulators. Regulatory approval is required for, among other things, the drilling of oil and natural gas wells, construction and operation of facilities, the storage, injection and disposal of substances and the abandonment and reclamation of well-sites. In order to conduct oil and gas operations and remain in good standing with the applicable provincial regulator, we must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance with such legislation, regulations, orders, directives or other directions can be costly and a breach of the same may result in fines or other sanctions.

Environmental Regulation

The oil and natural gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances

produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

Federal

Pursuant to the *Prosperity Act*, the Government of Canada amended or repealed several pieces of federal environmental legislation and in addition, created a new federal environment assessment regime that came in to force on July 6, 2012. The changes to the environmental legislation under the *Prosperity Act* are intended to provide for more efficient and timely environmental assessments of projects that previously had been subject to overlapping legislative jurisdiction.

Alberta

The Alberta Energy Regulator (the "**AER**") is the single regulator responsible for all energy development in Alberta. The AER ensures the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources including allocating and conserving water resources, managing public lands, and protecting the environment. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Surface Rights Board, as well as Alberta Energy's responsibility for mineral tenure. The objective behind a single regulator is to provide for an enhanced regulatory regime that is efficient, attractive to business and investors, and effective in supporting public safety, environmental management and resource conservation while respecting the rights of landowners.

The Government of Alberta relies on regional planning to accomplish its responsible resource development goals. The following frameworks, plans and policies form the basis of Alberta's Integrated Resource Management System ("**IRMS**"). The IRMS method to natural resource management sets out to engage and consult with stakeholders and the public. While the AER is the primary regulator for energy development, several governmental departments and agencies may be involved in land use issues, including Alberta Environment and Parks, Alberta Energy, the AER, the Alberta Environmental Monitoring, Evaluation and Reporting Agency, the Policy Management Office, the Aboriginal Consultation Office, and the Land Use Secretariat.

In December 2008, the Government of Alberta released a new land use policy for surface land in Alberta, the Alberta Land Use Framework (the "**ALUF**"). The ALUF sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans.

The *Alberta Land Stewardship Act* (the "**ALSA**") provides the legislative authority for the Government of Alberta to implement the policies contained in the ALUF. Regional plans established under the ALSA are deemed to be legislative instruments equivalent to regulations and will be binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. In the event of a conflict or inconsistency between a regional plan and another regulation, regulatory instrument or statutory consent, the regional plan will prevail. Further, the ALSA requires local governments, provincial departments, agencies and administrative bodies or tribunals to review their regulatory instruments and make any appropriate changes to ensure that they comply with an adopted regional plan. The ALSA also contemplates the amendment or extinguishment of previously issued statutory consents such as regulatory permits, licenses, registrations, approvals and authorizations for the purpose of achieving or maintaining an objective or policy resulting from the implementation of a regional plan. Among the measures to support the goals of the regional plans contained in the ALSA are conservation easements, which can be granted for the protection, conservation and enhancement of land, and conservation directives, which are explicit declarations contained in a regional plan to set aside specified lands in order to protect, conserve, manage and enhance the environment.

On August 22, 2012, the Government of Alberta approved the Lower Athabasca Regional Plan (" **LARP**") which came into force on September 1, 2012. The LARP is the first regional plan developed under the ALUF. LARP covers a region in the northeastern corner of Alberta that is approximately 93,212 square kilometres in size. The region includes a substantial portion of the Athabasca oilsands area, which contains approximately 82 percent of the province's oilsands resources and much of the Cold Lake oilsands area. LARP establishes six new conservation areas and nine new provincial recreation areas. In conservation and provincial recreation areas, conventional oil and gas companies with pre-existing tenure may continue to

operate. Any new petroleum and gas tenure issued in conservation and provincial recreation areas will include a restriction that prohibits surface access. In contrast, oilsands companies' tenure has been (or will be) cancelled in conservation areas and no new oilsands tenure will be issued. While new oil sands tenure will be issued in provincial recreation areas, new and existing oil sands tenure will prohibit surface access.

In July 2014, the Government of Alberta approved the South Saskatchewan Regional Plan (" **SSRP**") which came into force on September 1, 2014. The SSRP is the second regional plan developed under the ALUF. The SSRP covers approximately 83,764 square kilometres and includes 44% of the provincial population.

The SSRP creates four new and four expanded conservation areas, and two new and six expanded provincial parks and recreational areas. Similar to LARP, the SSRP will honour existing petroleum and natural gas tenure in conservation and provincial recreational areas. However, any new petroleum and natural gas tenures sold in conservation areas, provincial parks, and recreational areas will prohibit surface access. However, oil and gas companies must minimize impacts of activities on the natural landscape, historic resources, wildlife, fish and vegetation when exploring, developing and extracting the resources. Freehold mineral rights will not be subject to this restriction.

British Columbia

In British Columbia, the *Oil and Gas Activities Act* (the "**OGAA**") impacts conventional oil and gas producers, shale gas producers, and other operators of oil and gas facilities in the province. Under the OGAA, the British Columbia Oil and Gas Commission (the "**BCO&G Commission**") has broad powers, particularly with respect to compliance and enforcement and the setting of technical safety and operational standards for oil and gas activities. The *Environmental Protection and Management Regulation* establishes the government's environmental objectives for water, riparian habitats, wildlife and wildlife habitat, old-growth forests and cultural heritage resources. The OGAA requires the BCO&G Commission to consider these environmental objectives in deciding whether or not to authorize an oil and gas activity. In addition, although not an exclusively environmental statute, the *Petroleum and Natural Gas Act*, in conjunction with the OGAA, requires proponents to obtain various approvals before undertaking exploration or production work, such as geophysical licences, geophysical exploration project approvals, permits for the exclusive right to do geological work and geophysical exploration work, and well, test hole and water-source well authorizations. Such approvals are given subject to environmental considerations and licences and project approvals can be suspended or cancelled for failure to comply with this legislation or its regulations.

Saskatchewan

In May 2011, the Government of Saskatchewan passed changes to *The Oil and Gas Conservation Act* ("**SKOGCA**"), the act governing the regulation of resource development operations in the province. Although the associated Bill received Royal Assent on May 18, 2011, it was not proclaimed into force until April 1, 2012, in conjunction with the release of *The Oil and Gas Conservation Regulations, 2012* ("**OGCR**") and *The Petroleum Registry and Electronic Documents Regulations* ("**Registry Regulations**"). The aim of the amendments to the SKOGCA, and the associated regulations, is to provide resource companies investing in Saskatchewan's energy and resource industries with the best support services and business and regulatory systems available. With the enactment of the Registry Regulations and the OGCR, the Government of Saskatchewan has implemented a number of operational aspects, including the increased demand for record-keeping, increased testing requirements for injection wells and increased investigation and enforcement powers, and procedural aspects, including those related to Saskatchewan's participation as partner in the Petroleum Registry of Alberta.

Manitoba

In Manitoba, the Petroleum Branch of Innovation, Energy and Mines develops, recommends, implements and administers policies and legislation aimed at the sustainable, orderly, safe and efficient development of crude oil and natural gas resources. Oil and gas exploration, development, production and transportation are subject to regulation under *The Oil and Gas Act* (the "**MBOGA**") and *The Oil and Gas Production Tax Act,* and related regulations and guidelines.

Liability Management Rating Programs

Alberta

In Alberta, the AER administers the Licensee Liability Rating Program (the " **AB LLR Program**"). The AB LLR Program is a liability management program governing most conventional upstream oil and gas wells, facilities and pipelines. The ABOGCA establishes an orphan fund (the "**Orphan Fund**") to pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the AB LLR Program if a licensee or working interest participant ("**WIP**") becomes defunct. The Orphan Fund is funded by licensees in the AB LLR Program through a levy administered by the AER. The AB LLR Program is designed to minimize the risk to the Orphan Fund posed by unfunded liability of licensees and prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines. The AB LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to provide the AER with a security deposit. The ratio of deemed liabilities to deemed assets is assessed once each month and failure to post the required security deposit may result in the initiation of enforcement action by the AER.

Made effective in three phases, from May 1, 2013 to August 1, 2015, the AER implemented important changes to the AB LLR Program (the "**Changes**") that resulted in a significant increase in the number of oil and gas companies in Alberta that are required to post security. The Changes affect the deemed parameters and costs used in the formula that calculates the ratio of deemed liabilities to deemed assets under the AB LLR Program, increasing a licensee's deemed liabilities and rendering the industry average netback factor more sensitive to asset value fluctuations. The Changes stem from concern that the previous regime significantly underestimated the environmental liabilities of licensees.

The AER implemented the inactive well compliance program (the "**IWCP**") to address the growing inventory of inactive wells in Alberta and to increase the AER's surveillance and compliance efforts under *Directive 013: Suspension Requirements for Wells* ("**Directive 013**"). The IWCP applies to all inactive wells that are noncompliant with Directive 013 as of April 1, 2015. The objective is to bring all inactive noncompliant wells under the IWCP into compliance with the requirements of Directive 013 within five years. As of April 1, 2015, each licensee is required to bring 20% of its inactive wells into compliance every year, either by reactivating or suspending the wells in accordance with Directive 013 or by abandoning them in accordance with *Directive 020: Well Abandonment*. The list of current wells subject to the IWCP is available on the AER's Digital Data Submission system.

British Columbia

In British Columbia, the BCO&G Commission implements the Liability Management Rating (" **LMR**") Program, designed to manage public liability exposure related to oil and gas activities by ensuring that permit holders carry the financial risks and regulatory responsibility of their operations through to regulatory closure. Under the LMR Program, the BCO&G Commission determines the required security deposits for permit holders under the OGAA. The LMR is the ratio of a permit holder's deemed assets to deemed liabilities. Permit holders whose deemed liabilities exceed deemed assets will be considered high risk and reviewed for a security deposit. Permit holders who fail to submit the required security deposit within the allotted timeframe may be in non-compliance with the OGAA.

Saskatchewan

In Saskatchewan, the Ministry of Economy implements the Licensee Liability Rating Program (the " **SK LLR Program**"). The SK LLR Program is designed to assess and manage the financial risk that a licensee's well and facility abandonment and reclamation liabilities pose to an orphan fund (the "**Oil and Gas Orphan Fund**") established under the SKOGCA. The Oil and Gas Orphan Fund is responsible for carrying out the abandonment and reclamation of wells and facilities contained within the SK LLR Program when a licensee or WIP is defunct or missing. The SK LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to post a security deposit. The ratio of deemed liabilities to deemed assets is assessed once each month for all licensees of oil, gas and service wells and upstream oil and gas facilities.

Manitoba

To date, the Government of Manitoba has not implemented a liability management rating program similar to those found in the other western provinces. However, operators of wells licensed in the province are required to post a performance deposit to ensure that the operation and abandonment of wells and the rehabilitation of sites occurs in accordance with the MBOGA and the *Drilling and Production Regulations*. In certain circumstances, a performance deposit may be refunded. The

MBOGA also establishes the Abandonment Fund Reserve Account (the "**Abandonment Fund**"). The Abandonment Fund is a source of funds that may be used to operate or abandon a well when the licensee or permittee fails to comply with the MBOGA. The Abandonment Fund may also be used to rehabilitate the site of an abandoned well or facility or to address any adverse effect on property caused by a well or facility. Deposits into the Abandonment Fund are comprised of non-refundable levies charged when certain licences and permits are issued or transferred as well as annual levies for inactive wells and batteries.

Climate Change Regulation

Federal

Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the oil and natural gas industry in Canada. Such regulations, surveyed below, impose certain costs and risks on the industry.

The Government of Canada is a signatory to the *United Nations Framework Convention on Climate Change* (the "**UNFCCC**") and a participant to the Copenhagen Accord (a non-binding agreement created by the UNFCCC which represents a broad political consensus and reinforces commitments to reducing greenhouse gas ("**GHG**") emissions). On January 29, 2010, Canada inscribed in the Copenhagen Accord its 2020 economy-wide target of a 17 percent reduction of GHG emissions from 2005 levels. This target is aligned with the United States target. In a report dated October 2013, the Government of Canada stated that this target represents a significant challenge in light of strong economic growth (Canada's economy is projected to be approximately 31 percent larger in 2020 compared to 2005 levels).

On April 26, 2007, the Government of Canada released "Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution" (the "**Action Plan**") which set forth a plan for regulations to address both GHGs and air pollution. An update to the Action Plan, "Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions" was released on March 10, 2008 (the "**Updated Action Plan**"). The Updated Action Plan outlines emissions intensity-based targets for application to regulated sectors on a facility-specific basis, sector-wide basis or company-by-company basis. Although the intention was for draft regulations aimed at implementing the Updated Action Plan to become binding on January 1, 2010, the only regulations being implemented are in the transportation and electricity sectors. The Government of Canada indicates that it is taking a sector-by-sector regulatory approach to reducing GHG emissions and is working on regulations for other sectors. Representatives of the Government of Canada have indicated that the proposals contained in the Updated Action Plan will be modified to ensure consistency with the direction ultimately taken by the United States with respect to GHG emissions regulation. In June 2012, the second US-Canada Clean Energy Dialogue Action Plan was released. The plan renewed efforts to enhance bilateral collaboration on the development of clean energy technologies to reduce GHG emissions.

On December 12, 2015, the UNFCCC adopted the Paris Agreement, to which Canada is a participant. The Paris Agreement mandates that all countries must work together to limit global temperature increases resulting from GHG emissions to a goal of less than 2° Celsius and to pursue efforts to limit global temperature increases below 1.5° Celsius, through implementing successive nationally determined contributions. Technical details remain unreleased, but the Government of Canada is expected to announce a plan within 90 days of the Paris Agreement, which will significantly increase Canada's GHG emission reduction targets.

Alberta

As part of its efforts to reduce GHG emissions, the Government of Alberta introduced legislation to address GHG emissions: the *Climate Change and Emissions Management Act* (the "**CCEMA**") enacted on December 4, 2003 and amended through the *Climate Change and Emissions Management Amendment Act*, which received royal assent on November 4, 2008. The accompanying regulations include the *Specified Gas Emitters Regulation* ("**SGER**"), which imposes GHG limits, and the *Specified Gas Reporting Regulation*, which imposes GHG emissions reporting requirements. Alberta is the first jurisdiction in North America to impose regulations requiring large facilities in various sectors to reduce their GHG emissions. The SGER applies to facilities emitting more than 100,000 tonnes of GHGs in 2003 or any subsequent year ("**Regulated Emitters**"), and requires reductions in GHG emissions intensity (e.g. the quantity of GHG emissions per unit of production) from emissions intensity baselines established in accordance with the SGER.

On June 25, 2015, the Government of Alberta renewed the SGER for a period of two years with significant amendments while Alberta's newly formed Climate Advisory Panel conducted a comprehensive review of the province's climate change policy. In 2015, Regulated Emitters were required to reduce their emissions intensity by 2% from their baseline in the fourth year of commercial operation, 4% of their baseline in the fifth year, 6% of their baseline in the sixth year, 8% of their baseline in the seventh year, 10% of their baseline in the eighth year, and 12% of their baseline in the ninth or subsequent years. These reduction targets will increase, meaning that Regulated Emitters in their ninth or subsequent years of commercial operation must reduce their emissions intensity from their baseline by 15% in 2016 and 20% in 2017.

Regulated Emitters can meet their emissions intensity targets through a combination of the following: (1) producing its products with lower carbon inputs, (2) purchasing emissions offset credits from non-regulated emitters (generated through activities that result in emissions reductions in accordance with established protocols), (3) purchasing emissions performance credits from other Regulated Emitters that earned credits through the reduction of their emissions below the 100,000 tonne threshold, (4) cogeneration compliance adjustments, and (5) by contributing to the Climate Change and Emissions Management Fund (the "**Fund**"). Contributions to the Fund are made at a rate of $15 per tonne of GHG emissions, increasing to a rate of $20 per tonne of GHG emissions in 2016 and $30 per tonne of GHG emissions in 2017. Proceeds from the Fund are directed at testing and implementing new technologies for greening energy production.

We do not operate any facilities in Alberta that are covered by the CCEMA and the SGER. However, we do have minor working interests in non-operated facilities that are subject to the CCEMA and the SGER. As at the date hereof, we do not believe that our financial obligations associated with such non-operated facilities are material.

On November 22, 2015, as a result of the Climate Advisory Panel's Climate Leadership report, the Government of Alberta announced its Climate Leadership Plan which proposes to introduce a carbon tax on all emitters. An economy-wide levy of $30 per tonne of GHG emissions will be phased in, starting in January 2017 at $20 per tonne, and increasing to $30 per tonne in January 2018. An oil sands specific approach was proposed to replace the $30 per tonne of GHG emissions to further reduce emissions and promote carbon competitiveness rather than rewarding past intensity levels. A 100 megatonne per year limit for GHG emissions was proposed for oil sands operations, which currently emit roughly 70 megatonnes per year. This cap exempts new upgrading and cogeneration facilities, which are allocated a separate 10 megatonne limit. The existing SGER will be replaced for large industrial facilities with a Carbon Competitiveness Regulation ("**CCR**"), in which sector specific output-based carbon allocations will be used to ensure competitiveness.

Alberta is also the first jurisdiction in North America to direct dedicated funding to implement carbon capture and storage technology across industrial sectors. The Government of Alberta has committed $1.24 billion over 15 years to fund two large-scale carbon capture and storage projects that will begin commercializing the technology on the scale needed to be successful. On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*, which deemed the pore space underlying all land in Alberta to be, and to have always been, the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

British Columbia

In February 2008, the government of British Columbia announced a revenue-neutral carbon tax that took effect July 1, 2008. The tax is consumption-based and applied at the time of retail sale or consumption of virtually all fossil fuels purchased or used in British Columbia. The current tax level is $30 per tonne of GHG emissions. The final scheduled increase took effect on July 1, 2012. There is no plan for further rate increases or expansions at this time. In order to make the tax revenue-neutral, British Columbia has implemented tax credits and reductions in order to offset the tax revenues that the Government of British Columbia would otherwise receive from the tax. In 2015, the amount of carbon tax paid by us pursuant to this legislation with respect to our operated and non-operated properties in British Columbia was not material to us**.**

In the 2012 Budget, British Columbia announced that the government would undertake a comprehensive review of the carbon tax and its impact on British Columbians. The review covered all aspects of the carbon tax, including revenue neutrality, and considered the impact on the competitiveness of British Columbia businesses such as those in the agriculture sector, and in particular, British Columbia's food producers. After the review, the Government of British Columbia confirmed that: it will keep its revenue-neutral carbon tax; the current carbon tax rates and tax base will be maintained; and, revenues will continue to be returned through tax reductions.

On April 3, 2008, the Government of British Columbia introduced the *Greenhouse Gas Reduction (Cap and Trade) Act* (the "**Cap and Trade Act**"), which received royal assent on May 29, 2008 and partially came into force by regulation of the Lieutenant Governor in Council. It sets a province-wide target of a 33 percent reduction in the 2007 level of GHG emissions by 2020 and an 80 percent reduction by 2050. Unlike the emissions intensity approach taken by the Government of Canada and the Government of Alberta, the Cap and Trade Act establishes an absolute cap on GHG emissions. The *Reporting Regulation*, implemented under the authority of the Cap and Trade Act, sets out the requirements for the reporting of the GHG emissions from facilities in British Columbia emitting 10,000 tonnes or more of carbon dioxide equivalent emissions per year beginning on January 1, 2010. Those reporting operations with emissions of 25,000 tonnes or greater are required to have emissions reports verified by a third party. Recent amendments to the Cap and Trade Act repealed past requirements on public-sector organizations, including Crown corporations, to be carbon neutral by 2010, and they are now only required to produce annual carbon reduction plans and reports. Additional regulations that will further enable the Government of British Columbia to implement a cap and trade system are currently under development.

Penn West's linear facility in British Columbia is covered by the Cap and Trade Act. We anticipate that we will have two facilities over the 25,000 tonne threshold, one facility between the 10,000 and 25,000 tonnes threshold, and 16 facilities between the 1,000 and 10,000 tonnes threshold. In addition, we have working interests in several non-operated facilities that are subject to the Cap and Trade Act. As at the date hereof, we do not believe that our financial obligations associated with the reporting and verification requirements under the Cap and Trade Act are material.

Saskatchewan

On May 11, 2009, the Government of Saskatchewan announced The Management and Reduction of Greenhouse Gases Act (the " **MRGGA**") to regulate GHG emissions in the province. The MRGGA received Royal Assent on May 20, 2010 and will come into force on proclamation. The MRGGA establishes a framework for achieving the provincial target of a 20 percent reduction in GHG emissions from 2006 levels by 2020. Although the MRGGA and related regulations have yet to be proclaimed in force, draft versions indicate that the Government of Saskatchewan will permit the use of pre-certified investment credits, early action credits and emissions offsets in compliance, similar to the federal climate change initiatives. It remains unclear whether the scheme implemented by the MRGGA will be based on emissions intensity or an absolute cap on emissions.

Manitoba

The Government of Manitoba commenced public consultations with respect to the development of a cap and trade system to reduce GHG emissions in 2010. The enactment of *The Climate Change and Emissions Reductions Act* (Manitoba) set emission reduction targets as of December 31, 2012 at 6 percent below 1990 emissions and details the commitment of the Government of Manitoba to various initiatives in an effort to reduce GHG emissions. On December 3, 2015, the Government of Manitoba announced Manitoba's Climate Change and Green Energy Action Plan to address climate change and create green jobs. One component of this plan involves cutting GHG emissions by one-third of its 2005 levels by 2030, in part by implementing a cap and trade program for large emitters. Following this announcement, on December 7, 2015, the Government of Manitoba announced that it has signed a memorandum of understanding with both Ontario and Quebec formalizing the intent of all three provinces to link their respective cap-and-trade systems. However, no legislation has been enacted to implement the initiatives outlined in Manitoba's Climate Change and Green Energy Action Plan or the memorandum of understanding.

Penn West and the Environment

Penn West understands its responsibilities for reducing the environmental impacts from its operations and recognizes the interests of other land users in resource development areas, and conducts its operations accordingly. Penn West is committed to mitigating the environmental impact from its operations, and to involving stakeholders throughout the exploration, development, production and abandonment process. Penn West's environmental programs encompass resource conservation, stakeholder communication and site abandonment/reclamation. Our environmental programs are monitored to ensure they comply with all government environmental regulations and with Penn West's own environmental policies. The results of these programs are reviewed with Penn West's management and operations personnel.

Penn West maintains a program of detailed inspections, audits and field assessments to determine and quantify the environmental liabilities that will be incurred during the eventual decommissioning and reclamation of its field facilities.

Penn West pursues a program of environmental impact reduction aimed at minimizing these future corporate liabilities without hampering field productivity. This program, launched in 1994, is ongoing, and includes measures to remediate potential contaminant sources, reclaim spill sites and abandon unproductive wells and shut-in facilities.

Penn West does not operate any facilities in Alberta that are regulated to reduce GHG emissions and has no facilities that are required to report their emissions. Penn West has minor working interests in several non-operated facilities that are required to meet the requirements of the Alberta GHG regulations. All of Penn West's fuel use in British Columbia is subject to a carbon tax based on consumption. Penn West is required to report its emissions in British Columbia and expects to have reduction requirements under a cap and trade system when implemented. Penn West's financial obligations related to compliance with existing federal and provincial legislation regarding GHG emissions is not material at this time.

Because the federal and provincial programs relating to the regulation of the emission of GHGs and other air pollutants continue to be developed, Penn West is currently unable to predict the total impact of the potential regulations upon its business. Therefore, it is possible that Penn West could face increases in costs in order to comply with emissions legislation. However, in cooperation with the Canadian Association of Petroleum Producers, Penn West continues to work cooperatively with governments to develop an approach to deal with climate change issues that protects the industry's competitiveness, limits the cost and administrative burden of compliance, and supports continued investment in the oil and gas sector.

Penn West provides additional information in respect of its GHG emissions in the annual international Carbon Disclosure Project, which provides detailed information regarding our emissions, business strategy, governance and potential risks.

Penn West is committed to meeting its responsibilities to protect the environment wherever it operates. Penn West anticipates that its expenditures, both capital and expense in nature, will continue to increase as a result of operational growth and increasing legislation relating to the protection of the environment. Penn West will be taking such steps as required to ensure continued compliance with applicable environmental legislation in each jurisdiction in which it operates. Penn West believes that it is currently in compliance with applicable environmental laws and regulations in all material respects. Penn West also believes that it is reasonably likely that the trend towards heightened and additional standards in environmental legislation and regulation will continue.

RISK FACTORS

The following is a summary of certain risk factors relating to the business of Penn West. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Securityholders and potential securityholders should consider carefully the information contained herein and, in particular, the following risk factors. If any of these risks occur, our financial condition and results of operations could be materially adversely affected, which could result in a decline in the trading price of our Common Shares. The risks described below are not an exhaustive list of the risks that may affect our business, nor should they be taken as a complete summary or description of all the risks associated with our business and the oil and natural gas business generally.

Volatility in oil and natural gas prices could have a material adverse effect on our results of operations and financial condition, which in turn could negatively affect the market price of our Common Shares.

Our results of operations and financial condition are dependent upon the prices that we receive for the oil and natural gas that we sell. Historically, the oil and natural gas markets have been volatile and are likely to continue to be volatile in the future. Oil and natural gas prices have fluctuated widely during recent years and are subject to fluctuations in response to changes in supply, demand, market uncertainty and other factors that are beyond our control. These factors include, but are not limited to:

- the limitations on the ability of Western Canadian energy producers to export oil, natural gas and natural gas liquids to U.S. markets and world markets and the resulting discount that Western Canadian energy producers may receive for their products as compared to U.S. and international benchmark commodity prices;
- the availability of transportation infrastructure, and in particular:
    - our ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets or alternatively contract for the delivery of our products by rail;

- deliverability uncertainties related to the distance of our production from existing pipeline, railway line, processing and storage facility infrastructure; and
- operational problems affecting the pipelines, railway lines and facilities on which we rely;

- global energy policy, including the ability of OPEC (and in particular the Kingdom of Saudi Arabia) to set and maintain production levels and influence prices for oil;
- existing and threatened political instability and hostilities;
- foreign supply of oil and natural gas, including liquefied natural gas;
- weather conditions;
- the overall level of energy demand;
- production and storage levels of oil and natural gas;
- government regulations and taxes;
- currency exchange rates;
- the effect of worldwide environmental and/or energy conservation measures;
- the price and availability of alternative energy supplies;
- the overall economic environment in Canada, the U.S., China, emerging markets and globally; and
- the advent of new technologies.

Oil prices have declined significantly during recent periods and are expected to remain volatile and may decline further in the near future as a result of global excess supply due to the increased growth of shale oil production in the United States, the decline in global demand for exported crude oil commodities, OPEC's recent decisions pertaining to the oil production of OPEC member countries and the lifting of sanctions imposed on certain oil producing nations by other countries, among other factors. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of the Corporation's reserves. The Corporation might also elect not to produce from certain wells at lower prices. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

All these factors could result in a material decrease in the Corporation's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

The oil and gas industry is currently in a period of protracted weakness.

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at the federal level and, in the case of Alberta, the provincial level, and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new governments. In addition, the inability to get the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in western Canada. Lower commodity prices may also affect the volume and value of the Corporation's reserves, particularly as certain reserves may become uneconomic. In addition, lower commodity prices have restricted, and are anticipated to continue to restrict, the Corporation's cash flow resulting in a reduced capital expenditure budget. As a result, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year over year basis.

We may not be able to repay all or part of our indebtedness, or alternatively, refinance all or part of our indebtedness on commercially reasonable terms. We may not be able to comply with the covenants (and in particular the financial covenants) contained in our debt instruments. The occurrence of any one of these events could have a material adverse effect on our results of operations and financial condition, which in turn could negatively affect the market price of our Common Shares.

We currently have a credit facility in place that has an aggregate borrowing limit of $1.2 billion and a maturity date of May 6, 2019. As of December 31, 2015, there was $689 million of unused capacity under our credit facility. In the event that our credit facility is not extended before the maturity date, all outstanding indebtedness under such tranche will be repayable at that date. There is also a risk that our credit facility will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect our ability to fund our ongoing operations.

We also currently have Senior Notes outstanding that are comprised of US$937 million principal amount of notes, Cdn$73 million principal amount of notes, £49 million principal amount of notes and €6 million principal amount of notes, which Senior Notes have maturity dates ranging between 2016 and 2025. In the event we are unable to repay or refinance these debt obligations (or if we must refinance these debt obligations on less favourable terms) it may adversely affect our ability to fund our ongoing operations.

We are required to comply with covenants under our credit facilities and Senior Notes. In the event that we do not comply with covenants under one or more of these debt instruments, our access to capital could be restricted or repayment could be required, which could adversely affect our ability to fund our ongoing operations.

In May, 2015, the Company reached agreements with the lenders under its syndicated bank facility and with the holders of its Senior Notes to, among other things, amend the financial covenants in the bank facility and Senior Notes and temporarily grant floating charge security over all of its property in favour of the lenders and the noteholders on a pari pasu basis. As a result, if the Company is unable to repay amounts owing under our credit facilities and Senior Notes, the lenders under the credit facilities and/or the holders of the Senior Notes could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of our indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions.

The price of oil and natural gas is affected by political events throughout the world. Any such event could result in a material decline in commodity prices and in turn result in a reduction in the market price of our Common Shares.

Political events throughout the world that cause disruptions in the supply of oil continue to affect the marketability and price of oil and natural gas acquired or discovered by us. Conflicts, or conversely peaceful developments, arising in North Africa, the Middle East and other areas of the world have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of our revenue and consequently the market price of our Common Shares.

In addition, our oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of our properties, wells or facilities are the subject of a terrorist attack it could have a material adverse effect on us. We do not currently have insurance to protect against the risk of terrorism.

We cannot predict the impact of changing demand for oil and natural gas products.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and other liquid hydrocarbons. We cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Acquiring, exploring for, developing, and producing from oil and natural gas assets involves many risks. Losses resulting from the occurrence of one or more of these risks may adversely affect our business and thus the value of our Common Shares.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Penn West depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, our existing reserves, and the production from them, will decline over time as we produce from such reserves. A future increase in our reserves will depend on both our ability to explore and develop our existing properties and on our ability to select and acquire suitable producing properties or prospects. There is no assurance that we will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of Penn West may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that we will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Acquiring, exploring for, developing, and producing from oil and natural gas assets involves many risks. These risks include, but are not limited to:

- encountering unexpected formations or pressures;
- premature declines of reservoirs;
- the invasion of water into producing formations;
- blowouts, explosions, equipment failures and other accidents;
- sour gas releases;
- uncontrollable flows of oil, natural gas or well fluids;
- personal injury to staff and others;
- adverse weather conditions, such as wild fires and flooding; and
- pollution and other environmental risks, such as fires and spills.

These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, we may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to us. Losses resulting from the occurrence of any of these risks may have a material adverse effect on our business, financial condition, results of operations and prospects.

Although we maintain insurance in accordance with customary industry practice based on our projected cost benefit analysis of maintaining such insurance, we are not fully insured against all of these risks, not all risks are insurable, and liabilities associated with certain risks could exceed policy limits or not be covered. Like other oil and natural gas companies, we attempt to conduct our business and financial affairs so as to protect against political and economic risks applicable to operations in the jurisdictions where we operate, but there can be no assurance that we will be successful in so protecting our assets.

Fluctuations in foreign currency exchange rates and interest rates could adversely affect our business, and adversely affect the market price of our Common Shares.

World oil and natural gas prices are denominated in United States dollars and the Canadian dollar price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which fluctuates over time. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect, among other things, our oil production revenues in Canadian dollars. We generally fund our cash costs, in Canadian dollars. Strengthening of the Canadian dollar (excluding risk management activities) against the United States dollar negatively affects the amount of Canadian dollar funds available to us for reinvestment, and negatively affects the future value of our reserves as calculated by independent evaluators.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract.

An increase in interest rates could result in a significant increase in the amount we pay to service debt, resulting in a reduced amount available to fund our exploration and development activities which could negatively impact the market price of the Common Shares.

We may be unable to successfully compete with other companies in our industry, which could negatively affect the market price of our Common Shares.

There is strong competition relating to all aspects of the oil and gas industry. We compete with numerous other exploration and production companies (some of whom have substantially greater financial resources, staff and facilities than those of the Corporation) for, among other things:

- resources, including capital and skilled personnel;
- the acquisition of properties with longer life reserves and exploitation and development opportunities; and
- access to equipment, markets, transportation capacity, drilling and service rigs and processing facilities.

If we are unable to acquire or develop additional reserves, the value of our Common Shares will decline.

Absent equity capital injections, increased debt levels or the efficient deployment of capital investments by us, our production levels and reserves will decline over time.

Our future oil and natural gas reserves and production, and therefore our cash flow, will be highly dependent on our success in exploring and exploiting our reserves and land base and acquiring additional reserves. Without reserve additions through acquisition, exploration or development activities, our reserves and production will decline over time as our existing reserves are depleted.

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, our ability to make the necessary capital investments to maintain or expand our oil and natural gas reserves may be impaired.

There can be no assurance that we will be successful in developing or acquiring additional reserves on terms that meet our investment objectives.

We may experience challenges adopting new technologies and our costs may increase as a result of such adoption.

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we do. There can be no assurance that we will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by us or implemented in the future may become obsolete. In such case, our business, financial condition and results of operations could be materially adversely affected. If we are unable to utilize the most advanced commercially available technology, our business, financial condition and results of operations could be materially adversely affected.

We are participating in some large projects and have more concentrated risks in these areas of our operations.

We manage a variety of small and large projects in the conduct of our business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Our ability to execute projects and market oil and natural gas depends upon numerous factors beyond our control, including:

- the availability of processing capacity;
- the availability and proximity of transportation infrastructure;
- the availability of storage capacity;

- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or our ability to dispose of water used or removed from strata at a reasonable cost and in accordance applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, we could be unable to execute projects on time, on budget, or at all, and may not be able to effectively market the oil and natural gas that we produce.

The incorrect assessment of value at the time of acquisitions could adversely affect the value of our Common Shares.

Acquisitions of oil and gas properties or companies will be based in large part on engineering and economic assessments made by independent engineers. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond our control. All such assessments involve a measure of geological and engineering uncertainty that could result in lower production and reserves than anticipated. If actual reserves or production are less than we expect, our revenues and consequently the value of our Common Shares could be negatively affected.

Seasonal factors and unexpected weather patterns (including wild fires and flooding) may lead to declines in our activities and thereby adversely affect our business, and the market price of our Common Shares.

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain.

Our operations are susceptible to the impacts of wild fires and flooding. In recent years, our production levels (and as a result our revenues) have at times been materially and adversely affected by wild fires and flooding. In addition to the loss of revenue that results from the loss of production, when our operations are affected by wild fires and/or flooding, we incur expenses responding to such events, repairing damaged equipment, and resuming operations. Although our insurance policies may compensate us for part of our losses, they will not compensate us for all of our losses. In addition, wild fires and/or flooding consume both financial resources and management and employee time that would otherwise be directed towards the development of our business and the pursuit of our business strategy. We can offer no assurance that the severe wild fires and flooding that have at times plagued our operations in recent years will not occur again in the future with equal or greater severity.

Seasonal factors and unexpected weather patterns, including wild fires and flooding, may lead to material declines in our exploration, development and production activities and may consume material amounts of our financial and human resources, and thereby materially and adversely affect our results of operations and financial condition.

We use conventional recovery methods, such as horizontal multi-stage fracturing technology, and non-conventional recovery methods, such as enhanced oil recovery technologies, both of which are subject to significant risk factors which could lead to the delay or cancellation of some or all of our projects, which could adversely affect the market price of our Common Shares.

Penn West utilizes new drilling and completion technologies, including horizontal multi-stage fracture completions, intended to increase the resource recovery from known oil and natural gas fields. However, Penn West may not realize the anticipated increase in resource recovery from the employment of such techniques due to particular reservoir characteristics or other adverse factors.

Hydraulic fracturing typically involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (natural gas and oil) production. Hydraulic fracturing is being used to produce commercial quantities of natural gas and oil from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delay or increased operating costs or third party or governmental claims, and could increase our cost of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce from our reserves.

Due to recent seismic activity reported in the Fox Creek area of Alberta, the Alberta Energy Regulator has announced new seismic monitoring and reporting requirements for hydraulic fracturing operators in the Duvernay Zone in the Fox Creek area. These requirements include, among others, an assessment of the potential for seismicity prior to operations, the implementation of a response plan to address potential events, and the suspension of operations if a seismic event above a particular threshold occurs. The Alberta Energy Regulator continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if necessary.

The potential or planned use of enhanced oil recovery (“ **EOR**”) methods such as steam injection (steam assisted gravity drainage, cyclical steam stimulation and steam flooding), water injection, solvent injection and firefloods to increase the ultimate recovery of oil resources in place are subject to significant risk factors. These factors include but are not limited to the following:

- changing economic conditions (including commodity pricing and operating and capital expenditure fluctuations);
- changing engineering and technical conditions (including the ability to apply EOR methods to the reservoir and the production response thereto);
- large development programs may need to be spread over a longer time period than initially planned due to the requirement to allocate capital expenditures to different periods;
- surface access and deliverability issues (including landowner and stakeholder relations, weather, pipeline, road and processing matters);
- environmental regulations relating to such items as GHG emissions and access to water, which could impact capital and operating costs; and
- the availability of sufficient financing on acceptable terms.

The use or potential or planned use of CO_2 miscible flooding to increase the oil recovery from large legacy oil pools is subject to significant risk factors which could lead to the delay or cancellation of some or all of these projects. These factors include, but are not limited to:

- the existence of commercial scale CO_2 supply and infrastructure (including the ability to capture and transport the miscible agent to us at an economic cost);
- changing economic conditions (including commodity pricing and operating and capital expenditure fluctuations);
- changing engineering and technical conditions (including the ability to apply CO_2 EOR methods to the reservoir and the production response thereto);
- large development programs may need to be spread over a longer time period than planned due to capital allocation requirements;
- the need to obtain required approvals from regulatory authorities from time to time;
- surface access and deliverability issues (including weather, pipeline, road and processing matters);

- the availability of sufficient financing on acceptable terms;
- changing regulatory frameworks, which could impact our long-term storage liability and our monitoring, measurement and verification costs on CO_2 miscible flood projects;
- changing royalty structures which may impact CO_2 flood economics; and
- the potential for out-of-zone and wellbore leakage which could delay or cause the cancellation of some or all of these projects.

We suspended our quarterly dividend in 2015 and there can be no assurance that we will resume making dividend payments in the future.

The Board suspended our quarterly dividend until further notice following the dividend payment made on October 15, 2015. The payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations, and other considerations as the Board considers relevant. There can be no assurance that we will resume making dividend payments in the future or, if we do, the amount of dividend payments that we will make.

Actual reserves will vary from reserves estimates and those variations could be material and negatively affect the market price of our Common Shares.

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquid reserves and resources and cash flow to be derived therefrom, including many factors beyond our control. The reserve and associated revenue information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and resources and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;
- estimated production decline rates;
- estimated ultimate recovery of reserves;
- changes in technology;
- timing and amount and effectiveness of future capital expenditures;
- marketability and price of oil and natural gas;
- royalty rates;
- the assumed effects of regulation by governmental agencies; and
- future operating costs;

all of which may vary materially from actual results. As a result, estimates of the economically recoverable oil and natural gas reserves or estimates of resources attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Our actual production, revenues and development and operating expenditures will vary from reserve and resource estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are sometimes based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Sproule has used forecast price and cost estimates in calculating reserve quantities included herein. Actual future net revenue will be affected by other factors including but not limited to actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and revenue derived from the Corporation's reserves will vary from the reserve estimates contained in the Engineering Report summarized herein, and such variations could be material. The Engineering Report summarized herein is based in part on the assumption that certain activities will be undertaken by us in future years and the further assumption that

such activities will be successful. The reserves and estimated revenue to be derived therefrom contained in the Engineering Report summarized herein will be reduced in future years to the extent that such activities are not undertaken or, if undertaken, do not achieve the level of success assumed in the Engineering Report summarized herein. The reserves evaluation described herein is effective as of a specific date and, except as otherwise noted, has not been updated and thus does not reflect changes in our reserves since that date.

Our operation of oil and natural gas wells, and our participation in oil and natural gas wells operated by others, could subject us to environmental claims and liability and/or increased compliance costs, all of which could affect the market price of our Common Shares.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. In addition, such legislation sets out requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with environmental legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and legal liability, and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. Although we believe that we will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on our business, financial condition, results of operations and prospects. See “Industry Conditions”.

Our hedging program subjects us to certain risk.

From time to time, the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation’s hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Corporation will not benefit from the fluctuating exchange rate.

We may not be able to achieve the anticipated benefits of acquisitions or dispositions and the integration of acquisitions may result in the loss of key employees and the disruption of on-going business relationships.

We make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as our ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with ours. The integration of acquired businesses may require substantial management effort, time and resources and may divert management’s focus from other strategic opportunities and operational matters, and

may also result in the loss of key employees, the disruption of on-going business, supplier, customer and employee relationships and deficiencies in internal controls or information technology controls. We continually assess the value and mix of our assets in light of our business plans and strategic objectives. In this regard, non-core assets are periodically disposed of so that we can focus our efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain of our non-core assets, if disposed of, could be expected to realize less than their carrying value in our financial statements.

We may incur additional indebtedness in the future.

From time to time, we may enter into transactions to acquire assets or shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase our debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, we may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither our articles nor our by-laws limit the amount of indebtedness that we may incur. The level of our indebtedness from time to time could impair our ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise, and may adversely affect the market price of our Common Shares if investors consider our debt levels to be higher than that of our peers.

Canadian and United States practices differ in reporting reserves and production and our estimates may not be comparable to those of companies in the United States.

In this Annual Information Form, we report our production and reserve quantities in accordance with Canadian practices and specifically in accordance with NI 51-101. These practices are different from the practices used to report production and to estimate reserves in reports and other materials filed with the SEC by United States companies. Nevertheless, as part of Penn West's Form 40-F for the year ended December 31, 2015 filed with the SEC, Penn West has disclosed proved reserves quantities using the standards contained in SEC Regulation S-X, and the standardized measure of discounted future net cash flows relating to proved oil and gas reserves determined in accordance with the U.S. Financial Accounting Standards Board, "Disclosures About Oil and Gas Producing Activities", which disclosure complies with the SEC's rules for disclosing oil and gas reserves.

Our ability to make future capital expenditures may depend on our ability to access third party financing.

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities in particular.

Further, if the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing. There can be no assurance that debt or equity financing, or cash generated by operations, will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

A lack of access to capital could harm our financial condition and results of operations.

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities, and/or reduce or terminate its operations. Due to the conditions in the oil and gas industry and/or global economic volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing.

Continued depressed oil and natural gas prices have caused decreases, and may cause further decreases, in the Corporation's revenues from its reserves, which may affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties, or may force the Corporation to divest of certain assets that it would otherwise not sell.

Changes to royalty regimes may have a material and adverse impact on our financial condition.

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt a new, or modify the existing, royalty regime, which in each case may have an impact on the economics of our projects. An increase in royalties would reduce our earnings and could make future capital investments, or our operations, less economic. On January 29, 2016, the Government of Alberta adopted a new royalty regime which will take effect on January 1, 2017. On March 8, 2016, the government indicated that it would proceed to reform the existing royalty regime in line with the recommendations of the Alberta Royalty Review Panel through legislation to be introduced in the current session. See "*Industry Conditions - Royalties and Incentives*".

We depend upon our management and other key personnel and the loss of one or more of such individuals could negatively affect our business.

Shareholders depend upon the management of Penn West in respect of the administration and management of all matters relating to our operations. The success of our operations depends largely upon the skills and expertise of our senior management and other key personnel. Our continued success depends upon our ability to retain and recruit such personnel. Investors who are not willing to rely on the management of Penn West should not invest in our securities.

Changes in the regulation of the oil and gas industry may adversely affect our business.

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. See "*Industry Conditions*". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase our costs, either of which may have a material adverse effect on our business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, we will require regulatory permits, licenses, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that we will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that we may wish to undertake. In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, our business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada).

The failure of third parties to meet their contractual obligations to us may have a material adverse effect on our financial condition.

We may be exposed to third party credit risk through our contractual arrangements with our current or future joint venture partners, marketers of our petroleum and natural gas production and other parties. In addition, we may be exposed to third party credit risk from operators of properties in which we have a working or royalty interest. In the event such entities fail to meet their contractual obligations to us, such failures may have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in our ongoing capital program, potentially delaying the program and the results of such program until we find a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect our financial and operational results.

In the normal course of our operations, we are exposed to litigation, which if determined adversely, could have a material and adverse impact on us.

In the normal course of our operations, we may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment, securities law matters (such as our public disclosures), and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to us and as a result, could have a material adverse effect on our assets, liabilities, business, financial condition and results of operations.

The settlement of all class action proceedings in Canada and the United States against the Company may not be not completed.

On February 16, 2016, Penn West announced that it had entered into agreements to settle all class action proceedings in Canada and the United States against Penn West and others commenced by investors alleging damages in relation to Penn West's July 29, 2014 announcement that it intended to restate certain historical financial statements and related management discussion and analysis. The settlement agreements provide for a payment that will be fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact Penn West's cash resources or financial position.

The proposed settlements are subject to the satisfaction of the conditions stated in the settlement documents as well as the receipt of court approval in each of Alberta, Ontario and Quebec and in New York. There can be no assurance that these conditions will be satisfied or that the settlements will be approved by the courts. The receipt of such court approvals is dependent on a number of factors and therefore the timing thereof cannot be predicted at this time.

If the settlement conditions are not satisfied or approval is not obtained from all courts as required, then the class actions will proceed and, while the Company intends to dispute and defend against such actions, due to the inherent uncertainties of litigation and the early stage of the proceedings before settlement, it is not possible to predict the final outcome of these actions or determine the amount of the Company's potential losses, if any.

In addition, the settlement agreements provide that class members may "opt out" of the settlements, thus disentitling themselves from sharing in the settlement but likewise preserving their ability to sue the Company for their individual losses. While the Company has directors' and officers' insurance applicable in these circumstances, that insurance is subject to certain policy limits, exclusions and deductibles so the Company cannot offer any assurance that such insurance would apply or that the amount of coverage would be sufficient to satisfy any amount that the Company is required or determines to pay in connection with the class actions. In the event that a significant number of class members exercise their rights to "opt out" of the class settlements and pursue individual claims, and in the event that the Company is required or determines to pay amounts in connection with these claims, such amounts could be significant and could have a material adverse impact on the Company's cash resources or financial position.

The impact on us of claims of aboriginal title is unknown.

Aboriginal peoples have claimed aboriginal title and rights to portions of Western Canada. We are not aware that any material claims have been made in respect of our properties and assets; however, if a material claim arose and was successful this could have an adverse effect on our results of operations and business.

We may be required to post a material security deposit under provincial liability management programs.

Alberta, Saskatchewan and British Columbia have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder becomes defunct. These programs generally involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Changes of the ratio of our deemed assets to deemed liabilities or changes to the requirements of liability management programs may result in significant increases to the security that must be posted. In addition, the liability management system may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets. Although Manitoba does not have a liability management rating program similar to those found in the other western provinces, it does have similar programs that can require the posting of performance deposits and/or the payment of non-refundable levies. See "*Industry Conditions - Liability Management Rating Programs*".

Our exploration and development activities may be delayed if drilling and related equipment is unavailable or if access to drilling locations is restricted. These events could have an adverse impact on our business.

Oil and natural gas exploration and development activities depend on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to us and may delay exploration and development activities.

We rely on third parties to operate some of our assets.

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology, and risk management practices.

In addition, due to the current low and volatile commodity price environment, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner, and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations, the Corporation may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets, and the Corporation having difficulty collecting revenue due from such operators. Any of these factors could materially adversely affect the Corporation's financial and operational results.

We rely on third parties to pay us amounts owing on our royalty interests.

The Corporation relies on other companies drilling and producing from lands in which the Corporation has a royalty interest. The Corporation has limited ability to exercise influence over the decision of other companies to drill and produce from lands in which the Corporation has a royalty interest. The Corporation's return on lands in which it has a royalty interest depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the capital expenditure budgets and financial resources of the companies who have a working interest in such lands, the operator's ability to efficiently produce the resources from such lands, and commodity prices.

In addition, due to the current low and volatile commodity price environment, many companies, including companies that may have a working interest in the lands in which the Corporation has a royalty interest, may be in financial difficulty, which could affect their ability to fund and pursue capital expenditures on such lands. In addition, weak commodity prices might result in companies choosing to defer capital spending or shutting-in existing production. Any reduction in drilling and production from lands in which the Corporation has a royalty interest will negatively affect the Corporation's cash flows and financial results.

The financial difficulty of any companies who have assets in which the Corporation has a royalty interest may affect the Corporation's ability to collect royalty payments, particularly if such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency.

Changes in Canadian income tax legislation and other laws may adversely affect us and our Shareholders.

Income tax laws, or other laws or government incentive programs relating to the oil and gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects us and our Shareholders. Furthermore, tax authorities having jurisdiction over us or our Shareholders may disagree with how we calculate our income for tax purposes or could change administrative practises to our detriment or the detriment of our Shareholders.

We file all required income tax returns and believe that we are in compliance with the provisions of the Tax Act and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Penn West, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

We may incur material expenses complying with new or amended laws and regulations governing climate change.

Our exploration and production facilities and other operations and activities emit GHGs and require us to comply with GHG emissions legislation at the provincial and federal levels. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the *United Nations Framework Convention on Climate Change* (the "**UNFCCC**") and as a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in GHG emissions from 2005 levels by 2020; however, these GHG emission reduction targets are not binding. Some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. As a result of the UNFCCC adopting the Paris Agreement on December 12, 2015, to which Canada was a participant, the Government of Canada is expected to announce a plan to further reduce its GHG emission reduction targets by March 11, 2016. The direct or indirect costs of compliance with these regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of GHGs and resulting requirements, it is not possible to predict the impact on us and our operations and financial condition. See "*Industry Conditions – Climate Change Regulation*".

We are exposed to potential liabilities that may not be covered, in part or in whole, by insurance.

Our involvement in the exploration and development of oil and natural gas properties could subject us to liability for pollution, blowouts, leaks of sour natural gas, property damage, personal injury or other hazards. Prior to commencing operations, we obtain insurance in accordance with industry standards to address certain of these risks. Such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, we may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to us. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

Future acquisitions, financings or other transactions and the issuance of securities pursuant to our stock option plan may result in Shareholder dilution.

We may make future acquisitions or enter into financings or other transactions involving the issuance of our securities, which may be dilutive to Shareholders. Shareholder dilution may also result from the issuance of Common Shares pursuant to our stock option plan ("**Option Plan**"). For more information regarding our Option Plan, see our most recent Information Circular and Proxy Statement, financial statements and related MD&A filed on SEDAR at www.sedar.com.

In certain circumstances we may be required under applicable accounting standards to write down the value of the goodwill recorded on our balance sheet and incur a non-cash charge against income.

IFRS requires that goodwill balances be tested at least annually for impairment and that any impairment be charged to income. A reduction in reserves, a decline in commodity prices, and/or a reduction in the Common Share price could indicate goodwill impairment. As at December 31, 2015, the Company had no remaining goodwill after completion of its annual impairment test.

We do not operate all of our properties and facilities. Therefore, our results of operations may be adversely affected by pipeline interruptions and apportionments, railway interruptions and/or the actions or inactions of third party operators, any of which could cause delays in receiving our revenues and cause us to incur additional expenses, which could in turn adversely affect the market price of our Common Shares.

We deliver our products through gathering and processing facilities, pipeline systems and by railway systems, some of which we do not own. The amount of oil and natural gas that we can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of availability of capacity in any of the gathering and processing facilities, pipeline systems or railway lines, could result in our inability to realize the full economic potential of our production or in a reduction of the price offered for our production. The lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production, operations and financial results. As a result, producers are increasingly turning to rail as an alternative means of transportation and competition for contracting rail capacity is increasing. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities, could harm our business and, in turn, our financial condition, results of operations and cash flows. For instance, the federal government has signaled that it plans to review the National Energy Board approval process for large projects. This may cause the timeframe for project approvals to increase for current and future applications.

Following major accidents in Lac-Megantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board have recommended additional regulations for railway tank cars carrying crude oil. In June 2015, as a result of these recommendations, the Government of Canada passed the *Safe and Accountable Rail Act*, which increased insurance obligations on the shipment of crude oil by rail and imposed a per tonne levy of $1.65 on crude oil shipped by rail to compensate victims and for environmental cleanup in the event of a railway accident. In addition to this legislation, new regulations have implemented the TC-117 standard for all rail tank cars carrying flammable liquids which formalized the commitment to retrofit, and eventually phase out, DOT-111 tank cars carrying crude oil. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and add additional costs to the transportation of crude oil by rail.

A portion of our production may, from time to time, be processed through facilities owned by third parties that we do not control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect our ability to process our production and to deliver the same for sale.

Lower oil and gas prices and higher costs increase the risk of write-downs of our oil and gas property assets and goodwill.

Under IFRS, when indicators of impairment exist, the carrying value of our Property, Plant and Equipment (" **PP&E**"), Exploration and Evaluation ("**E&E**") assets and Goodwill is compared to its recoverable amount. The recoverable amount is defined as the higher of the fair value less cost to sell or value in use. A decline in oil and gas prices may be an indicator of impairment and may result in a write-down of the value of our assets. While these write-downs would not affect cash flow from operations, the charge to earnings may be viewed unfavourably by investors and could adversely impact the market price of our Common Shares and covenant calculations. PP&E or E&E asset write-downs may also be reversed to earnings in future periods should the conditions that caused impairment reverse.

We may not be able to maintain the confidentiality of sensitive information in business dealings with third parties, and our remedies for breaches of confidentiality may not fully compensate us for our losses.

While discussing potential business relationships or other transactions with third parties, we may disclose confidential information relating to our business, operations or affairs. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put us at competitive risk and may cause significant damage to our business. The harm to our business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, we will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to our business that such a breach of confidentiality may cause.

Our inability to manage growth could adversely affect our business and our Shareholders.

We may be subject to growth related risks, including capacity constraints and pressures on our internal systems and controls. These constraints and pressures could result from, among other things, the completion of large acquisitions. Our ability to manage growth effectively will require us to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base. Our inability to deal with this growth could have a material adverse impact on our business, operations and prospects.

An unforeseen defect in the chain of title to our oil and natural gas producing properties may arise to defeat our claim, which could have an adverse effect on the market price of our Common Shares.

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise. The actual interest of the Corporation in properties may accordingly vary from the Corporation's records. If a title defect does exist, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect the Corporation's title to the oil and natural gas properties the Corporation controls that could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

The ability of residents of the United States to enforce civil remedies against us and our directors, officers and experts may be limited.

Penn West is organized under the laws of Alberta, Canada and our principal places of business are in Canada. Most of our directors and officers and the experts named herein are residents of Canada, and a substantial portion of our assets and all or a substantial portion of the assets of most of such persons are located outside the United States. As a result, it may be difficult for investors in the United States to effect service of process within the United States upon those directors, officers and experts who are not residents of the United States or to enforce against them judgments of United States courts based upon civil liability under the United States federal securities laws or the securities laws of any state within the United States. There is doubt as to the enforceability in Canada against us or against any of our directors, officers or experts who are not residents of the United States, in original actions or in actions for enforcement of judgments of United States courts of liabilities based solely upon the United States federal securities laws or the securities laws of any state within the United States.

The termination or expiration of licenses and leases through which we or our industry partners hold our interests in petroleum and natural gas substances could adversely affect the market price of our Common Shares.

Our properties are held in the form of licenses and leases and working interests in licenses and leases. If we or the holder of the license or lease fail to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that all of the obligations required to maintain each license or lease will be met. The termination or expiration of a license or lease or the working interest relating to a license or lease may have a material adverse effect on our results of operations and business.

Our directors and management may have conflicts of interest that may create incentives for them to act contrary to or in competition with the interests of our Shareholders.

Certain directors and officers of Penn West are engaged in, and will continue to engage in, other activities in the oil and natural gas industry and, as a result of these and other activities, the directors and officers of Penn West may become subject to conflicts of interest. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director must disclose his interest in such contract or agreement and must refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA and our Code of Business Conduct and Ethics. See "*Directors and Executive Officers of Penn West – Conflicts of Interest* ".

A decrease in the fair market value of our hedging instruments could result in a non-cash charge against our income under applicable accounting standards.

Under IFRS, accounting for financial instruments may result in non-cash charges against income as a result of reductions in the fair market value of hedging instruments. A decrease in the fair market value of the hedging instruments as a result of fluctuations in commodity prices and/or foreign exchange rates may result in a non-cash charge against income, which may be viewed unfavourably in the market.

We may in the future expand our operations into new geographical regions where our existing management does not have experience. In addition, we may in the future acquire new types of energy related assets in respect of which our existing management does not have experience. Any such expansion or acquisition could result in our exposure to new risks that if not properly managed could ultimately have an adverse effect on our business and the market price of our Common Shares.

The operations and expertise of our management are currently focused primarily on oil and gas production, exploration and development in the Western Canada Sedimentary Basin. In the future, we may acquire or develop oil and gas properties outside of this geographic area. In addition, we could acquire other energy related assets, such as upgraders or pipelines. Expansion of our activities into new areas may present new risks or alternatively, significantly increase our exposure to one or more existing risk factors, which may in turn result in our future operational and financial conditions being adversely affected.

Our information assets and critical infrastructure may be subject to destruction, theft, cyber-attacks or misuse by unauthorized parties.

We are subject to a variety of information technology and/or system risks as a part of our normal course operations. Although we have security measures in place that are designed to mitigate these risks, a breach of our security measures and/or a loss of information could occur and result in a loss of material and/or confidential information and/or a disruption to our business activities. The significance of any such event is difficult to quantify, but may in certain circumstances be material and adverse to our financial condition and results of operations and thus the market price of our Common Shares.

There might not always be an active trading market in the United States and/or Canada for the Common Shares.

While there is currently an active trading market for the Common Shares in both the United States and Canada, we cannot guarantee that an active trading market will be sustained in either country. If an active trading market in the Common Shares is not sustained, the trading liquidity of the Common Shares will be limited and the market value of the Common Shares may be reduced.

On January 4, 2016, we received notification from the NYSE that we no longer are in compliance with one of the NYSE's continued listing standards applicable to us because the average closing price of our Common Shares was less than US$1.00 per share over a consecutive 30 trading day period. Under the NYSE's rules, we have a period of six months from the date of the NYSE notification to regain compliance with the NYSE's price listing standard and avoid delisting. Penn West can regain compliance if, during the applicable cure period, on the last trading day of any calendar month, Penn West's Common Shares have a closing price and a 30 trading day average closing price of at least U.S.$1.00 per share. In the event that at the expiration of the applicable cure period Penn West has not regained compliance, the NYSE will commence suspension and delisting procedures. Although Penn West has notified the NYSE that it intends to cure this price deficiency and return to compliance with the NYSE's price listing standard, there can be no assurance that Penn West will cure the deficiency and avoid delisting.

The market price of our Common Shares has been and will likely continue to be volatile, and may at times be less than our net asset value per Common Share.

The trading price of securities of oil and natural gas issuers is subject to substantial volatility, and is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to our performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and gas market. Similarly, the market price of our Common Shares could be subject to significant fluctuations in response to variations in our operating results, financial condition, liquidity, debt levels and other internal factors.

Our net asset value from time to time will vary depending upon a number of factors beyond our control, including oil and gas prices. The trading price of the Common Shares from time to time is determined by a number of factors, some of which are beyond our control and such trading price may be greater or less than our net asset value. The price at which our Common Shares will trade cannot be accurately predicted.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts that are material to us and that were entered into by us or one of our Subsidiaries within the most recently completed financial year or before the most recently completed financial year but which are still material and are still in effect, are the following:

(a) the credit agreement dated May 6, 2014 (as amended on May 22, 2015) among Penn West and certain lenders and other parties in respect of Penn West's $1.2 billion syndicated credit facility, which agreement is described under "Capitalization of Penn West – Debt Capital – Credit Facility";

(b) the note purchase agreement dated May 31, 2007 (as amended on December 2, 2010, August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series B, Series C and Series D Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes";

(c) the note purchase agreement dated May 29, 2008 (as amended on December 2, 2010, August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series E, Series F, Series G and Series H Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes";

(d) the note purchase agreement dated July 31, 2008 (as amended on December 2, 2010, August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series I Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes";

(e) the note purchase agreement dated May 5, 2009 (as amended on December 2, 2010, August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series K, Series L, Series M, Series N and Series O Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes";

(f) the note purchase agreement dated March 16, 2010 (as amended on December 2, 2010, August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series R, Series S, Series T and Series U Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes";

(g) the note purchase agreement dated December 2, 2010 (as amended on December 2, 2010 , August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series W, Series X, Series Y, Series Z and Series BB Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes"; and

(h) the note purchase agreement dated November 30, 2011 (as amended on August 15, 2014 and May 22, 2015) among Penn West and the holders of our Series CC, Series DD, Series EE and Series FF Senior Notes, which agreement is described under "Capitalization of Penn West – Debt Capital – Senior Notes".

Copies of each of these agreements have been filed on SEDAR at www.sedar.com.

Economic Dependence

We are not currently a party to any contract on which our business is substantially dependent, including any contract to sell the major part of our products or to purchase the major part of our requirements for goods, services or raw materials, or any franchise or licence or other agreement to use a patent, formula, trade secret, process or trade name on which our business depends.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

Except in relation to certain class action lawsuits described under " *Risk Factors*", there are no legal proceedings that Penn West is or was a party to, or that any of Penn West's property is or was the subject of, during the most recently completed financial year, that were or are material to Penn West, and there are no such material legal proceedings that Penn West knows to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be "material" by us if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10 percent of our current assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, we have included the amount involved in the other proceedings in computing the percentage.

Regulatory Actions

There were no: (i) penalties or sanctions imposed against Penn West by a court relating to securities legislation or by a security regulatory authority during our most recently completed financial year; (ii) any other penalties or sanctions imposed by a court or regulatory body against Penn West that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements Penn West entered into before a court relating to securities legislation or with a securities regulatory authority during Penn West's most recently completed financial year.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Common Shares in Canada is CST Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario. The co-transfer agent and registrar for the Common Shares in the United States is Computershare Shareowner Services at its principal offices in Jersey City, New Jersey.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of any director or executive officer of Penn West, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of the outstanding Common Shares, or any known associate or affiliate of any such person, in any transaction within Penn West's three most recently completed financial years or during our current financial year that has materially affected or is reasonably expected to materially affect Penn West.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a report, valuation, statement or opinion made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 Continuous Disclosure Obligations by us during, or related to, our most recently completed financial year, other than Sproule, the independent engineering evaluator retained by us in 2015 (the "**Expert**"), and Ernst & Young LLP (" **E&Y**"), our auditors.

There were no registered or beneficial interests, direct or indirect, in any securities or other property of Penn West or of one of our associates or affiliates: (i) held by the Expert or by the "designated professionals" (as defined in Form 51-102F2 – *Annual Information Form*) of the Expert, when the Expert prepared the relevant report, valuation, statement or opinion; (ii) received by the Expert or by the "designated professionals" of the Expert, after the preparation of the relevant report, valuation, statement or opinion; or (iii) to be received by the Expert or by the "designated professionals" of the Expert; except with respect to the ownership of our Common Shares, in which case the person's or company's interest in our Common Shares represents less than one percent of our outstanding Common Shares. The foregoing does not include registered or beneficial interests, direct or indirect, held through mutual funds.

E&Y are the auditors of Penn West and have confirmed that they are independent with respect to Penn West within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations, and also that they are independent accountants with respect to Penn West under all relevant US professional and regulatory standards.

No director, officer or employee of the Expert or E&Y is or is expected to be elected, appointed or employed as a director, officer or employee of Penn West or of any associate or affiliate of Penn West.

ADDITIONAL INFORMATION

Additional information relating to Penn West may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Penn West's securities and securities authorized for issuance under equity compensation plans, is contained in Penn West's Information Circular for its most recent annual meeting of securityholders that involved the election of directors. Additional financial information is provided in Penn West's financial statements and MD&A for its most recently completed financial year.

Any document referred to in this Annual Information Form and described as being filed on SEDAR at www.sedar.com and on EDGAR at www.sec.gov (including those documents referred to as being incorporated by reference in this Annual Information Form) may be obtained free of charge from us by contacting our Investor Relations Department by telephone (toll free: 1-888-770-2633) or by email (investor_relations@pennwest.com).

APPENDIX A-1

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

(Form 51-101F3)

Management of Penn West Petroleum Ltd. (" **Penn West**") is responsible for the preparation and disclosure of information with respect to Penn West's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated Penn West's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the Board of Directors of Penn West has:

(a) reviewed Penn West's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation, and, in the event of a proposal to change the independent qualified reserves evaluator, to inquire whether there had been disputes between the previous independent qualified reserves evaluator and management; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the Board of Directors has reviewed Penn West's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

(a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;

(b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) *"David E. Roberts"*
President and Chief Executive Officer

(signed) *"David A. Dyck"*
Senior Vice President and Chief Financial Officer

(signed) *"William Friley"*
Director and Chair of the Operations and Reserves Committee

(signed) *" Richard L. George"*
Director and Member of the Operations and Reserves Committee

(signed) *"John Brydson"*
Director and Member of the Operations and Reserves Committee

March 9, 2016

APPENDIX A-2

REPORT ON RESERVES DATA

(Form 51-101F2)

To the Board of Directors of Penn West Petroleum Ltd. (" **Penn West**"):

1. We have evaluated Penn West's reserves data as at December 31, 2015. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.
2. The reserves data are the responsibility of Penn West's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "COGE Handbook"), maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Penn West evaluated by us for the year ended December 31, 2015, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to Penn West's management and Board of Directors:

		Location of	Net Present Value of Future Net Revenue (millions before income taxes, 10% discount rate)			
Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Reserves (Country)	Audited	Evaluated	Reviewed	Total
Sproule Associates Limited	Evaluation of the P&NG Reserves of Penn West Petroleum Ltd. (As of December 31, 2015) February 3, 2016	Canada	nil	$ 3,397	nil	$ 3,397

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after their respective preparation dates.
8. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

(signed) *"Sproule Associates Limited"*
Sproule Associates Limited
Calgary, Alberta, Canada
February 3, 2016

APPENDIX A-3

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Our statement of reserves data and other oil and gas information dated March 9, 2016 is set forth below (the " **Statement**"). The effective date of the Statement is December 31, 2015 and the preparation date of the Statement is March 9, 2016. The Report of Management and Directors on Reserves Data and Other Information on Form 51-101F3 and the Report on Reserves Data by Sproule on Form 51-101F2 are attached as Appendices A-1 and A-2, respectively, to this Annual Information Form.

Disclosure of Reserves Data

The reserves data set forth below is based upon an evaluation prepared by Sproule with an effective date of December 31, 2015 contained in the Engineering Report. The reserves data summarizes our oil, natural gas liquids and natural gas reserves and the net present values of future net revenue from these reserves using forecast prices and costs, not including the impact of any hedging activities. The reserves data conforms to the requirements of NI 51-101. We engaged Sproule to evaluate all of our proved and proved plus probable reserves. See also "Notes to Reserves Data Tables" below.

The vast majority of our proved plus probable reserves are located in Canada in Alberta, British Columbia, and Saskatchewan.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast price and cost assumptions will be attained and variances could be material. The recovery and reserves estimates of crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

BOEs may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis is misleading as an indication of value.

For more information as to the risks involved, see " *Risk Factors*".

SUMMARY OF OIL AND GAS RESERVES
AS OF DECEMBER 31, 2015
FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES LIGHT AND MEDIUM OIL Gross (MMbbl)	RESERVES LIGHT AND MEDIUM OIL Net (MMbbl)	RESERVES HEAVY OIL AND BITUMEN Gross (MMbbl)	RESERVES HEAVY OIL AND BITUMEN Net (MMbbl)
PROVED				
Developed Producing	85	77	30	28
Developed Non-Producing	3	3	—	—
Undeveloped	16	15	2	2
TOTAL PROVED	104	94	33	30
PROBABLE	36	31	37	32
TOTAL PROVED PLUS PROBABLE	141	126	70	62

RESERVES CATEGORY	RESERVES NATURAL GAS Gross (Bcf)	RESERVES NATURAL GAS Net (Bcf)	RESERVES NATURAL GAS LIQUIDS Gross (MMbbl)	RESERVES NATURAL GAS LIQUIDS Net (MMbbl)
PROVED				
Developed Producing	306	271	11	8
Developed Non-Producing	16	14	1	—
Undeveloped	32	29	1	1
TOTAL PROVED	353	314	12	9
PROBABLE	120	107	4	3
TOTAL PROVED PLUS PROBABLE	473	421	16	12

RESERVES CATEGORY	RESERVES TOTAL OIL EQUIVALENT Gross (MMboe)	RESERVES TOTAL OIL EQUIVALENT Net (MMboe)
PROVED		
Developed Producing	177	158
Developed Non-Producing	6	5
Undeveloped	25	22
TOTAL PROVED	209	186
PROBABLE	97	84
TOTAL PROVED PLUS PROBABLE	306	270

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2015
BEFORE INCOME TAXES DISCOUNTED AT (%/year)
FORECAST PRICES AND COSTS

RESERVES CATEGORY	0% (MM$)	5% (MM$)	10% (MM$)	15% (MM$)	20% (MM$)	Unit Value Before Income Tax Discounted at 10%/year(1) ($/bbl)	($/Mcf)
PROVED							
Developed Producing	4,782	3,253	2,465	1,989	1,671	15.56	2.59
Developed Non-Producing	134	98	76	61	51	13.91	2.32
Undeveloped	514	223	83	10	(30)	3.74	0.62
TOTAL PROVED	5,430	3,574	2,624	2,060	1,691	14.10	2.35
PROBABLE	2,657	1,336	772	486	323	9.18	1.53
TOTAL PROVED PLUS PROBABLE	8,087	4,911	3,397	2,546	2,014	12.57	2.09

Note:

(1) The unit values are based on net reserve volumes.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2015
AFTER INCOME TAXES DISCOUNTED AT (%/year)
FORECAST PRICES AND COSTS

RESERVES CATEGORY	0% (MM$)	5% (MM$)	10% (MM$)	15% (MM$)	20% (MM$)
PROVED					
Developed Producing	4,508	3,164	2,431	1,975	1,664
Developed Non-Producing	98	81	67	56	48
Undeveloped	369	157	50	(7)	(40)
TOTAL PROVED	4,975	3,402	2,549	2,024	1,673
PROBABLE	1,928	986	580	372	252
TOTAL PROVED PLUS PROBABLE	6,903	4,388	3,129	2,396	1,924

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF DECEMBER 31, 2015
FORECAST PRICES AND COSTS

RESERVES CATEGORY	REVENUE (MM$)	ROYALTIES (MM$)	OPERATING COSTS (MM$)	DEVELOPMENT COSTS (MM$)	ABANDONMENT AND RECLAMATION COSTS (MM$)	FUTURE NET REVENUE BEFORE FUTURE INCOME TAXES (MM$)	FUTURE INCOME TAXES (MM$)	FUTURE NET REVENUE AFTER FUTURE INCOME TAXES (MM$)
Proved Reserves	13,811	1,354	5,780	692	555	5,430	455	4,975
Proved Plus Probable Reserves	20,971	2,312	8,405	1,528	640	8,087	1,184	6,903

FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF DECEMBER 31, 2015
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (MM$)	UNIT VALUE[3] ($/bbl)	UNIT VALUE[3] ($/Mcf)
Proved Reserves	Light and Medium Crude Oil[1]	1,984	16.02	2.67
	Heavy Oil and Bitumen[1]	478	15.28	2.55
	Natural Gas[2]	133	4.89	0.81
	Non-Conventional Oil and Gas Activities	29	7.63	1.27
	TOTAL	2,624	14.10	2.35
Proved Plus Probable Reserves	Light and Medium Crude Oil[1]	2,510	15.06	2.51
	Heavy Oil and Bitumen[1]	682	10.75	1.79
	Natural Gas[2]	169	4.82	0.80
	Non-Conventional Oil and Gas Activities	36	6.86	1.14
	TOTAL	3,397	12.57	2.09

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products but excluding solution gas and by-products from oil wells.
(3) The unit values are based on net reserve volumes.

Notes to Reserves Data Tables

1. Columns may not add due to rounding.

2. The crude oil, natural gas liquids and natural gas reserves estimates presented in the Engineering Report are based on the definitions and guidelines contained in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**"). A summary of those definitions are set forth below:

Reserves Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on:

(a) analysis of drilling, geological, geophysical and engineering data;

(b) the use of established technology; and

(c) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

(d) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

(e) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the classification of reserves are provided in the COGE Handbook.

Development and Production Status

Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories.

(a) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

(i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

(ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

(b) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed

non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities", which refers to the lowest level at which reserves calculations are performed, and to "reported reserves", which refers to the highest level sum of individual entity estimates for which reserves estimates are presented. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

(a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and

(b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

3. Forecast prices and costs

NI 51-101 defines "forecast prices and costs" as future prices and costs that are: (i) generally acceptable as being a reasonable outlook of the future; and (ii) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which we are legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in subparagraph (i).

The forecast cost and price assumptions include increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. The crude oil, natural gas and natural gas liquids benchmark reference pricing, inflation rates and exchange rates utilized in the Engineering Report are set forth below. The price assumptions set forth below were provided by Sproule.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
AS OF DECEMBER 31, 2015
FORECAST PRICES AND COSTS

	OIL					EDMONTON LIQUIDS PRICES					
Year	WTI Cushing Oklahoma ($US/bbl)	Canadian Light Sweet Crude 40ºAPI ($Cdn/bbl)	Western Canada Select 20.5ºAPI ($Cdn/bbl)	Cromer LSB 35ºAPI ($Cdn/bbl)	NATURAL GAS AECO ($Cdn/MMbtu)	Propane ($Cdn/bbl)	Butane ($Cdn/bbl)	Pentanes Plus ($Cdn/bbl)	OPERATING COST INFLATION RATES %/year	CAPITAL COST INFLATION RATE(1) %/year	EXCHANGE RATE(2) ($US/$Cdn)
Forecast											
2016	45.00	55.20	45.26	54.20	2.25	9.09	39.09	59.10	—	—	0.75
2017	60.00	69.00	57.96	68.00	2.95	13.64	51.43	73.88	—	4.0	0.80
2018	70.00	78.43	65.88	77.43	3.42	25.84	58.46	83.98	1.5	4.0	0.83
2019	80.00	89.41	75.11	88.41	3.91	35.35	66.64	95.73	1.5	4.0	0.85
2020	81.20	91.71	77.03	90.71	4.20	42.30	68.35	98.19	1.5	1.5	0.85
2021	82.42	93.08	78.19	92.08	4.28	42.94	69.38	99.66	1.5	1.5	0.85
2022	83.65	94.48	79.36	93.48	4.35	43.58	70.42	101.16	1.5	1.5	0.85
2023	84.91	95.90	80.55	94.90	4.43	44.24	71.48	102.68	1.5	1.5	0.85
2024	86.18	97.34	81.76	96.34	4.51	44.90	72.55	104.22	1.5	1.5	0.85
2025	87.48	98.80	82.99	97.80	4.59	45.57	73.64	105.78	1.5	1.5	0.85
Thereafter	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5	1.5	0.85

Notes:

(1) Capital Cost Inflation based on IHS Upstream Capital Cost Index.
(2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average actual prices realized, including hedging activities, for the year ended December 31, 2015 were $3.26/Mcf for natural gas, $58.31/bbl for light and medium crude oil, $33.26/bbl for heavy oil and $18.14/bbl for natural gas liquids.

4. Future Development Costs

The following table sets forth development costs deducted in the estimation of our future net revenue attributable to the reserve categories noted below.

	Forecast Prices and Costs	
Year	Proved Reserves (MM$)	Proved Plus Probable Reserves (MM$)
2016	47	64
2017	77	118
2018	210	403
2019	237	429
2020	104	368
2021 and subsequent	17	146
Total: Undiscounted for all years	692	1,528

We currently expect to fund the development costs of our reserves primarily through internally-generated funds flow. There can be no guarantee that funds will be available to develop all of our reserves or that we will allocate funding to develop all of the reserves attributed in the Engineering Report. Failure to develop those reserves would have a negative impact on future production and cash flow and could result in negative revisions to our reserves.

The interest and other costs of any external funding are not included in our reserves and future net revenue estimates and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. We do not currently expect that interest or other funding costs could make development of any of our properties uneconomic.

5. Estimated future well abandonment and reclamation costs related to reserve wells have been taken into account by Sproule in determining the aggregate future net revenue therefrom.

6. The forecast price and cost assumptions assume the continuance of current laws and regulations.

7. All factual data supplied to Sproule was accepted as represented. No field inspection was conducted.

8. The estimates of future net revenue presented in the tables above do not represent fair market value.

Reconciliations of Changes in Reserves

The following table sets forth the reconciliation of our gross reserves as at December 31, 2015, using forecast price and cost estimates derived from the Engineering Report.

RECONCILIATION OF
COMPANY GROSS RESERVES
BY PRODUCT TYPE
FORECAST PRICES AND COSTS

	LIGHT AND MEDIUM OIL[1]			HEAVY OIL AND BITUMEN[1]			NATURAL GAS[1]		
FACTORS	Gross Proved (MMbbl)	Gross Probable (MMbbl)	Gross Proved Plus Probable (MMbbl)	Gross Proved (MMbbl)	Gross Probable (MMbbl)	Gross Proved Plus Probable (MMbbl)	Gross Proved (Bcf)	Gross Probable (Bcf)	Gross Proved Plus Probable (Bcf)
December 31, 2014	202	96	298	39	38	77	602	289	891
Extensions	—	—	—	—	—	1	1	—	1
Infill drilling	—	—	—	2	1	2	—	—	—
Improved Recovery	—	—	—	—	—	—	—	—	—
Technical Revisions[2]	(44)	(41)	(85)	(2)	(1)	(3)	(108)	(145)	(252)
Acquisitions	—	—	—	—	—	—	—	—	—
Dispositions	(33)	(16)	(48)	—	—	—	(34)	(10)	(43)
Economic Factors	(7)	(4)	(10)	(2)	(1)	(3)	(49)	(15)	(64)
Production	(15)	—	(15)	(4)	—	(4)	(60)	—	(60)
December 31, 2015	104	36	141	33	37	70	353	120	473

FACTORS	NATURAL GAS LIQUIDS[1] Gross Proved (MMbbl)	Gross Probable (MMbbl)	Gross Proved Plus Probable (MMbbl)	TOTAL OIL EQUIVALENT[1] Gross Proved (MMboe)	Gross Probable (MMboe)	Gross Proved Plus Probable (MMboe)
December 31, 2014	27	12	38	368	194	561
Extensions	—	—	—	1	—	1
Infill drilling	—	—	—	2	1	2
Improved Recovery	—	—	—	—	—	—
Technical Revisions[2]	(7)	(5)	(13)	(71)	(72)	(142)
Acquisitions	—	—	—	—	—	—
Dispositions	(3)	(1)	(5)	(42)	(18)	(60)
Economic Factors	(2)	(1)	(2)	(18)	(8)	(26)
Production	(2)	—	(2)	(31)	—	(31)
December 31, 2015	12	4	16	208	97	306

Notes:

(1) Columns may not add due to rounding.
(2) Technical Revisions include undeveloped locations removed due to changes in future development capital.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Undeveloped reserves are attributed by Sproule in accordance with standards and procedures contained in the COGE Handbook. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. Undeveloped reserves must fully meet the requirements of the reserves category (proved or probable) to which they are assigned.

In some cases, it will take longer than two years to develop Penn West's undeveloped reserves. Penn West plans to develop approximately one-fifth of the proved undeveloped reserves in the Engineering Report over the next two years and the significant majority of the proved undeveloped reserves over the next five years. Penn West plans to develop approximately 10 percent of the probable undeveloped reserves in the Engineering Report over the next two years and the significant majority of the probable undeveloped reserves over the next five years. There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing and/or operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals).

Proved Undeveloped Reserves

The following table discloses, for each product type, the gross volumes of proved undeveloped reserves that were first attributed in each of the most recent four financial years.

Year	Light and Medium Oil (MMbbl)		Heavy Oil and Bitumen (MMbbl)		Natural Gas (Bcf)		NGLs (MMbbl)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2012	24	76	1	2	24	100	2	5
2013	13	72	1	4	25	142	1	7
2014	20	67	—	3	48	162	3	8
2015	—	16	2	2	—	32	—	1

Sproule has assigned 25 MMboe of proved undeveloped reserves in the Engineering Report under forecast prices and costs, together with $659 million of associated undiscounted future capital expenditures. Proved undeveloped capital spending in the first two forecast years of the Engineering Report accounts for $118 million, or 18 percent, of the total forecast undiscounted capital expenditures for proved undeveloped reserves. These figures increase to $657 million, or nearly 100 percent, during the first five years of the Engineering Report. The majority of our proved undeveloped reserves evaluated in the Engineering Report are attributable to future oil development from known pools and enhanced oil recovery projects.

Probable Undeveloped Reserves

The following table discloses, for each product type, the gross volumes of probable undeveloped reserves that were first attributed in each of the most recent four financial years.

Year	Light and Medium Oil (MMbbl)		Heavy Oil and Bitumen (MMbbl)		Natural Gas (Bcf)		NGLs (MMbbl)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2012	27	58	24	34	53	184	1	4
2013	12	49	—	31	33	146	1	4
2014	18	59	—	30	32	156	2	6
2015	—	15	1	29	—	30	—	1

Sproule has assigned 50 MMboe of probable undeveloped reserves in the Engineering Report under forecast prices and costs, together with $833 million of associated undiscounted future capital expenditures. Probable undeveloped capital spending in the first two forecast years of the Engineering Report accounts for $58 million, or 7 percent, of the total forecast undiscounted future capital expenditures for probable undeveloped reserves. These figures increase to $710 million, or 85 percent, during the first five years of the Engineering Report. The probable undeveloped reserves evaluated in the Engineering Report are primarily associated with proved undeveloped reserve assignments but have a less likely probability of being recovered than such associated proved undeveloped reserve assignments.

Significant Factors or Uncertainties Affecting Reserves Data

The development schedule for our undeveloped reserves is based on forecast price assumptions for the determination of economic projects. The actual market prices for oil and natural gas may be significantly lower or higher resulting in some projects being delayed or accelerated, as the case may be. See “*Risk Factors*”.

We do not anticipate that any significant economic factors or other significant uncertainties will affect any particular components of our reserves data. However, our reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond our control.

Additional Information Concerning Abandonment and Reclamation Costs

Abandonment and reclamation costs in respect of surface leases, wells, facilities and pipelines (collectively, " **A&R Costs**") are primarily comprised of abandonment, decommissioning, remediation and reclamation costs. A&R Costs are estimated using our experience conducting annual abandonment and reclamation programs over the past several years, the use of external consultants, and the use of comparisons to A&R Cost estimates obtained from the Alberta regulatory authorities.

Penn West reviews its suspended or standing well bores for reactivation, recompletion or sale opportunities. Wellbores that do not meet this criterion become part of our overall wellbore abandonment program. A portion of our A&R Costs are retired every year and facilities are generally decommissioned subsequent to the time when all the wells producing to them have been abandoned. All of our liability reduction programs take into account seasonal access, high priority and stakeholder issues, and where possible, opportunities for multi-location programs and continuous operations to reduce costs.

As of December 31, 2015, we expect to incur future A&R Costs in respect of approximately 13,278 net well bores, 1,745 facilities and 18,673 kilometres of pipelines. On an undiscounted, inflated basis, approximately 59% percent of A&R Costs relate to well bores, 34% percent to facilities and 7% percent to pipelines. The total amount of A&R Costs, net of estimated salvage values, we expect to incur, including wells that extend beyond the 50-year limit in the Engineering Report, are summarized in the following table:

Period	Abandonment and Reclamation Costs Escalated at 2% Undiscounted (MM$)	Abandonment and Reclamation Costs Escalated at 2% Discounted at 10% (MM$)
Total liability as at December 31, 2015	3,425	133
Anticipated to be paid in 2016	21	21
Anticipated to be paid in 2017	22	20
Anticipated to be paid in 2018	23	19
Total anticipated to be paid in 2016, 2017 and 2018	66	60

The above table includes certain A&R Costs, net of estimated salvage values, not included in the Engineering Report and not deducted in estimating future net revenue as disclosed above. Escalated at two percent and undiscounted, the A&R Costs deducted were $547 million, and escalated at two percent and discounted at 10 percent, these A&R Costs were $15 million.

OTHER OIL AND GAS INFORMATION

Description of Our Properties, Operations and Activities in Our Major Operating Regions

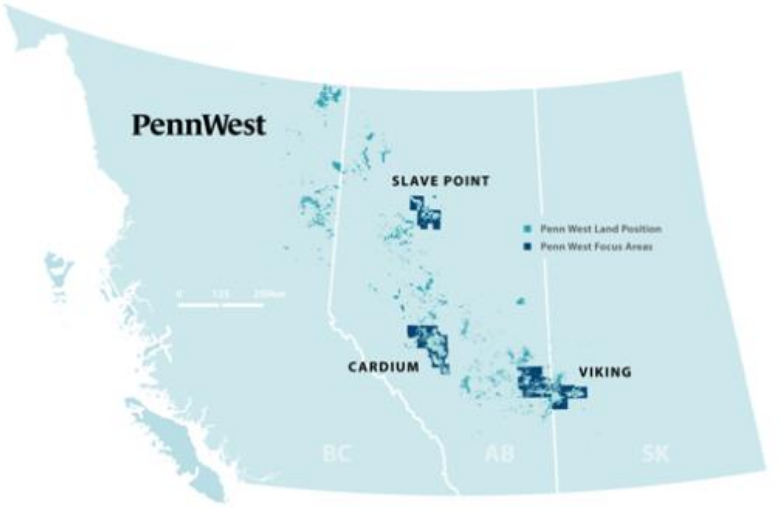
Introduction

Penn West participates in the exploration for, and the development and production of, oil and natural gas principally in western Canada. Our portfolio of properties as at December 31, 2015 includes both unitized and non-unitized oil and natural gas production. In general, the properties contain long-life, low-decline-rate reserves and include interests in several major oil and gas fields. The majority of our proved plus probable reserves are located in Canada in Alberta, British Columbia, Saskatchewan.

Major Operating Regions

Our production and reserves are attributed to approximately 110 producing properties. No single property accounts for more than 13 percent of our proved plus probable reserves. Penn West's operations are currently focused on light-oil development.

The following map illustrates Penn West's major operating regions as at December 31, 2015.



The following is a description of our principal oil and natural gas properties and related operations and activities as at December 31, 2015. Information in respect of gross and net acres and well counts are as of December 31, 2015 and information in respect of production is for the year ended December 31, 2015, except where indicated otherwise. **The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.**

Cardium Resource Play

The Cardium resource play is located in west central Alberta and extends over 300 kilometers from Calgary to Grande Prairie, Alberta. At December 31, 2015, Penn West had approximately 675,000 net acres of developed and undeveloped land in this resource play. Penn West's holdings in the Cardium include significant interests within the core of the play, particularly in the Willesden Green and Pembina areas. In 2015, development activity was focused in both these areas, with approximately $225 million of development capital spending resulting in a total of 56 net operated wells being drilled. In 2016, the Cardium capital budget is expected to be minimal, in response to the weak commodity price environment as the Company targets it capital expenditures to be within funds flow from operations.

Viking Resource Play

The Viking resource play is comprised of two distinct areas, with those being the Viking oil play in western Saskatchewan and the combined oil and natural gas resource directly across the border in eastern Alberta. At December 31, 2015, Penn West has a significant land position within the play totaling approximately 530,000 net acres of developed and undeveloped land. In 2015, Penn West invested approximately $115 million of development capital in the area resulting in 105 net operated wells drilled, all of which were in the Dodsland area. Penn West's 2016 total capital budget is minimal in response to the weak commodity price environment with the majority of activity being attributed to finalizing the completion and tie-in operations of wells drilled in late 2015.

Slave Point Resource Play

The Slave Point resource play is a tight, light-oil play situated north and northwest of Edmonton that extends through north-central Alberta. At December 31, 2015, Penn West had approximately 190,000 net acres of developed and undeveloped land in this resource play. In 2015, Penn West completed technical assessments and further appraisal in the area with one well drilled in each of Sawn Lake and Otter. For 2016, in response to the low commodity price environment, the Company has no development capital activity planned in the area, however, it will continue to assess and monitor production results.

Enhanced Oil Recovery

Enhanced oil recovery remains an important cornerstone of long-term resource development and value creation for Penn West. In 2015, Penn West continued to review integrated EOR strategies in each of its core areas, which is expected to lead to further recovery improvements and mitigate declines. Additionally, ongoing optimization of existing waterfloods is expected to extract additional low cost production volumes and reserves. In 2016, as the Company's capital budget is limited it plans to complete additional technical analysis on potential water flood technologies and schemes.

Additional Information

None of our important properties, plants, facilities or installations are subject to any material statutory or other mandatory relinquishments, surrenders, back-ins or changes in ownership.

We do not have any important properties to which reserves have been attributed and which are capable of producing but which are not producing.

2016 Capital Budget

In January 2016, the Company announced its 2016 capital budget of $50 million. This capital budget was consistent with the strategy announced on September 1, 2015, which limits our total expenditures to funds flow from operations, in response to the current weak commodity price environment. The Company's average production guidance for 2016 was also set at 60,000 to 64,000 boe per day.

The primary components of our programs are described above under the heading "Major Operating Regions". See also "Description of our Business – General Development of the Business – 2016 Developments – 2016 Capital Expenditure Budget and Production".

Oil And Gas Wells

The following table sets forth the number and status of wells in which we had a working interest as at December 31, 2015.

	Producing				Non-Producing		Total	
	Oil		Gas					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	5,401	3,565	2,178	1,417	5,582	3,743	13,161	8,725
British Columbia	125	49	671	277	585	260	1,381	586
Saskatchewan	2,515	2,365	309	240	1,395	1,267	4,219	3,872
Northwest Territories	11	2	—	—	31	5	42	7
Wyoming	95	32	—	—	175	56	270	88
Total	8,147	6,013	3,158	1,934	7,768	5,331	19,073	13,278

Properties with no Attributed Reserves

The following table sets out the unproved properties in which we had an interest as at December 31, 2015.

	Unproved Properties (thousands of acres)	
	Gross	Net
Alberta	1,184	860
British Columbia	521	244
Manitoba	82	82
Saskatchewan	84	76
Northwest Territories	85	18
Wyoming	4	1
Total	1,960	1,281

We currently have no material work commitments on these lands. The primary lease or extension term on approximately 38,000 net acres of unproved property is scheduled to expire by December 31, 2016. The right to explore, develop and exploit these leases will be surrendered unless we qualify them for continuation based on production, drilling or technical mapping.

Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves

The development of properties with no attributed reserves can be affected by a number of factors including, but not limited to, project economics, forecasted price assumptions, cost estimates, well type expectations and access to infrastructure. These and other factors could lead to the delay or the acceleration of projects related to these properties.

Tax Horizon

The most important variables that will determine the level of cash taxes incurred by us in a given year will be the price of crude oil and natural gas, our capital spending levels, the nature and extent of acquisition and disposition activities and the amount of tax pools available to us. We currently estimate that we will not be required to pay income taxes for the foreseeable future. However, if crude oil and natural gas prices were to strengthen beyond the levels anticipated by the current forward market, our tax pools would be utilized more quickly and we may experience higher than expected cash taxes or payment of such taxes in an earlier time period. However, we emphasize that it is difficult to give guidance on future taxability as we operate within an industry where various factors constantly change our outlook, including factors such as acquisitions, divestments, capital spending levels, operating cost levels and commodity price changes.

Capital Expenditures

The following table summarizes capital expenditures related to our activities for the year ended December 31, 2015, irrespective of whether such costs were capitalized or charged to expense when incurred.

	2015 MM$
Property Acquisition Costs(1)	
Proved Properties	(800)
Unproved Properties	2
Exploration Costs(1)	12
Development Costs(1)	482
Corporate Costs	5
Joint venture, carried capital	(31)
Total Capital Expenditures	(330)
Corporate Acquisitions	—
Total Expenditures	(330)

Note:

(1) "Property Acquisition Costs", "Proved Properties", "Unproved Properties", "Exploration Costs" and "Development Costs" have the meanings ascribed thereto in the COGE Handbook.

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells that we participated in during the year ended December 31, 2015.

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	10	3	201	174
Natural Gas	—	—	—	—
Service	—	—	—	—
Stratigraphic test	1	1	—	—
Total	11	4	201	174

Production Estimates

The following table sets out the volume of our production estimated for the year ended December 31, 2016 which is reflected in the estimates of gross proved reserves and gross probable reserves disclosed in the tables contained under “Disclosure of Reserves Data” above.

	Light and Medium Oil (bbl/d)		Heavy Oil and Bitumen (bbl/d)		Natural Gas (Mcf/d)		Natural Gas Liquids (bbl/d)		Total Oil Equivalent (boe/d)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Proved Developed Producing	26,990	24,990	11,132	10,221	103,784	92,975	3,630	2,772	59,050	53,479
Proved Developed Non-Producing	652	557	6	5	2,503	2,246	114	86	1,189	1,022
Proved Undeveloped	513	457	793	785	579	546	12	11	1,415	1,344
Total Proved	28,155	26,004	11,931	11,011	106,861	95,765	3,757	2,869	61,653	55,845
Total Probable	2,051	1,811	1,088	1,036	6,410	5,822	202	161	4,409	3,979
Total Proved Plus Probable	30,206	27,815	13,019	12,048	113,270	101,587	3,959	3,030	66,062	59,824

No one field (being a defined geographical area consisting of one or more pools) accounts for more than 13 percent of the estimated production on a proved plus probable basis disclosed above. For more information, see “*Other Oil and Gas Information – Description of Our Properties, Operations and Activities in Our Major Operating Regions*”.

Production History

The following table summarizes certain information in respect of our share of average gross daily production volumes, average net product prices received, royalties paid, production costs, transportation costs, risk management contracts loss (gain), and resulting netbacks for the periods indicated below:

	Quarter Ended 2015				Year Ended December 31, 2015
	March 31	June 30	September 30	December 31	
Share of Average Gross Daily Production					
Light and Medium Crude Oil (bbl/d)	45,855	44,195	39,052	37,063	41,510
Heavy Oil (bbl/d)	12,895	11,947	11,153	11,962	11,984
Gas (MMcf/d)	177	168	161	144	163
NGLs (bbl/d)	6,593	7,080	5,118	4,314	5,769
Combined (boe/d)	94,905	91,164	82,198	77,398	86,357
Average Net Production Prices Received					
Light and Medium Crude Oil ($/bbl)	49.82	64.56	52.60	50.20	54.48
Heavy Oil ($/bbl)	30.20	46.44	31.20	25.40	33.26
Gas ($/Mcf)	3.08	2.78	2.99	2.54	2.86
NGLs ($/bbl)	20.31	17.40	15.24	19.53	18.14
Combined ($/boe)	35.34	43.84	36.05	33.80	37.40
Royalties Paid					
Light and Medium Crude Oil ($/bbl)	6.32	4.82	4.28	6.90	5.57
Heavy Oil ($/bbl)	4.18	4.15	2.16	3.57	3.55
Gas ($/Mcf)	(0.02)	0.81	—	0.06	0.22
NGLs ($/bbl)	10.22	4.60	6.16	7.32	7.05
Combined ($/boe)	4.30	4.72	2.72	4.39	4.05
Production Costs[1][2]					
Light and Medium Crude Oil ($/bbl)	25.77	26.38	28.02	22.28	25.68
Heavy Oil ($/bbl)	21.21	18.06	23.32	15.72	19.54
Gas ($/Mcf)	1.95	1.82	2.25	2.32	2.07
NGLs ($/bbl)	—	—	—	—	—
Combined ($/boe)	18.97	18.51	20.89	17.43	18.96
Transportation					
Light and Medium Crude Oil ($/bbl)	1.06	1.20	1.19	1.09	1.13
Heavy Oil ($/bbl)	1.39	2.05	2.28	2.20	1.96
Gas ($/Mcf)	0.35	0.30	0.35	0.37	0.34
NGLs ($/bbl)	—	—	—	—	—
Combined ($/boe)	1.35	1.40	1.55	1.55	1.46
Risk Management Contracts Loss (Gain)					
Light and Medium Crude Oil ($/bbl)	(2.15)	1.31	(5.82)	(9.82)	(3.83)
Heavy Oil ($/bbl)	—	—	—	—	—
Gas ($/Mcf)	(1.28)	(0.08)	(0.03)	(0.10)	(0.40)
NGLs ($/bbl)	—	—	—	—	—
Combined ($/boe)	(3.44)	0.49	(2.83)	(4.89)	(2.59)
Netback Received[3]					
Light and Medium Crude Oil ($/bbl)	18.82	30.84	24.93	29.75	25.92
Heavy Oil ($/bbl)	3.42	22.18	3.44	3.91	8.21
Gas ($/Mcf)	2.08	(0.07)	0.42	(0.11)	0.63
NGLs ($/bbl)	10.09	12.80	9.08	12.22	11.09
Combined ($/boe)	14.16	18.72	13.72	15.32	15.52

Notes:

(1) Operating expenses are comprised of direct costs incurred to operate both oil and gas wells. A number of assumptions are required to allocate these costs between oil, natural gas and natural gas liquids production.

(2) Operating overhead recoveries associated with operated properties are charged to operating costs and accounted for as a reduction to general and administrative costs.
(3) Netbacks are calculated by subtracting royalties, operating costs, transportation costs and losses/gains on commodity and foreign exchange contracts from revenues.

During the year ended December 31, 2015, Penn West produced 32 MMboe, comprised of 15 MMbbl of light and medium oil, 4 MMbbl of heavy oil, 60 Bcf of natural gas and 2 MMbbl of natural gas liquids.

Marketing Arrangements

Our marketing approach incorporates the following primary objectives:

- Ensure security of market and avoid production shut-ins due to marketing constraints by dealing with end-users or regionally strategic counterparties wherever possible.
- Ensure competitive pricing by managing pricing exposures through a portfolio of various terms and geographic basis.
- Ensure optimization of netbacks through careful management of transportation obligations, facility utilization levels, blending opportunities and emulsion handling.
- Ensure protection of our receivables by, whenever possible, dealing only with credit worthy counterparties who have been subjected to regular credit reviews.

Oil and Liquids Marketing

Of our liquids production in 2015, approximately 70% percent was light and medium oil, 20% percent was conventional heavy oil and 10% percent was NGLs. In regard specifically to crude oil, our average quality was 32 degrees API, which was comprised of an average quality for our light and medium oil of 38 degrees API and an average quality for our conventional heavy oil of 11 degrees API.

To reduce risk, we market the majority of our production to large credit-worthy counterparties or end-users on varying term contracts. Where possible we aggregate our oil on pipelines and sell on a stream basis to maximize flexibility and reduce incremental costs. We actively manage our heavy oil sales by finding opportunities to optimize netbacks through ongoing evaluation of both pipeline and rail sales opportunities based on market conditions.

The following table summarizes the net product price received for our production of conventional light and medium oil (including NGLs) and our conventional heavy oil, before adjustments for hedging activities, for the periods indicated:

	2015		2014		2013	
Quarter Ended	Light and Medium Oil and NGLs ($/bbl)	Heavy Oil ($/bbl)	Light and Medium Oil and NGLs ($/bbl)	Heavy Oil ($/bbl)	Light and Medium Oil and NGLs ($/bbl)	Heavy Oil ($/bbl)
March 31	46.11	30.20	92.69	69.38	81.26	50.86
June 30	58.05	46.44	95.22	79.56	83.68	67.22
September 30	48.28	31.20	88.46	72.59	93.38	84.13
December 31	47.00	25.40	68.18	54.35	78.46	58.78

Natural Gas Marketing

In 2015, we received an average price from the sale of natural gas, before adjustments for hedging activities, of $2.86 per mcf compared to $4.78 per mcf realized in 2014. Approximately 95 percent of our natural gas sales are marketed directly, with the balance of natural gas sales sold either at the plantgate or in aggregator pools. We continue to maintain a significant weighting to the Alberta market which is one of the largest and most liquid market hubs in North America, but have also diversified with 28% of our gas portfolio sold into the US Midwest market.

We continue to conservatively manage our transportation costs. Transportation on all pipelines is closely balanced to supply, and market commitments.

Forward Contracts

We are exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. In accordance with policies approved by our Board of Directors, we may, from time to time, manage these risks through the use of swaps, collars or other financial instruments. Commodity price risk may be hedged up to a maximum of 50 percent of forecast sales volumes, net of royalties, for the balance of any current year and one year following and up to 25 percent of forecast sales volumes, net of royalties, for one additional year thereafter. Subject to the Board's approval, our hedging limits may be increased above the maximum limits. This policy is reviewed by management and our Board of Directors from time to time and amended as necessary.

We are also exposed to losses in the event of default by the counterparties to these derivative instruments. We manage this risk by diversifying our hedging portfolio among a number of counterparties, primarily parties within our banking syndicate, whom we consider to be financially sound.

As at December 31, 2015, we were not bound by any agreement (including a transportation agreement), directly or through an aggregator, under which we may be precluded from fully realizing, or may be protected from the full effect of, future market prices for oil or natural gas, except for agreements disclosed by us in Notes 11 and 19 to our audited consolidated financial statements as at and for the year ended December 31, 2015, which have been filed on SEDAR at www.sedar.com.

Our transportation obligations and commitments for future physical deliveries of crude oil and natural gas do not exceed our expected related future production from our proved reserves, estimated using forecast prices and costs, as disclosed herein.

APPENDIX B

MANDATE OF THE AUDIT COMMITTEE

1. PURPOSE

The purpose of the Audit Committee (the "**Committee**") of the board of directors (the "**Board**") of Penn West Petroleum Ltd. ("**Penn West**" or the "**Company**") is to assist the Board in fulfilling its responsibility for oversight of the integrity of Penn West's consolidated financial statements, Penn West's compliance with legal and regulatory requirements, the qualifications and independence of Penn West's independent auditors, and the performance of Penn West's internal audit function, if any.

The objectives of the Committee are as follows:

(a) To assist the Board in meeting its responsibilities (especially for accountability) in respect of the preparation and disclosure of the consolidated financial statements of Penn West and related matters;

(b) To provide better communication between directors and independent auditors;

(c) To assist the Board in meeting its responsibilities regarding the oversight of the independent auditor's qualifications and independence;

(d) To assist the Board in meeting its responsibilities regarding the oversight of the credibility, integrity and objectivity of financial reports;

(e) To strengthen the role of the non-management directors by facilitating discussions between directors on the Committee, management and independent auditors;

(f) To assist the Board in meeting its responsibilities regarding the oversight of the performance of Penn West's independent auditors and internal audit function (if any); and

(g) To assist the Board in meeting its responsibilities regarding the oversight of Penn West's compliance with legal and regulatory requirements.

2. SPECIFIC DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

(a) Satisfy itself on behalf of the Board that the Company's internal control systems are sufficient to reasonably ensure that:

  (i) controllable, material business risks are identified, monitored and mitigated where it is determined cost effective to do so;

  (ii) internal controls over financial reporting are sufficient to meet the requirements under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* and the *United States Securities Exchange Act of 1934* , as amended, and

  (iii) there is compliance with legal, ethical and regulatory requirements.

(b) Review the annual and interim financial statements of the Company prior to their submission to the Board for approval. The process should include, but not be limited to:

  (i) review of changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;

  (ii) review of significant accruals, reserves or other estimates such as the ceiling test calculation;

  (iii) review of accounting treatment of unusual or non-recurring transactions;

  (iv) review of compliance with covenants under loan agreements;

  (v) review of asset retirement obligations recommended by the Health, Safety, Environment and Regulatory Committee;

(vi) review of disclosure requirements for commitments and contingencies;

(vii) review of adjustments raised by the independent auditors, whether or not included in the financial statements;

(viii) review of unresolved differences between management and the independent auditors, if any;

(ix) review of reasonable explanations of significant variances with comparative reporting periods; and

(x) determination through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed.

(c) Review, discuss and recommend for approval by the Board the annual and interim financial statements and related information included in prospectuses, management discussion and analysis, information circular-proxy statements and annual information forms, prior to recommending Board approval.

(d) Discuss Penn West's interim results press releases, as well as financial information and earnings guidance provided to analysts and rating agencies (provided that the Committee is not required to review and discuss investor presentations that do not contain financial information or earnings guidance that has not previously been generally disclosed to the public).

(e) With respect to the appointment of independent auditors by the Board, the Committee shall:

(i) on an annual basis, review and discuss with the auditors all relationships the auditors have with Penn West to determine the auditors' independence, ensure the rotation of partners on the audit engagement team in accordance with applicable law and, in order to ensure continuing auditor independence, consider the rotation of the audit firm itself;

(ii) be directly responsible for overseeing the work of the independent auditors engaged for the purpose of issuing an auditors' report or performing other audit, review or attest services for Penn West, including the resolution of disagreements between management and the independent auditor regarding financial reporting, and the independent auditors shall report directly to the Committee;

(iii) review and evaluate the performance of the lead partner of the independent auditors;

(iv) review the basis of management's recommendation for the appointment of independent auditors and recommend to the Board appointment of independent auditors and their compensation;

(v) review the terms of engagement and the overall audit plan (including the materiality levels to be applied) of the independent auditors, including the appropriateness and reasonableness of the auditors' fees;

(vi) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and

(vii) review and pre-approve any audit and permitted non-audit services to be provided by the independent auditors' firm and consider the impact on the independence of the auditors.

(f) The Committee may delegate to one or more members of the Committee authority to pre-approve non-audit services in satisfaction of 2(e)(vii) above and if such delegation occurs, the pre-approval of non-audit services by the Committee member to whom authority has been delegated must be presented to the Committee at its first scheduled meeting following such pre-approval. The Committee shall be entitled to adopt specific policies and procedures for the engagement of non-audit services if:

(i) the pre-approval policies and procedures are detailed as to the particular service;

(ii) the Committee is informed of each non-audit service so approved; and

(iii) the procedures do not include delegation of the Committee's responsibilities to management;

provided that in order for the pre-approval requirements to be satisfied for any non-audit services that are not pre-approved in accordance with the procedures set forth above:

(iv) the aggregate amount of all non-audit services that were not pre-approved (if any) must be reasonably expected to constitute no more than 5% of the total amount of fees paid by Penn West and its subsidiary entities to the auditors during the fiscal year in which the services are provided;

(v) Penn West or the subsidiary entity, as the case may be, must not have recognized the services as non-audit services at the time of the engagement; and

(vi) the services must have been promptly brought to the attention of the Committee and approved, prior to completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Committee.

(g) At least annually, obtain and review the report by the independent auditors describing the independent auditors' internal quality control procedures, any material issues raised by the most recent interim quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.

(h) Review with the independent auditors (and internal auditors, if any) their assessment of the internal controls of the Company, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the independent auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Penn West and its subsidiaries.

(i) At least annually, obtain and review a report by the independent auditors describing (i) all critical accounting policies and practices used by Penn West, (ii) all alternative accounting treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm, and (iii) other material written communications between the accounting firm and management of Penn West.

(j) Obtain assurance from the independent auditors that disclosure to the Committee is not required pursuant to the provisions of the *United States Securities Exchange Act of 1934*, as amended, regarding the discovery by the independent auditors of illegal acts.

(k) Review, set and approve hiring policies relating to current and former staff of current and former independent auditors.

(l) Review all public disclosure containing financial information before release (provided that the Committee is not required to review investor presentations that do not contain financial information or earnings guidance that has not previously been generally disclosed to the public).

(m) Review all pending significant litigation to ensure disclosures are sufficient and appropriate.

(n) Satisfy itself that adequate procedures are in place for the review of Penn West's public disclosure of financial information from Penn West's financial statements and periodically assess the adequacy of those procedures.

(o) Review and discuss major financial risk exposures and the steps management has taken to monitor and control such exposures.

(p) Establish procedures independent of management for:

(i) the receipt, retention and treatment of complaints received by Penn West regarding accounting, internal accounting controls, or auditing matters; and

(ii) the confidential, anonymous submission by employees of Penn West of concerns regarding questionable accounting or auditing matters.

(q) Review any other matters required by law, regulation or stock exchange requirement, or that the Committee feels are important to its mandate or that the Board chooses to delegate to it.

(r) Establish, review and update periodically a Code of Business Conduct and Ethics and a Code of Conduct for Senior Officers and Senior Financial Management and ensure that management has established systems to enforce these codes.

(s) Review management's monitoring of Penn West's compliance with the organization's Code of Business Conduct and Ethics and Code of Conduct for Senior Officers and Senior Financial Management.

(t) Review and discuss with the Chief Executive Officer, the Chief Financial Officer and the independent auditors, the matters required to be reviewed with those persons in connection with any certificates required by applicable laws, regulations or stock exchange requirements to be provided by the Chief Executive Officer and the Chief Financial Officer.

(u) Review and discuss major issues regarding accounting principles and financial statement presentations, including any significant changes in Penn West's selection or application of accounting principles.

(v) Review and discuss major issues as to the adequacy of Penn West's internal controls and any special audit steps adopted in light of material control deficiencies.

(w) Review and discuss analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements.

(x) Review and discuss the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on Penn West's financial statements.

(y) Review and discuss the type and presentation of information to be included in earnings press releases, paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information.

(z) Annually review the Committee's Mandate and the Committee Chair's Terms of Reference and recommend any proposed changes to the Board for consideration.

(aa) Review and/or approve any other matters specifically delegated to the Committee by the Board.

3. KNOWLEDGE & EDUCATION

Committee members shall be "financially literate" within the meaning of National Instrument 52-110 *Audit Committees* ("**NI 52-110**"), and should have or obtain sufficient knowledge of Penn West's financial and audit policies and procedures to assist in providing advice and counsel on related matters. Members shall be encouraged as appropriate to attend relevant educational opportunities at the expense of Penn West.

4. COMPOSITION

(a) Committee members shall be appointed and removed by the Board and the Committee shall be composed of three directors of Penn West or such greater number as the Board may from time to time determine.

(b) Provided the Board Chair is an "independent" director as contemplated in subparagraph 4(c) below and "financially literate" as contemplated in subparagraph (d) below, the Board Chair shall be a non-voting *ex officio* member of the Committee, subject to subparagraph 5(e) below.

(c) Each member of the Committee shall be an "independent" director in accordance with the definition of "independent" in (a) NI 52-110 and (b) Section 303A.02 and 303A.07 of the New York Stock Exchange Listed Company Manual, and in accordance with all other applicable securities laws or rules of any stock exchange on which Penn West's securities are listed for trading.

(d) All of the members must be "financially literate" within the meaning of NI 52-110 and Section 303A.07 (a) of the New York Stock Exchange Listed Company Manual unless the Board has determined to rely on an exemption in NI 52-110. Being "financially literate" means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by Penn West's financial statements. In addition, at least one member of the Committee must have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.

(e) In connection with the appointment of the members of the Committee, the Board will determine whether any proposed nominee for the Committee serves on the audit committees of more than three public companies. To the extent that any proposed nominee for membership on the Committee serves on the audit committees of more than three public companies, the Board will make a determination as to whether such simultaneous services would impair the ability of such member to effectively serve on the Company's Audit Committee and will disclose such determination in Penn West's annual management proxy circular and annual report on Form 40-F filed with the United States Securities and Exchange Commission.

(f) The Board shall appoint the Chair of the Committee from among the Committee members.

5. MEETINGS

(a) The Committee shall meet at least four times per year at the call of the Committee Chair. The Committee Chair may call additional meetings as required. In addition, a meeting may be called by the Board Chair, the Chief Executive Officer, the Chief Financial Officer or any member of the Committee.

(b) As part of its job to foster open communication, the Committee should meet at least annually with management, internal auditors (if any) and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, the Committee shall meet with the independent auditors and management quarterly to review Penn West's interim financials. The Committee shall also meet with management and independent auditors on an annual basis to review and discuss Penn West's annual financial statements and the management's discussion and analysis of financial conditions and results of operations.

(c) Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by other electronic means of communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting. A member may, in any manner, waive notice of the meeting. Attendance of a member at a meeting shall constitute waiver of notice.

(d) Agendas, with input from management and the Committee Chair, shall be circulated by the Committee Secretary to Committee members and relevant members of management along with appropriate meeting materials and background reading on a timely basis prior to Committee meetings.

(e) A quorum shall be a majority of the members of the Committee present in person or by telephone or video conference or by other electronic or communication medium or by a combination thereof. If an independent ex officio non-voting member's presence is required to attain a quorum, then such member shall be a voting member of the Committee for such meeting.

(f) The Committee Chair shall be a full voting member of the Committee. If the Committee Chair is unavailable or unable to attend a meeting of the Committee, the Committee Chair shall ask another member to chair the meeting, failing which a member of the Committee present at the meeting shall be chosen to preside over the meeting by a majority of the members of the Committee present at such meeting. The Chair of any Committee meeting shall have a casting vote in the event of a tie on any matter upon which the Committee votes during such meeting.

(g) Members of the Company's management and such other Company staff as are appropriate to provide information to the Committee shall be available to attend meetings upon invitation by the Committee. The Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Committee; however, independent directors, including the Board Chair, shall always have the right to be present. As part of each Committee meeting the Committee members will also meet "in-camera" without any members of management present, and in the Committee's discretion, without any other members of the Board who are not Committee members present.

(h) The secretary to the Committee (the "**Committee Secretary**") will be either the Corporate Secretary of Penn West or his/her designate. The Committee Secretary shall record minutes of the meetings of the Committee, which shall be reviewed and approved by the Committee and maintained with Penn West's records by the Committee Secretary. The Committee shall report its activities and proceedings to the Board by oral or written report at the next Board meeting and by distributing the minutes of its meetings. Supporting schedules and information reviewed by the Committee shall be available for examination by any Director.

6. RESOURCES

(a) The Committee may retain special legal, accounting, financial or other consultants or advisors to advise the Committee at the Company's expense and shall have sole authority to retain and terminate any such consultants or advisors and to approve any such consultant's or advisor's fees and retention terms, subject to review by the Board, and at the expense of the Company.

(b) The Committee shall have access to Penn West's senior management and documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.

(c) The Committee shall have the authority to investigate any financial activity of Penn West and to communicate directly with the internal auditors (if any) and independent auditors. All employees are to cooperate as requested by the Committee.

7. DELEGATION

The Committee may delegate from to time to any person or committee of persons any of the Audit Committee's responsibilities that are permitted to be delegated to such person or committee in accordance with applicable laws, regulations and stock exchange requirements.

8. STANDARDS OF LIABILITY

(a) Nothing contained in this Mandate is intended to expand applicable standards of liability under statutory, regulatory or other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in this Mandate are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities, subject to applicable statutory, regulatory and other legal requirements.

(b) The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Penn West Petroleum Ltd. ("Penn West", the "Company", "we", "us", "our") should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 (the "Consolidated Financial Statements"). The date of this MD&A is March 9, 2016. All dollar amounts contained in this MD&A are expressed in millions of Canadian dollars unless noted otherwise.

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

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

Annual Financial Summary

	Year ended December 31		
(millions, except per share amounts)	**2015**	2014	2013
Gross revenues (1)	**$ 1,268**	$ 2,391	$ 2,863
Funds flow	**180**	935	985
Basic per share	**0.36**	1.89	2.03
Diluted per share	**0.36**	1.89	2.03
Funds flow from operations	**237**	953	1,023
Basic per share	**0.47**	1.93	2.11
Diluted per share	**0.47**	1.93	2.11
Net income (loss)	**(2,646)**	(1,733)	(809)
Basic per share	**(5.27)**	(3.51)	(1.67)
Diluted per share	**(5.27)**	(3.51)	(1.67)
Development capital expenditures (2)	**470**	732	704
Property acquisition (disposition), net	**(800)**	(560)	(540)
Long-term debt	**1,940**	2,149	2,458
Dividends declared	**15**	277	397
Dividends declared per share	**0.03**	0.56	0.82
Total assets	**$ 5,924**	$ 9,852	$ 12,329

(1) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.
(2) Includes the effect of capital carried by partners.

Gross revenues declined from the comparative periods mainly due to a significant decline in commodity prices and asset disposition activity which led to lower production volumes as Penn West progressed on several initiatives to reduce debt.

The net loss in 2015 and 2014 is primarily related to non-cash impairment charges recorded during the year. In 2015, the impairment charge was primarily related to non-cash property, plant and equipment ("PP&E") and goodwill impairment charges due to lower commodity price forecasts, lower estimated reserve recoveries and lower or minimal future development capital planned in the areas where the impairment was recorded. In 2014, the impairment charge was mainly due to a non-cash goodwill impairment charge as a result of the decline in commodity prices.

Development capital expenditures in 2015 decreased compared to 2014 and 2013 as the Company reduced its capital program in response to declining commodity prices. Penn West focused its 2015 capital activities within its light-oil interests in the Cardium and Viking.

Long-term debt continued to decline over the last two years as proceeds from asset dispositions have been used to reduce the Company's outstanding balance.

In the first quarter of 2015, Penn West reduced its quarterly dividend from $0.14 per share at the end of 2014 to $0.01 per share. On September 1, 2015, the Company announced that its Board of Directors approved the suspension of the divided until further notice. The last dividend payment of $0.01 per share was on October 15, 2015.

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

Three months ended (1)	**Dec. 31 2015**	Sep. 30 2015	June 30 2015	Mar. 31 2015	Dec. 31 2014	Sep. 30 2014	June 30 2014	Mar. 31 2014
Gross revenues (2)	**$ 273**	$ 295	$ 360	$ 340	$ 473	$ 589	$ 656	$ 673
Funds flow from operations	**36**	45	82	74	142	232	306	273
Basic per share	**0.07**	0.09	0.16	0.15	0.29	0.47	0.62	0.56
Diluted per share	**0.07**	0.09	0.16	0.15	0.29	0.47	0.62	0.56
Funds flow	**7**	14	47	112	137	231	298	269
Basic per share	**0.01**	0.03	0.09	0.22	0.28	0.47	0.61	0.55
Diluted per share	**0.01**	0.03	0.09	0.22	0.28	0.47	0.60	0.55
Net income (loss)	**(1,606)**	(764)	(28)	(248)	(1,772)	(15)	143	(89)
Basic per share	**(3.20)**	(1.52)	(0.06)	(0.49)	(3.57)	(0.03)	0.29	(0.18)
Diluted per share	**(3.20)**	(1.52)	(0.06)	(0.49)	(3.57)	(0.03)	0.29	(0.18)
Dividends declared	**—**	5	5	5	70	69	69	69
Per share	**$ —**	$ 0.01	$ 0.01	$ 0.01	$ 0.14	$ 0.14	$ 0.14	$ 0.14
Production								
Liquids (bbls/d) (3)	**53,339**	55,323	63,222	65,343	64,124	64,687	69,409	71,638
Natural gas (mmcf/d)	**144**	161	168	177	198	217	224	239
Total (boe/d)	**77,398**	82,198	91,164	94,905	97,143	100,839	106,706	111,461

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

Calculation of Funds Flow/Funds Flow from Operations

(millions, except per share amounts)	Year ended December 31 **2015**	2014
Cash flow from operating activities	**$ 175**	$ 848
Change in non-cash working capital	**(31)**	32
Decommissioning expenditures	**36**	55
Funds flow	**180**	935
Monetization of foreign exchange contracts	**(95)**	—
Settlements of normal course foreign exchange contracts	**(40)**	(2)
Realized foreign exchange loss – debt prepayments	**123**	—
Realized foreign exchange loss – debt maturities	**36**	3
Restructuring charges	**33**	17
Funds flow from operations	**$ 237**	$ 953
Per share – funds flow		
Basic per share	**$ 0.36**	$ 1.89
Diluted per share	**0.36**	1.89
Per share – funds flow from operations		
Basic per share	**0.47**	1.93
Diluted per share	**$ 0.47**	$ 1.93

Funds flow and funds flow from operations were lower than the comparative periods primarily due to lower revenues as a result of weaker commodity prices, particularly crude oil, and lower production volumes as a result of the Company closing several asset dispositions.

In 2015, the Company monetized a total of US$404 million foreign exchange forward contracts on senior notes in addition to monetizing its outstanding natural gas hedges in the first quarter of 2015. It also settled foreign exchange forward contracts as part of normal course maturities and on prepayments made to its noteholders. Both activities resulted in gains in 2015 which were excluded from the funds flow from operations.

During 2015, Penn West repaid senior notes in an aggregate amount of US$193 million and $57 million as part of normal maturities and additional amounts of US$445 million, $40 million, £28 million and €4 million of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. Penn West recorded unrealized foreign exchange losses on its senior notes as amounts were translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. These amounts were excluded from funds flow from operations.

Business Strategy

The Company has taken a number of proactive measures over the past 18 months in light of the prolonged weak commodity price environment. It continues to focus on de-levering its balance sheet and long-term sustainability with a focus on the following core strategies as it progresses through 2016.

- Targeting its capital expenditures to be within funds flow from operations at current commodity prices. This was demonstrated by its recent announcement of a disciplined 2016 capital budget totaling $50 million. As commodity prices fluctuate, the Company will continue to assess its development plans and adjust activity accordingly.
- Continued focus on cost reductions. The Company completed a significant restructuring of its workforce in September 2015; however, it continues to seek further improvements in its cost structure, particularly within operating costs and general and administrative ("G&A") expenditures. Currently, the Company has identified and is acting on a number of additional measures to reduce operating costs by a planned target of $120 million or approximately 20 percent on a year-over year basis. G&A expenditures continue to be reviewed with several initiatives already completed ensuring that its staff levels are consistent with its anticipated activity levels for 2016, with a planned targeted reduction of $15 to $20 million.
- Rationalize assets and focus operations on its core, light-oil areas. Penn West progressed on its non-core disposition program in 2015 when $800 million of disposition proceeds were received and applied against debt. It remains committed to pursuing additional non-core asset sales in an effort to further reduce debt and increase efficiencies in its operations.
- Debt reduction. The above noted strategies will all contribute to the Company's overall goal of reducing its debt position and increasing its financial flexibility.

Penn West remains committed to ensuring operational excellence across its extensive light-oil resources in Western Canada. As it progresses on its strategies through 2016 it believes it will be well positioned to move forward once commodity prices recover.

Business Environment

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

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Benchmark prices					
WTI crude oil ($US/bbl)	**$ 42.18**	$ 46.43	$ 57.94	$ 48.63	$ 73.15
Edm mixed sweet par price (CAD$/bbl)	**52.85**	56.17	67.93	51.76	75.58
NYMEX Henry Hub ($US/mcf)	**2.27**	2.77	2.64	2.98	4.00
AECO Monthly Index (CAD$/mcf)	**2.56**	2.85	2.66	2.95	4.00
Penn West average sales price (1)					
Light oil (per bbl)	**50.20**	52.60	64.56	49.82	72.82
NGL (per bbl)	**19.53**	15.24	17.40	20.31	38.88
Heavy oil (per bbl)	**25.40**	31.20	46.44	30.20	54.35
Total liquids (per bbl)	**42.16**	44.83	55.85	42.97	65.48
Natural gas (per mcf)	**2.54**	2.99	2.78	3.08	3.94
Benchmark differentials					
WTI - Edm Light Sweet ($US/bbl)	**(2.46)**	(3.42)	(2.86)	(6.80)	(6.33)
WTI - WCS Heavy ($US/bbl)	**$(14.49)**	$(13.27)	$(11.59)	$(14.73)	$(14.23)

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

Crude Oil

Crude oil prices experienced significant declines in 2015 as a result of oversupply in the market, largely due to increasing US oil production and OPEC's decision in late 2014 to increase production and retain market share. Over the past 18 months, WTI fell from a high of approximately US$105 per barrel in mid-2014 to below US$40 per barrel by the end of 2015.

In the fourth quarter of 2015, price volatility persisted as both storage levels and global crude production remained high which contributed to further price weakening. Inventory levels of crude oil were well above historical levels as we exited 2015 and contributed to WTI declining from approximately US$50 per barrel to approximately US$37 per barrel by the end of the quarter.

Canadian light and heavy oil differentials remained relatively constant through the fourth quarter, with light oil differentials ranging from US$2.03 per barrel to US$2.89 per barrel below WTI and heavy oil differentials ranging from US$13.53 per barrel to US$15.15 per barrel below WTI. Canadian netbacks were aided by the strengthening US dollar which partially offset the impact of the falling WTI price.

Penn West entered a number of financial WTI hedging positions in 2015 and has the following positions in place at December 31, 2015:

Reference Price	Term	Price ($/Barrel)	Volume (Barrels/day)
WTI	Jan 2016 – Dec 2016	CDN $72.08	5,000
WTI	Jan 2016 – Mar 2016	CDN $73.67	4,500
WTI	Apr 2016 – Jun 2016	CDN $68.25	2,000
WTI	Jul 2016 – Sep 2016	CDN $66.05	1,000
WTI	Oct 2016 – Dec 2016	CDN $67.05	1,000
WTI	Jan 2017 – Mar 2017	CDN $69.37	3,000

Natural Gas

NYMEX Henry Hub natural gas prices trended downward throughout 2015 as high natural gas production levels and moderate weather through most of North America caused an increase in storage levels throughout the summer and fall. Prices continued to decline in the fourth quarter of 2015 as a result of high storage levels and above average temperatures early in the winter heating season. A minor recovery was experienced late in the fourth quarter as cold temperatures were experienced through most of North America.

AECO pricing followed a similar pattern to NYMEX Henry Hub in 2015; however, the declines were not as significant as supply and storage inventory growth were impeded by ongoing restrictions on the TransCanada Pipeline system. A strong US dollar also helped to partially offset some of the weakness in the NYMEX price for Canadian producers.

At December 31, 2015, Penn West had 19,000 mcf per day of 2016 production hedged at an average AECO price of $3.08 per mcf.

Subsequent to December 31, 2015, Penn West entered into the following hedging positions.

Reference Price	Term	Price ($/mcf)	Volume (mcf/day)
AECO	Feb 2016 - Dec 2016	CDN $2.69	4,700
AECO	Jan 2017 - Dec 2017	CDN $2.96	4,700

Average Sales Prices

	Year ended December 31		
	2015	2014	% change
Light oil (per bbl)	**$54.48**	$92.08	(41)
Risk management gain (loss) (per bbl) (1)	**3.83**	(1.12)	>(100)
Light oil net (per bbl)	**58.31**	90.96	(36)
Heavy oil (per bbl)	**33.26**	69.19	(52)
NGL's (per bbl)	**18.14**	53.70	(66)
Natural gas (per mcf)	**2.86**	4.78	(40)
Risk management gain (loss) (per mcf) (1)	**0.40**	(0.29)	>(100)
Natural gas net (per mcf)	**3.26**	4.49	(27)
Weighted average (per boe)	**37.40**	64.03	(42)
Risk management gain (loss) (per boe) (1)	**2.59**	(1.10)	>(100)
Weighted average net (per boe)	**$39.99**	$62.93	(36)

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

Performance Indicators

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

- Values – Includes Penn West's execution of its operational, health, safety, environmental and regulatory programs and its focus on operational excellence;
- Delivery – Includes Penn West key performance metrics; production results, operating costs and G&A expenditures; and
- Sustainability – Includes the management of the Company's asset portfolio, financial stewardship and the goal of creating long-term competitive return on investment for its shareholders.

Values

Penn West's 2015 development program was focused in the Cardium and Viking areas and it continued to reduce its overall cost structure across its portfolio of assets within the Western Canadian Sedimentary basin. The Company is focused on strong capital stewardship which resulted in the re-alignment of its capital plans during 2015 in response to the weakening commodity price environment. Through the assessment of its drilling results and technical work completed by the Company it has accumulated a deep inventory of drilling opportunities and will continue to monitor commodity prices and react when appropriate to increase activity in its core areas.

Delivery

The Company met all key targets in 2015 as it continued to emphasize execution and several cost reduction initiatives.

- The Company's average annual production for 2015 was 86,357 boe per day, above the mid-point guidance of 85,000 to 87,000 boe per day.
- Development capital expenditures were $470 million compared to a budget of $500 million.
- Operating costs per boe were $18.96 per boe, better than the Company's expected $19.25 - $19.75 per boe range.
- G&A came in on target at $2.91 per boe, within the Company's range of $2.80 - $3.05 per boe.

For 2016 targets, please refer to the "Outlook" section below.

Sustainability

In 2015, Penn West took a number of prudent steps in response to the current commodity price environment in an effort to protect its balance sheet, these included:

- Successfully renegotiating amending agreements with its lenders under its syndicated bank facility and with holders of its senior notes to amend its financial covenants through to the end of 2016;
- Closing $800 million of dispositions in 2015 which focused the Company's operations and reduced its outstanding debt balance. The Company remains committed to pursuing additional non-core asset dispositions as it moves forward in an effort to increase its financial flexibility;
- Limiting its capital expenditures to be within funds flow from operations by the end of 2015 and the commitment to continue this strategy in 2016 under the current low commodity price environment.
- Suspending the dividend program and reducing board compensation; and
- Significantly reducing its cost structure through the successful completion of a number of initiatives without impacting the Company's ability to execute, notably through a 35 percent workforce reduction in September 2015.

All of the above actions have demonstrated Penn West's commitment to the long-term sustainability of the Company. It will continue to assess its plans as it moves forward and modify its development plans as commodity prices strengthen.

RESULTS OF OPERATIONS

Production

Daily production	Year ended December 31 **2015**	2014	% change
Light oil (bbls/d)	**41,510**	46,516	(11)
Heavy oil (bbls/d)	**11,984**	13,062	(8)
NGL (bbls/d)	**5,769**	7,858	(27)
Natural gas (mmcf/d)	**163**	219	(26)
Total production (boe/d)	**86,357**	103,989	(17)

Penn West's annual production levels were above the mid-point of guidance of 85,000 to 87,000 boe per day as it continued to advance its development program in the Cardium and Viking. During the year, the Company continued to progress on its non-core disposition program and successfully closed a number of transactions which resulted in lower production volumes compared to 2014.

Netbacks

	2015				2014
	Light Oil and NGL (bbl)	Heavy Oil (bbl)	Natural Gas (mcf)	**Combined (boe)**	Combined (boe)
Operating netback:					
Sales price [1]	$ 50.05	$ 33.26	$ 2.86	**$ 37.40**	$ 64.03
Commodity gain (loss) [2]	3.36	—	0.40	**2.59**	(1.10)
Royalties	(5.75)	(3.55)	(0.22)	**(4.05)**	(9.85)
Transportation	(1.00)	(1.96)	(0.34)	**(1.46)**	(1.19)
Operating costs	(22.55)	(19.54)	(2.07)	**(18.96)**	(19.24)
Netback	$ 24.11	$ 8.21	$ 0.63	**$ 15.52**	$ 32.65
	(bbls/d)	(bbls/d)	(mmcf/d)	**(boe/d)**	(boe/d)
Production	47,279	11,984	163	**86,357**	103,989

(1) Excluded from the netback calculation was $7 million of other income.
(2) Realized risk management gains and losses on commodity contracts.

In 2015, the Company's netback was lower compared to 2014 mainly due to a significant decline in commodity prices, particularly with crude and heavy oil. This pricing impact was partially offset by a reduction in royalties.

Production Revenues

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

(millions)	Year ended December 31 2015	2014
Light oil and NGL	**$ 929**	$ 1,701
Heavy oil	**146**	330
Natural gas	**193**	360
Gross revenues (1)	**$ 1,268**	$ 2,391

(1) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.

Overall, revenues have declined from 2014 primarily due to the significant decline in commodity prices combined with lower production volumes as the company successfully completed a number of asset dispositions in 2015 and late 2014.

Reconciliation of Change in Production Revenues

(millions)	
Gross revenues – January 1 – December 31, 2014	$2,391
Decrease in light oil and NGL production	(222)
Decrease in light oil and NGL prices (including realized risk management)	(550)
Decrease in heavy oil production	(27)
Decrease in heavy oil prices	(157)
Decrease in natural gas production	(93)
Decrease in natural gas prices (including realized risk management)	(74)
Gross revenues – January 1 – December 31, 2015	$1,268

Royalties

(millions)	Year ended December 31 2015	2014
Royalties (millions)	**$ 128**	$ 374
Average royalty rate (1)	**11%**	15%
$/boe	**$ 4.05**	$ 9.85

(1) Excludes effects of risk management activities.

In 2015, royalties decreased from the comparable period mainly due to a reduction in crude oil prices and the impact of asset disposition activity completed in 2015 and late 2014.

Expenses

(millions)	Year ended December 31 2015	2014
Operating	**$ 597**	$ 729
Transportation	**46**	45
Financing	**162**	158
Share-based compensation	**$ 6**	$ 12

(per boe)	Year ended December 31 2015	2014
Operating	**$ 18.96**	$ 19.24
Transportation	**1.46**	1.19
Financing	**5.15**	4.16
Share-based compensation	**$ 0.19**	$ 0.28

Operating

Operating costs in 2015 were lower than the comparative period as the Company closed a number of non-core asset dispositions which targeted higher operating cost areas. Also contributing to the decline was the successful execution of cost reduction strategies which led to lower labour costs and maintenance activity. These activities resulted in the Company achieving operating costs on a per boe basis below its guidance of $19.25 - $19.75 per boe.

In 2015 a realized loss of $16 million (2014 – $6 million) was recorded on electricity contracts which resulted in an increase to operating costs.

Financing

At December 31, 2015, the Company had a secured, revolving syndicated bank facility with an aggregate borrowing limit of $1.2 billion maturing on May 6, 2019. The syndicated bank facility contains provisions for stamping fees on bankers' acceptances and LIBOR loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios. At December 31, 2015, the Company had $689 million of unused credit capacity available.

At December 31, 2015, the value of the Company's senior notes were $1.5 billion (2014 – $2.1 billion). There were no senior notes issued in either 2015 or 2014. During 2015, Penn West repaid senior notes in an aggregate amount of US$193 million and $57 million as part of normal maturities and additional amounts of US$445 million, $40 million, £28 million and €4 million of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. In 2015, Penn West also repaid a total of $147 million outstanding under its syndicated bank facility using asset disposition proceeds. The repayments were made pursuant to the amendment terms entered into with the Company's lenders in May 2015.

At December 31, 2015, the Company had the following senior secured notes outstanding:

	Issue date	Amount (millions)	Term	Average interest rate [1]	Weighted average remaining term
2007 Notes	May 31, 2007	US$193	8 – 15 years	7.36%	2.6
2008 Notes	May 29, 2008	US$334, CAD$30	8 – 12 years	7.74%	2.0
UK Notes	July 31, 2008	£35	10 years	6.95% [2]	2.6
2009 Notes	May 5, 2009	US$65[3], £14, €6	5 – 10 years	10.18% [4]	2.5
2010 Q1 Notes	March 16, 2010	US$148	5 – 15 years	7.18%	3.7
2010 Q4 Notes	December 2, 2010, January 4, 2011	US$121, CAD$27	5 – 15 years	6.43%	5.7
2011 Notes	November 30, 2011	US$76, CAD$16	5 – 10 years	5.99%	4.3

(1) Average interest rate can fluctuate based on consolidated debt to EBITDA ratio under the covenant relief period which ends with the bank syndicate and noteholders on March 30, 2017.
(2) These notes bear interest at 8.45 percent in Pounds Sterling, however, contracts were entered to fix the interest rate at 6.95 percent in Canadian dollars and to fix the exchange rate on the repayment.
(3) A portion of the 2009 Notes have equal repayments, which began in 2013 with a repayment of $5 million, and extend over the remaining six years.
(4) The Company entered into contracts to fix the interest rate on the Pounds Sterling and Euro tranches, initially at 10.65 percent and 10.72 percent, to 9.15 percent and 9.22 percent, respectively, and to fix the exchange rate on repayment.

Penn West's debt capital structure includes short-term financings under its syndicated bank facility and long-term instruments through its senior notes. Financing charges in 2015 increased compared to 2014 as there was a higher average balance drawn under the syndicated bank facility during 2015 compared to 2014. Additionally, as a result of entering into agreements to amend its financial covenants with its lenders under its syndicated bank facility and with the holders of its senior notes there were increases in the Company's fee structure. The fee structure on the Company's senior notes will change during the amendment period (up until March 30, 2017) as follows:

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

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

The interest rates on any non-hedged portion of the Company's syndicated bank facility are subject to fluctuations in short-term money market rates as advances on the syndicated bank facility are generally made under short-term instruments. As at December 31, 2015, 24 percent (2014 – none) of Penn West's long-term debt instruments were exposed to changes in short-term interest rates.

Share-Based Compensation

Share-based compensation expense relates to the Company's Stock Option Plan (the "Option Plan"), Restricted Share Unit Plan ("RSU"), formerly named the Long-Term Retention and Incentive Plan ("LTRIP"), Deferred Share Unit Plan ("DSU") and Performance Share Unit Plan ("PSU").

Share-based compensation consisted of the following:

	Year ended December 31	
(millions)	**2015**	2014
Options	**$ 4**	$ 10
RSU	**2**	2
Share-based compensation	**$ 6**	$ 12

During 2015 and 2014, the DSU and PSU expenses were insignificant.

In 2015, there was nil PSU expense (2014 - $1 million) accelerated and reclassified from share-based compensation to restructuring expense in the Consolidated Statement of Income (Loss) as it related to the severance of former senior management.

The share price used in the fair value calculation of the RSU, PSU and DSU obligations at December 31, 2015 was $1.17 (2014 – $2.43).

General and Administrative Expenses ("G&A")

	Year ended December 31	
(millions)	**2015**	2014
Gross	**$ 141**	$ 172
Per boe	**4.47**	4.54
Net	**92**	131
Per boe	**$ 2.91**	$ 3.45

During 2015, Penn West further focused its cost structure which led to a reduction in its G&A compared to 2014. Staff and contractor levels were reduced throughout the year, most notably in September 2015, as the Company announced a 35 percent staff reduction. Additionally, the Company successfully completed a number of process improvement projects which also contributed to improved figures in 2015.

On a per boe basis, net G&A was within the Company's target of $2.80 per boe - $3.05 per boe.

Restructuring Expense

	Year ended December 31	
(millions)	**2015**	2014
Restructuring	**$ 33**	$ 17
Per boe	**$ 1.04**	$ 0.46

In 2015, as a result of the review of the Company's organizational structure which led to a significant decline in Penn West's staff and contractor levels, restructuring charges were recorded related to employee severances.

Depletion, Depreciation, Impairment and Accretion

(millions)	Year ended December 31 2015	2014
Depletion and depreciation ("D&D")	**$ 667**	$ 750
D&D expense per boe	**21.15**	19.78
Impairment	**1,700**	634
Impairment per boe	**53.93**	16.70
Accretion of decommissioning liability	**37**	36
Accretion expense per boe	**$ 1.17**	$ 0.95

The decrease in the D&D expense in 2014 is attributed to lower production volumes due to dispositions that closed in 2015 and late 2014.

On December 31, 2015, the Company recorded a $632 million impairment charge ($866 million before-tax) related to certain properties in the Swan Hills, Slave Point, Cardium, Edmonton and Wainwright areas of Alberta and the Fort St. John area of northeastern British Columbia. The impairments recorded in areas outside the Cardium were primarily due to lower commodity price forecasts compared to September 30, 2015, lower estimated reserve recoveries and minimal future development capital planned in these areas. The impairment in the Cardium was due to lower commodity price forecasts compared to September 30, 2015 and a reduction in future development costs to align with the Company's current year capital budget.

On September 30, 2015, Penn West recorded a $318 million impairment charge ($435 million before-tax) related to certain properties in the Fort St. John area of northeastern British Columbia and in the Swan Hills and Wainwright areas of Alberta primarily as a result of decreases in commodity price forecasts. Also, as a result of entering into two definitive sale agreements during the third quarter of 2015, at September 30, 2015, the Company classified certain non-core assets located in the Mitsue area of Central Alberta and in the Weyburn area of Southeast Saskatchewan as assets held for sale and recorded a $291 million impairment ($399 million before-tax).

In 2014, Penn West recorded an impairment charge primarily related to certain properties in the Fort St. John area of northeastern British Columbia, in the Swan Hills area of Alberta and in certain properties in Manitoba. This was mainly due to a decline in forecasted commodity prices compared to the prior year and minimal future development capital planned in these areas.

Taxes

(millions)	Year ended December 31 **2015**	2014
Deferred tax recovery	**$ 619**	$ 118

In 2015, the deferred income tax recovery was mainly due to PP&E impairment charges recorded during the second half of the year. This was partially offset by an increase to the Alberta corporate tax rate from 10 percent to 12 percent which was substantially enacted in the second quarter of 2015.

The deferred income tax recovery in 2014 can be attributed to impairment charges recorded during the fourth quarter of 2014 and unrealized risk management losses during 2014.

Tax Pools

(millions)	As at December 31 2015	2014
Undepreciated capital cost (UCC)	**$ 757**	$ 909
Canadian oil and gas property expense (COGPE)	**—**	6
Canadian development expense (CDE)	**329**	965
Canadian exploration expense (CEE)	**123**	431
Non-capital losses	**2,836**	2,318
Other	**60**	61
Total	**$4,105**	$4,690

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

Tax pool amounts exclude income deferred in operating partnerships of $245 million in 2015 (2014 – $441 million).

Foreign Exchange

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

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

	Year ended December 31 2015	2014
Realized foreign exchange loss on debt maturities	**$ (36)**	$ (3)
Realized foreign exchange loss on debt pre-payments	**(123)**	—
Unrealized foreign exchange loss	**(151)**	(152)
Foreign exchange loss	**$ (310)**	$ (155)

During 2015, Penn West repaid senior notes in an aggregate amount of US$193 million and $57 million as part of normal maturities and additional amounts of US$445 million, $40 million, £28 million and €4 million of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds.

The unrealized loss during 2015 is primarily due to the weakening of the Canadian dollar relative to the US dollar. This was partially offset by repayments of its senior notes as cumulative amounts previously recorded as unrealized foreign exchange losses on the specific debt maturities/pre-payments settled in the period are offset into realized foreign exchange losses.

Net Loss

(millions, except per share amounts)	Years ended December 31 2015	2014
Net loss	**$ (2,646)**	$ (1,733)
Basic per share	**(5.27)**	(3.51)
Diluted per share	**$ (5.27)**	$ (3.51)

The net loss in 2015 is primarily due to non-cash PP&E, Goodwill and E&E impairment charges recorded in the second half of 2015 as a result of lower forecasted commodity prices, lower estimated reserve recoveries and lower or minimal future development capital planned in the areas where the impairments were recorded. In the third quarter of 2015, as a result of entering into definitive sales agreements related to the Mitsue and Weyburn transactions, Penn West recorded non-cash impairment charges on these two transactions as the book value of these assets exceeded the fair value received. Lastly, the weakening of the Canadian dollar relative to the US dollar led to the Company recording foreign exchange losses related to its US denominated debt.

The net loss in 2014 was due to non-cash goodwill and PP&E impairment charges as a result of a decline in forecasted commodity prices and limited planned development capital in the areas where the impairments were recorded.

Drilling

	Year ended December 31 2015		2014	
	Gross	**Net**	Gross	Net
Oil	**211**	**177**	245	200
Natural gas	**—**	**—**	9	3
	211	**177**	254	203
Stratigraphic and service	**1**	**1**	10	2
Total	**212**	**178**	264	205
Success rate (1)		**100%**		100%

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

Capital Expenditures

(millions)	Year ended December 31 2015	2014
Land acquisition and retention	**$ 2**	$ 2
Drilling and completions	**325**	509
Facilities and well equipping	**167**	232
Geological and geophysical	**2**	7
Corporate	**5**	11
Capital carried by partners	**(31)**	(29)
Development capital expenditures (1)	**470**	732
SR&ED tax credits	**(29)**	—
Property dispositions, net	**(800)**	(560)
Total expenditures	**$ (359)**	$ 172

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

In 2015, the Company focused its development activities within its core interests in the Viking and Cardium. In the Viking, a total of 105 net wells were drilled concentrated within the Dodsland area where Penn West has demonstrated the continued ability to be the lowest cost producer in the area. Additionally, in the Cardium, Penn West drilled a total of 57 net wells mainly in the Willesden Green and Pembina areas of the play. Development activities continued to progress within the Peace River Oil Partnership with a total of 13 net wells drilled, with the capital costs largely carried by the Company's joint venture partner.

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

	Year ended December 31	
(millions)	**2015**	2014
E&E expenditures	**$ 10**	$ 108

In 2015, the Company had minor expenditures within its E&E plays as it focused on development activities within the Cardium and Viking. In 2014, E&E expenditures primarily related to activity in the Company's Duvernay property.

Additionally, in 2015, Penn West recorded a $185 million ($252 million before-tax) impairment charge within the Cordova area of British Columbia as a result of decreases in commodity price forecasts and minimal capital activity planned in this area under the current commodity price environment as it is natural gas weighted. In the future, as commodity price forecasts fluctuate, the Company will assess its plans in the area which could lead to an increase in the recoverable amount and the potential for a reversal of the impairment.

Gain (loss) on asset dispositions

	Year ended December 31	
(millions)	**2015**	2014
Gain (loss) on asset dispositions	**$ 85**	$ (190)

During 2015, Penn West closed $800 million of non-core asset dispositions as it continued to de-lever its balance sheet and focus its asset portfolio. During the year, $6 million of transaction costs were recorded as a result of the dispositions (2014 – insignificant).

The non-cash loss in 2014 is mainly due to Penn West's two non-core asset dispositions in 2014, one which closed in March for total proceeds of $175 million and the other which closed in December for total proceeds of $355 million.

Goodwill

	As at December 31	
(millions)	**2015**	2014
Balance, end of year	**$—**	$ 734

Penn West recorded goodwill on its acquisitions of Petrofund Energy Trust, Canetic Resources Trust and Vault Energy Trust in prior years. At December 31, 2015, as a result of completing its goodwill impairment test, the carrying amount exceeded the recoverable amount resulting in $684 million impairment. Additionally, the Company recorded $22 million of impairment as a result of two disposition transactions that were entered into during the third quarter of 2015 and $28 million (2014 – $78 million) of goodwill was allocated to non-core property dispositions during the year.

In 2014, goodwill was reduced by $1.1 billion as a result of a non-cash impairment charge mainly due to lower forecasted commodity prices.

Environmental and Climate Change

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

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

Liquidity and Capital Resources

Capitalization

	As at December 31			
	2015		2014	
(millions)		**%**		%
Common shares issued, at market (1)	**$ 588**	**22**	$1,208	33
Bank loans and long-term notes	**1,940**	**71**	2,149	59
Working capital deficiency (2)	**182**	**7**	304	8
Total enterprise value	**$2,710**	**100**	$3,661	100

(1) The share price at December 31, 2015 was $1.17 (2014 - $2.43).
(2) Excludes the current portion of deferred funding asset, risk management, long-term debt and decommissioning liability.

Dividends

(millions)	**2015**	2014
Dividends declared	**$ 15**	$ 277
Per share	**0.03**	0.56
Dividends paid (1)	**$ 85**	$ 275

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

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

The amount of future cash dividends may vary depending on a variety of factors and conditions which can include, but are not limited to, fluctuations in commodity markets, production levels and capital investment plans. Penn West's dividend level could change based on these and other factors and is subject to the approval of its Board of Directors. For further information regarding the Company's dividend policy, including the factors that could affect the amount of quarterly dividend that it pays and the risks relating thereto, see "Dividends and Dividend Policy – Dividend Policy" in its Annual Information Form, which is available on its website at www.pennwest.com, on the SEDAR website at www.sedar.com, and on the EDGAR website at www.sec.gov.

Liquidity

The Company has a secured, revolving syndicated bank facility with an aggregate borrowing limit of $1.2 billion and an extendible five-year term (May 6, 2019 maturity date). For further details on the Company's debt instruments, please refer to the "Financing" section of this MD&A.

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

The Company has a number of covenants related to its syndicated bank facility and senior, secured notes. On December 31, 2015, the Company was in compliance with all of these financial covenants which consisted of the following:

	Limit	**December 31, 2015**
Senior debt to EBITDA (1)	Less than 5:1	**4.6**
Total debt to EBITDA (1)	Less than 5:1	**4.6**
Senior debt to capitalization	Less than 50%	**40%**
Total debt to capitalization	Less than 55%	**40%**

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

The senior, secured notes contain change of control provisions whereby if a change of control occurs the Company may be required to offer to prepay the notes, which the holders have the right to refuse.

The table below outlines the Company's senior debt to EBITDA calculation as at December 31, 2015:

	Three months ended				**Trailing 12 months**
(millions, except ratios)	Dec. 31 2015	Sept. 30 2015	June 30 2015	Mar. 31 2015	**Dec. 31 2015**
Funds Flow	$ 7	$ 14	$ 47	$ 112	**$ 180**
Financing	42	40	43	37	**162**
Realized gain on foreign exchange hedges on prepayments	(9)	(6)	(3)	—	**(18)**
Realized foreign exchange loss – debt prepayments	64	15	44	—	**123**
Restructuring expenses	6	22	3	2	**33**
EBITDA	$ 110	$ 85	$ 134	$ 151	**$ 480**
EBITDA contribution from assets sold (1)					**(53)**
EBITDA as defined by debt agreements					**$ 427**
Long-term debt					**$1,940**
Letters of credit – financial (2)					**15**
Total senior debt					**$1,955**
Senior debt to EBITDA					**4.6**

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

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

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

The Company also agreed to the following:

- to temporarily grant floating charge security over all of its property in favor of the lenders and the noteholders on a pari passu basis, which security will be fully released upon the Company achieving both (i) a Senior Debt to EBITDA ratio of 3:1 or less for four consecutive quarters, and (ii) an investment grade rating on its senior secured debt;
- to cancel the $500 million tranche of the Company's existing $1.7 billion syndicated bank facility that was set to expire on June 30, 2016, the remaining $1.2 billion tranche of the syndicated bank facility remains available to the Company in accordance with the terms of the agreements governing such facility;
- to temporarily reduce its quarterly dividend commencing in the first quarter of 2015 to $0.01 per share or less until the earlier of (i) the Senior Debt to EBITDA being less than 3:1 for two consecutive quarters ending on or after September 30, 2015, and (ii) March 30, 2017; and
- until March 30, 2017, to use net proceeds from any asset dispositions to repay at par $650 million of the outstanding principal amounts owing to noteholders, with corresponding pro rata amounts from such asset dispositions to be used to repay any outstanding amounts drawn under its syndicated bank facility. During 2015, Penn West had closed $800 million in asset dispositions with the proceeds used for debt prepayments to its noteholders and syndicated bank facility.

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

As a result of continued declines in commodity price forecasts, if current strip pricing continues, the Company anticipates it will not be in compliance with its existing financial covenants by the end of the second quarter of 2016. The Company is considering several options that address the risk of default, including engaging its lenders to amend its financial covenants, reaching agreements on additional non-core property dispositions or securing additional subordinated debt and/or equity capital from strategic investors. Additionally, due to an active hedging program, the Company has a number of favorable hedging positions which could be monetized if approved by its lenders.

Financial Instruments

Penn West has an active risk management program in order to reduce the risk of commodity price, foreign currency and interest rate fluctuations and to allow for some certainty over funds flow from operations. The Company had the following financial instruments outstanding as at December 31, 2015. Fair values are determined using external counterparty information, which is compared to observable market data. The Company limits its credit risk by executing counterparty risk procedures which include transacting only with institutions within its credit facility or with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	Remaining term	Pricing	Fair value (millions)
Natural gas				
AECO Swaps	19,000 mcf/d	Jan/16 – Dec/16	$ 3.08/mcf	$ 4
Crude Oil				
WTI Swaps	5,000 bbl/d	Jan/16 – Dec/16	$ 72.08/bbl	27
WTI Swaps	4,500 bbl/d	Jan/16 – Mar/16	$ 73.67/bbl	8
WTI Swaps	2,000 bbl/d	Apr/16 – Jun/16	$ 68.25/bbl	2
WTI Swaps	1,000 bbl/d	Jul/16 – Sep/16	$ 66.05/bbl	1
WTI Swaps	1,000 bbl/d	Oct/16 – Dec/16	$ 67.05/bbl	1
WTI Swaps	3,000 bbl/d	Jan/17 – Mar/17	$ 69.37/bbl	2
Electricity swaps				
Alberta Power Pool	25 MW	Jan/16 – Dec/16	$ 49.90/MWh	(4)
Crude oil assignment				
18 – month term	10,000 boe/d	Jan/16 – May/16	Differential WCS (Edm) vs. WCS (USGC)	2
Foreign exchange forwards on senior notes				
3 to 15-year initial term	US$ 140	2016 – 2019	0.9951 CAD/USD	51
Short-term (< 1 year)	US$ 9	2016	1.3883 CAD/USD	—
Cross currency swaps				
10-year initial term	£ 57	2018	2.0075 CAD/GBP, 6.95%	4
10-year initial term	£ 20	2019	1.8051 CAD/GBP, 9.15%	6
10-year initial term	€ 10	2019	1.5870 CAD/EUR, 9.22%	—
Total				$ 104

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

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

	Year ended December 31	
	2015	2014
Realized		
Settlement of commodity contracts/assignment	**$ 63**	$ (42)
Monetization of commodity contracts	**18**	—
Settlement of foreign exchange contracts	**40**	2
Monetization of foreign exchange contracts	**95**	—
Total realized risk management gain (loss)	**216**	(40)
Unrealized		
Commodity contracts	**21**	53
Electricity swaps	**6**	(2)
Interest rate swaps	**—**	1
Crude oil assignment	**(8)**	(2)
Foreign exchange contracts	**(47)**	48
Cross-currency swaps	**18**	4
Total unrealized risk management gain (loss)	**(10)**	102
Risk management gain	**$ 206**	$ 62

In 2015, the Company monetized a total of US$404 million of foreign exchange forward contracts on senior notes and settled foreign exchange forward contracts as part of normal course maturities and on prepayments made to its noteholders.

Outlook

The Company has set its 2016 forecasted annual production guidance between 60,000 – 64,000 boe per day and an exploration and development capital expenditures budget of $50 million for the year. Annual average operating costs for 2016 are planned to be between $18.00 - $18.75 per boe and G&A per boe of $2.50 - $2.90. All figures were previously disclosed in its January 28, 2016 press release.

This outlook section is included to provide shareholders with information about Penn West's expectations as at March 9, 2016 for production, exploration and development capital expenditures, operating costs per boe and G&A per boe in 2016 and readers are cautioned that the information may not be appropriate for any other purpose. This information constitutes forward-looking information. Readers should note the assumptions, risks and discussion under "Forward-Looking Statements" and are cautioned that numerous factors could potentially impact Penn West's capital expenditure levels and production and funds flow from operations performance for 2016, including fluctuations in commodity prices and its ongoing asset disposition program.

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

Sensitivity Analysis

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

		Impact on funds flow	
Change of:	Change	$ millions	$/share
Price per barrel of liquids	$ 1.00	13	0.03
Liquids production	1,000 bbls/day	8	0.02
Price per mcf of natural gas	$ 0.10	4	0.01
Natural gas production	10 mmcf/day	1	—
Effective interest rate	1%	6	0.01
Exchange rate ($US per $CAD)	$ 0.01	2	—

Contractual Obligations and Commitments

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

	2016	2017	2018	2019	2020	Thereafter
Long-term debt	**$222**	$238	$375	$663	$263	$ 179
Transportation	**27**	59	75	76	76	296
Power infrastructure	**19**	9	9	9	9	7
Drilling rigs	**11**	7	—	—	—	—
Interest obligations	**125**	92	73	37	17	21
Office lease (1)	**65**	62	62	63	63	280
Decommissioning liability (2)	**$ 21**	$ 21	$ 20	$ 19	$ 18	$ 298

(1) The future office lease commitments above are contracted to be reduced by sublease recoveries totaling $337 million.
(2) These amounts represent the inflated, discounted future reclamation and abandonment costs that are expected to be incurred over the life of the Company's properties.

The Company's syndicated bank facility is due for renewal on May 6, 2019. In addition, the Company has an aggregate of $1.5 billion in senior secured notes maturing between 2016 and 2025. If the Company is unsuccessful in renewing or replacing the syndicated bank facility or obtaining alternate funding for some or all of the maturing amounts of the senior secured notes, it is possible that it could be required to obtain other facilities, including term bank loans. The Company continuously monitors its credit metrics and maintains positive working relationships with its lenders, investors and agents.

In February 2016, Penn West announced it had entered into agreements to settle all class action proceedings in Canada and United States against the Company related to damages alleged to have been incurred due to a decline in share price related to the restatement of certain Penn West's historical financial statements and related MD&A in 2014. The settlement agreements provide for a payment of $53 million split evenly between Canadian and US investors that will be fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact the Company's cash or financial position. The proposed settlements are subject to the satisfaction of the conditions stated in the settlement documents as well as the receipt of court approval in each of Alberta, Ontario, Quebec and in New York. There can be no assurance that these conditions will be satisfied or that the settlements will be approved by the courts. The receipt of such court approvals is dependent on a number of factors and therefore the timing thereof cannot be predicted at this time.

Equity Instruments

Common shares issued:	
As at December 31, 2015 and March 9, 2016	502,163,163
Options outstanding:	
As at December 31, 2015	10,595,728
Forfeited	(1,313,609)
As at March 9, 2016	9,282,119

Fourth Quarter 2015 Highlights

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

	Three months ended December 31		
	2015	2014	% change
Financial			
(millions, except per share amounts)			
Gross revenues (1)	**$ 273**	$ 473	(42)
Funds flow	**7**	137	(95)
Basic per share	**0.01**	0.28	(96)
Diluted per share	**0.01**	0.28	(96)
Funds flow from operations	**36**	142	(75)
Basic per share	**0.07**	0.29	(76)
Diluted per share	**0.07**	0.29	(76)
Net loss	**(1,606)**	(1,772)	(9)
Basic per share	**(3.20)**	(3.57)	(10)
Diluted per share	**(3.20)**	(3.57)	(10)
Development capital expenditures (2)	**99**	247	(60)
Property acquisition (disposition), net	**$ (389)**	$ (345)	13
Dividends			
(millions)			
Dividends paid (3)	**$ 5**	$ 69	(93)
DRIP	**—**	(15)	>100
Dividends paid in cash	**$ 5**	$ 54	(91)
Operations			
Daily production			
Light oil and NGL (bbls/d)	**41,378**	51,624	(20)
Heavy oil (bbls/d)	**11,962**	12,500	(4)
Natural gas (mmcf/d)	**144**	198	(27)
Total production (boe/d)	**77,398**	97,143	(20)
Average sales price			
Light oil and NGL (per bbl)	**$ 47.00**	$ 68.18	(31)
Heavy oil (per bbl)	**25.40**	54.35	(53)
Natural gas (per mcf)	**$ 2.54**	$ 3.94	(36)
Netback per boe			
Sales price	**$ 33.80**	$ 51.26	(34)
Risk management gain	**4.89**	1.51	>100
Net sales price	**38.69**	52.77	(27)
Royalties	**(4.39)**	(8.60)	(49)
Operating expenses	**(17.43)**	(20.83)	(16)
Transportation	**(1.55)**	(1.30)	19
Netback	**$ 15.32**	$ 22.04	(30)

(1) Includes realized gains and losses on commodity contracts and excludes gains and losses on foreign exchange hedges.
(2) Includes the effect of capital carried by partners.
(3) Includes dividends paid prior to amounts reinvested in shares under the dividend reinvestment plan.

Financial

Gross revenues, funds flow and funds flow from operations decreased in the fourth quarter of 2015 compared to 2014 primarily due to lower revenues as a result of decreases in commodity prices and lower production volumes from asset dispositions during 2015.

The net loss during the fourth quarter of 2015 was the result of an after-tax PP&E impairment charge of $632 million (2014 – $473 million) and a goodwill impairment charge of $684 million (2014 – $1,100 million).

Operations

Development activities during the quarter were focused in the Cardium and Viking areas with 42 net wells drilled. Additionally, 21 net wells were brought online during the period in both the Crimson and Pembina areas with results continuing to exceed the Company's expectations. At December 31, 2015, Penn West had 21 net wells in the Viking and one net well in the Cardium to be brought onto production during the first quarter of 2016.

Average production in the fourth quarter of 2015 was strong and resulted in the Company being above the mid-point of its annual production guidance target. Production declined from the comparable period in 2014, mainly due to asset dispositions that closed during 2015 and in late 2014.

During the fourth quarter of 2015, the Company closed its previously announced Mitsue disposition for proceeds of approximately $193 million and its disposition of its Weyburn Unit working interest for proceeds of $205 million, prior to closing adjustments. Proceeds from both dispositions were applied against the Companies senior notes and its syndicated bank facility.

In the fourth quarter of 2015, WTI crude oil prices averaged US$42.18 per barrel compared to US$46.43 per barrel in the third quarter of 2015 and US$73.15 per barrel in the fourth quarter of 2014. The decline is mainly due to an increase in the supply of crude oil. The AECO Monthly Index averaged $2.56 per mcf in the fourth quarter of 2015 compared to $2.85 per mcf in the third quarter of 2015 and $3.80 per mcf for the fourth quarter of 2014. Natural gas prices in 2015 decreased mainly due to moderate weather across North America in 2015.

Netbacks declined from the comparative quarter primarily due to lower commodity prices which was partially offset by the Company's continued focus on operating cost reduction initiatives and lower royalty rates due to commodity price declines and disposition activities.

Evaluation of Disclosure Controls and Procedures

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

An internal evaluation was carried out by management under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of Penn West's disclosure controls and procedures as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 (the "Exchange Act") and as defined in Canada by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") as at December 31, 2015. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as at December 31, 2015 the disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

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

An internal evaluation was carried out by management under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's ICFR as at December 31, 2015. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). During 2015, the Company transitioned to the 2013 COSO Framework as it relates to its internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as at December 31, 2015 the Company's ICFR was effective.

Changes in Internal Control Over Financial Reporting

Penn West's senior management has evaluated whether there were any changes in the Company's ICFR that occurred during the period beginning on October 1, 2015 and ending on December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No changes to Penn West's ICFR were made during the quarter.

Future Accounting Pronouncements

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

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

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

Off-Balance-Sheet Financing

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

Critical Accounting Estimates

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

Depletion and Impairments

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

All of the Company's reserves were evaluated by Sproule Associates Limited ("SAL"), an independent, qualified reserve evaluation engineering firm. Penn West's reserves are determined in compliance with National Instrument 51-101. The evaluation of oil and natural gas reserves is, by its nature, based on complex extrapolations and models as well as other significant engineering, reservoir, capital, pricing and cost assumptions. Reserve estimates are a key component in the calculation of depletion and are an important component in determining the recoverable amount in impairment tests. The determination of the recoverable amount involves estimating the higher of an asset's fair value less costs to sell or its value-in-use, the latter of which is based on its discounted future cash flows using an applicable discount rate. To the extent that the recoverable amount, which could be based in part on its reserves, is less than the carrying amount of property, plant and equipment, a write-down against income is recorded. In 2015, Penn West recorded impairment charges totalling $1,241 million ($1,700 million before-tax), this was primarily due to lower commodity price forecasts, lower estimated reserve recoveries and lower or minimal future development capital planned in areas where the impairments were recorded.

In 2014, Penn West recorded impairment charges totalling $473 million ($634 million before-tax) related to a weaker forecasted commodity price environment and minimal planned development activities in areas.

Decommissioning Liability

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

Financial Instruments

Financial instruments included in the balance sheets consist of accounts receivable, fair values of derivative financial instruments, current liabilities and long-term debt. Except for the senior notes, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments, the mark-to-market values recorded for the financial instruments and the market rate of interest applicable to the bank debt. The estimated fair value of the senior notes is disclosed in Note 9 to the Company's audited consolidated financial statements.

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

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

Goodwill

Goodwill is recorded on a business combination when the total purchase consideration exceeds the fair value of the net identifiable assets and liabilities of the acquired entity. The goodwill balance is not amortized; however, it must be assessed for impairment at least annually. To test for impairment, the carrying amount of the CGU including goodwill, if any, associated with the CGU, is compared to the recoverable amount of the CGU or group of CGUs to which the goodwill is associated. The key assumptions used in determining the recoverable amount include the future cash flows using reserve and resource forecasts, forecasted commodity prices, discount rates, foreign exchange rates, inflation rates and future development costs estimated by independent reserve engineers and other internal estimates based on historical experiences and trends. At December 31, 2015, Penn West recorded a $684 million (2014 – $1.1 billion) goodwill impairment charge primarily due to a significant decrease in commodity price forecasts. In 2015, the Company also recorded $22 million of impairment as a result of two transactions which the book value of the assets exceeded the fair value received.

Deferred Tax

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

Non-GAAP Measures

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

Oil and Gas Information

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

Forward-Looking Statements

Certain statements contained in this document constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. In particular, this document contains forward-looking statements pertaining to, without limitation, the following: under "Business Strategy", continuing to focus on de-levering the balance sheet and long-term sustainability focusing on core strategies through 2016, targeting capital expenditures to be within funds flow from operations at current commodity prices and continuing to assess development plans and adjust activity accordingly, continued focus on cost reductions, continuing to seek further improvements in cost structure, particularly within operating costs and G&A expenditures, reducing operating costs by a planned target of $120 million or approximately 20 percent on a year-over year basis, continued review of G&A expenditures and making sure staff levels are consistent with anticipated activity level for 2016, with a planned reduction of $15 to $20 million, remaining committed to pursuing additional non-core asset sales in an effort to further reduce debt and increase efficiencies in operations, reducing debt position and increasing financial flexibility, remaining committed to ensuring operational excellence across the extensive light-oil resources in Western Canada and the believe that the company will be well positioned to move forward once commodity prices recover; under "Performance Indicators", continuing to monitor commodity prices and react when appropriate to increase activity in its core areas, continuing to emphasize execution and several cost reduction initiatives, remaining committed to pursuing additional non-core asset dispositions moving forward in an effort to increase financial flexibility, the commitment to continue capital expenditure to be within fund flow from operations in 2016 under the current low commodity price environment and continuing to assess plans as the Company moves forward and modify its development plans as commodity prices strengthen; under "Environmental and Climate Change", our belief that compliance with environmental legislation could require additional expenditures and a failure to comply with such legislation may result in fines and penalties which could, in the aggregate and under certain assumptions, become material, our intent to reduce the environmental impact from our operations through environmental programs; under "Liquidity and Capital Resources", the amount of future cash dividends payable, if any, depending on certain factors and approvals of the Board of Directors, actively managing the debt portfolio and consider opportunities to reduce or diversify the debt capital structure, contemplating both operating and financial risks and taking action as appropriate to limit the Company's exposure to certain risks and that those actions and plans aim to increase the likelihood of maintaining the Company's financial flexibility and capital program, supporting the Company's ability to capture opportunities in the market and execute longer-term business strategies, intending to continue to actively identify and evaluate hedging opportunities in order to reduce exposure to fluctuations in commodity prices and protect future cash flows and capital programs, the potential that the Company may not be in compliance with its financial covenants by the end of the second quarter of 2016, considering several options that address the risk of default, including engaging the lenders to amend its financial covenants, reaching agreements on additional non-core property dispositions or securing additional subordinated debt and/or equity capital from strategic investors, the possibility of monetizing a number of favorable hedging positions if approved by the lenders; under "Financial Instruments", that the active risk management program which reduces the risk of commodity price, foreign currency and interest rate fluctuations and allows for some certainty over fund flow from operations; under "Outlook", the updated annual production guidance range, the exploration and development capital expenditures budget, the annual average operating costs and G&A per boe; under "Contractual Obligations and Commitments", the possibility of having to obtain other facilities if the Company is unsuccessful in renewing or replacing the syndicated bank facility or obtaining alternate funding for some or all of the maturing amounts of the senior secured notes, continuously monitoring the credit metrics and maintaining positive working relationships with the lenders, investors and agents, a payment of $53 million split evenly between Canadian and US investors that will be fully funded by insurance coverage which will not impact the Company's cash or financial position, satisfying the conditions stated in the settlement documents as well as receipt of court approval in each of Alberta,

Ontario, Quebec and New York; under “Fourth Quarter 2015 Highlights”, bringing on to production 21 net wells in the Viking and one net well in the Cardium whose results continue to exceed the Company’s expectations; under “Critical Accounting Estimates”, ensuring funds flow are sufficient to fund planned capital programs by using financial instruments including swaps and collars, using various types of financial instruments to reduce exposure to fluctuating oil and natural gas prices, electricity costs, exchange rates and interest rates and the possible exposure to credit risks associated with the possible non-performance of counterparties to those derivative contracts. In addition, statements relating to “reserves” or “resources” are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

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

Although the Company believes that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the forward-looking statements contained herein will not be correct, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the possibility that the Company will not be able to continue to successfully execute our long-term plan in part or in full, and the possibility that some or all of the benefits that the Company anticipates will accrue to our Company and our securityholders as a result of the successful execution of such plan do not materialize; the possibility that the Company is unable to execute some or all of our ongoing asset disposition program on favourable terms or at all; the possibility that we breach one or more of the financial covenants pursuant to our amending agreements with the syndicated banks and the holders of our senior, secured notes; general economic and political conditions in Canada, the U.S. and globally, and in particular, the effect that those conditions have on commodity prices and our access to capital; industry conditions, including fluctuations in the price of crude oil, natural gas liquids and natural gas, price differentials for crude oil and natural gas produced in Canada as compared to other markets, and transportation restrictions, including pipeline and railway capacity constraints; fluctuations in foreign exchange or interest rates; unanticipated operating events or environmental events that can reduce production or cause production to be shut-in or delayed (including extreme cold during winter months, wild fires and flooding); and the other factors described under “Risk Factors” in our Annual Information Form and described in our public filings, available in Canada at www.sedar.com and in the United States at www.sec.gov. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

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

Additional Information

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

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Penn West Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Penn West Petroleum Ltd., which comprise the Consolidated Balance Sheet as at December 31, 2015, and the Consolidated Statements of Loss, Changes in Shareholders' Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Penn West Petroleum Ltd. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penn West Petroleum Ltd.'s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated March 9, 2016 expressed an unqualified opinion on Penn West Petroleum Ltd.'s internal control over financial reporting.

"signed" Ernst & Young LLP
Chartered Professional Accountants
Calgary, Canada
March 9, 2016

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROLS UNDER STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (UNITED STATES)

To the Shareholders of Penn West Petroleum Ltd.

We have audited Penn West Petroleum Ltd.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, (2013 Framework), (the COSO criteria). Penn West Petroleum Ltd.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Penn West Petroleum Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of Penn West Petroleum Ltd. as of December 31, 2015 and the Consolidated Statements of Loss, Changes in Shareholders' Equity and Cash Flows for the year ended December 31, 2015 and our report dated March 9, 2016 expressed an unqualified opinion thereon.

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

March 9, 2016

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Penn West Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Penn West Petroleum Ltd., which comprise the consolidated balance sheet as at December 31, 2014, the consolidated statement of loss, cash flow and changes in shareholders' equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Penn West Petroleum Ltd. as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

"*signed*" KPMG LLP
Chartered Professional Accountants
March 11, 2015
Calgary, Canada

Penn West Petroleum Ltd.
Consolidated Balance Sheets

(CAD millions)	Note	December 31, 2015	December 31, 2014
Assets			
Current			
Cash	4	**$ 2**	$ 67
Accounts receivable	4	**154**	182
Other	4	**42**	46
Deferred funding assets	5	**63**	84
Risk management	11	**44**	31
		305	410
Non-current			
Deferred funding assets	5	**168**	195
Exploration and evaluation assets	6	**243**	505
Property, plant and equipment	7	**5,145**	7,906
Goodwill	8	**—**	734
Risk management	11	**63**	102
		5,619	9,442
Total assets		**$ 5,924**	$ 9,852
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities	4	**$ 380**	$ 529
Dividends payable	15	**—**	70
Current portion of long-term debt	9	**222**	283
Decommissioning liability	10	**21**	52
Risk management	11	**3**	9
		626	943
Non-current			
Long-term debt	9	**1,718**	1,866
Decommissioning liability	10	**376**	533
Risk management	11	**—**	10
Deferred tax liability	12	**266**	914
Other non-current liabilities	14	**3**	4
		2,989	4,270
Shareholders' equity			
Shareholders' capital	13	**8,994**	8,983
Other reserves	13	**92**	89
Deficit		**(6,151)**	(3,490)
		2,935	5,582
Total liabilities and shareholders' equity		$ 5,924	$ 9,852

Subsequent events (Notes 11, 14 and 19)
Commitments and contingencies (Note 19)

See accompanying notes to the consolidated financial statements.

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

"signed"

Richard L. George
Chairman

"signed"

Raymond D. Crossley
Director

Penn West Petroleum Ltd.
Consolidated Statements of Loss

(CAD millions, except per share amounts)	Note	Year ended December 31 2015	2014
Oil and natural gas sales and other income		**$ 1,187**	$ 2,433
Royalties		**(128)**	(374)
		1,059	2,059
Risk management gain	11	**206**	62
		1,265	2,121
Expenses			
Operating	21	**597**	729
Transportation		**46**	45
General and administrative	21	**92**	131
Restructuring		**33**	17
Share-based compensation	14	**6**	12
Depletion, depreciation and impairment	7	**2,367**	1,384
Impairment of goodwill	8	**706**	1,100
Loss (gain) on dispositions	7	**(85)**	190
Foreign exchange loss	9	**310**	155
Exploration and evaluation	6	**259**	16
Financing	9	**162**	157
Accretion	10	**37**	36
		4,530	3,972
Loss before taxes		**(3,265)**	(1,851)
Deferred tax recovery	12	**619**	118
Net and comprehensive loss		**$(2,646)**	$(1,733)
Net loss per share			
Basic	16	**$ (5.27)**	$ (3.51)
Diluted	16	**$ (5.27)**	$ (3.51)
Weighted average shares outstanding (millions)			
Basic	16	**502.0**	493.7
Diluted	16	**502.0**	493.7

See accompanying notes to the consolidated financial statements.

Penn West Petroleum Ltd.
Consolidated Statements of Cash Flows

(CAD millions)	Note	Year ended December 31 2015	2014
Operating activities			
Net loss		**$(2,646)**	$(1,733)
Depletion, depreciation and impairment	7	**2,367**	1,384
Impairment of goodwill	8	**706**	1,100
Loss (gain) on dispositions	7	**(91)**	190
Exploration and evaluation	6	**259**	16
Accretion	10	**37**	36
Deferred tax recovery	12	**(617)**	(118)
Share-based compensation	14	**4**	10
Unrealized risk management loss (gain)	11	**10**	(102)
Unrealized foreign exchange loss	9	**151**	152
Decommissioning expenditures	10	**(36)**	(55)
Change in non-cash working capital	17	**31**	(32)
		175	848
Investing activities			
Capital expenditures		**(470)**	(732)
Property dispositions (acquisitions), net		**800**	560
Change in non-cash working capital	17	**(134)**	59
		196	(113)
Financing activities			
Increase (decrease) in long-term debt	9	**462**	(403)
Repayment of senior notes	9	**(982)**	(62)
Issue of equity		**—**	11
Realized foreign exchange loss on repayments	9	**159**	3
Dividends paid		**(75)**	(217)
		(436)	(668)
Change in cash		**(65)**	67
Cash, beginning of year		**67**	**—**
Cash, end of year		**$ 2**	$ 67

See accompanying notes to the consolidated financial statements.

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

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

	Note	Shareholders' Capital	Other Reserves	Deficit	Total
Balance at January 1, 2014		$ 8,913	$ 80	$(1,480)	$ 7,513
Net and comprehensive loss		—	—	(1,733)	(1,733)
Share-based compensation	14	—	10	—	10
Issued on exercise of options and share rights	13	12	(1)	—	11
Issued to dividend reinvestment plan	13	58	—	—	58
Dividends declared	15	—	—	(277)	(277)
Balance at December 31, 2014		$ 8,983	$ 89	$(3,490)	$ 5,582

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
(All tabular amounts are in CAD millions except numbers of common shares, per share amounts, percentages and various figures in Note 11)

1. Structure of Penn West

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

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

2. Basis of presentation and statement of compliance

a) Statement of Compliance

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

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

The annual consolidated financial statements of the Company for the year ended December 31, 2015 were approved for issuance by the Board of Directors on March 9, 2016.

b) Basis of Presentation

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

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

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

3. Significant accounting policies

a) Critical accounting judgments and key estimates

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

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

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

i) Reserve estimates

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

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

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

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

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

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

ii) Recoverability of asset carrying values

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

iii) Recoverability of exploration and evaluation assets

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

iv) Decommissioning liability

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

v) Fair value calculation on share-based payments

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

vi) Fair value of risk management contracts

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

vii) Taxation

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

viii) Litigation

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

ix) Basis of Presentation

In the preparation of Financial Statements, Management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability continue as a going concern.

Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Company will not be able to meet its obligations as they become due for a period at least, but not limited to twelve months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt. The mitigating effect of management's plans are considered to the extent that; i) it is probable that the plans will be effectively implemented and, if so, ii) it is probable that the plans will mitigate the conditions or events that raise significant doubt about the company's ability to continue as a going concern.

In order to address the Company's liquidity issues, management is actively addressing this as follows:

The Company's Board of Directors recently approved a capital budget of $50 million for fiscal 2016. This budget responds to the significant decline in commodity prices and includes capital spending levels 90 per cent lower than the 2015 planned capital program and limits total expenditures to funds flow from operations.

As a result of continued declines in commodity price forecasts, if current strip pricing continues, the Company anticipates it will not be in compliance with its existing financial covenants by the end of the second quarter of 2016. The Company is considering several options that address the risk of default, including engaging its lenders to amend its financial covenants, reaching agreements on additional non-core property dispositions or securing additional subordinated debt and/or equity capital from strategic investors. Additionally, due to an active hedging program, the Company has a number of favorable hedging positions which could be monetized if approved by its lenders.

After considering its plans to mitigate the going concern risk, Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Furthermore, the estimates made by management in reaching this conclusion are based on information available as of the date these financial statements were authorized for issuance. Accordingly, actual circumstances will differ from those estimates and the variation may be material.

b) Business combinations

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

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

c) Goodwill

Penn West recognizes goodwill on a business combination when the total purchase consideration exceeds the net identifiable assets acquired and liabilities assumed of the acquired entity. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses.

Goodwill is not amortized and the carrying amount is assessed for impairment on an annual basis at December 31, or more frequently if circumstances arise that indicate impairment may have occurred. To test for impairment, the carrying amount of the CGU including goodwill, if any, associated with the CGU, is compared to the recoverable amount of the CGU or group of CGUs to which the goodwill is associated. If the recoverable amount of the CGU exceeds the carrying value, then no impairment exists. If the carrying value of the CGU exceeds the recoverable amount of the CGU, then an impairment loss shall be recorded. The determination of the recoverable amount involves estimating the higher of an asset's fair value less costs to sell and its value-in-use. Goodwill impairment losses are not reversed in subsequent periods.

d) Revenue

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

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

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

e) Joint arrangements

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

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

f) Transportation expense

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

g) Foreign currency translation

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

h) E&E

i) Measurement and recognition

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

ii) Transfer to PP&E

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

iii) Pre-license costs

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

iv) Impairment

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

i) PP&E

i) Measurement and recognition

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

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

ii) Depletion and Depreciation

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

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

iii) Derecognition

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

iv) Major maintenance and repairs

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

v) Impairment of oil and natural gas properties

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

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

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

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

vi) Other Property, Plant and Equipment

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

j) Share-based payments

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

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

k) Provisions

i) General

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

ii) Decommissioning liability

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

l) Leases

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

m) Share capital

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

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

n) Earnings per share

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

o) Taxation

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

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

p) Financial instruments

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

- Fair value through profit or loss financial assets and liabilities and derivative instruments classified as held for trading or designated as fair value through profit or loss are measured at fair value and subsequent changes in fair value are recognized in income;
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are initially measured at fair value with subsequent changes at amortized cost;
- Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in equity until the instrument or a portion thereof is derecognized or impaired at which time the amounts would be recognized in income;
- Held to maturity financial assets and loans and receivables are initially measured at fair value with subsequent measurement at amortized cost using the effective interest method. The effective interest method calculates the amortized cost of a financial asset and allocates interest income or expense over the applicable period. The rate used discounts the estimated future cash flows over either the expected life of the financial asset or liability or a shorter time-frame if it is deemed appropriate; and
- Other financial liabilities are initially measured at fair value with subsequent changes to fair value measured at amortized cost.

Penn West's current classifications are as follows:

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

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

q) Embedded derivatives

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

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

At December 31, 2015, Penn West had an embedded derivative related to a crude oil assignment contract; please refer to note 11 for details.

r) Classification of debt or equity

Penn West classifies financial liabilities and equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability or an equity instrument.

Penn West's debt instruments currently have requirements to deliver cash at the end of the term thus are classified as liabilities.

s) Enhanced oil recovery

The value of proprietary injectants is not recognized as revenue until produced and sold to third parties. The cost of injectants purchased from third parties for enhanced oil recovery projects is included in PP&E. Injectant costs are depleted over the period of expected future economic benefit on a unit-of-production basis. Costs associated with the production of proprietary injectants are expensed.

t) Future accounting pronouncements

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

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

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

4. Working capital

	As at December 31	
	2015	2014
Cash	**$ 2**	$ 67
Components of accounts receivable		
Trade	**$ 84**	$ 55
Accruals	**70**	127
	$ 154	$ 182
Components of other assets		
Prepaid expenses	**$ 37**	$ 41
Other	**5**	5
	$ 42	$ 46
Components of accounts payable and accrued liabilities		
Accounts payable	**$ 140**	$ 79
Royalty payable	**58**	82
Capital accrual	**65**	195
Operating accrual	**76**	102
Share-based compensation liability	**4**	5
Other	**37**	66
	$ 380	$ 529

Accounts receivable

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

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

	Current	30-90 days	90+ days	Total
2015	**$ 102**	**$ 35**	**$ 17**	**$154**
2014	$ 159	$ 16	$ 7	$182

5. Deferred funding assets

Deferred funding amounts relate to Penn West's share of capital and operating expenses to be funded by Penn West's partner in the Peace River Oil Partnership and Penn West's share of capital expenditures to be funded by Penn West's partner in the Cordova Joint Venture. Amounts expected to be settled within the next 12 months are classified as current.

	As at December 31	
	2015	2014
Peace River Oil Partnership	**$ 149**	$ 195
Cordova Joint Venture	**82**	84
Total	**$ 231**	$ 279
Current portion	**$ 63**	$ 84
Long-term portion	**168**	195
Total	**$ 231**	$ 279

6. Exploration and evaluation assets

	Year ended December 31	
	2015	2014
Balance, beginning of year	**$ 505**	$ 645
Capital expenditures	**10**	92
Joint venture, carried capital	**—**	16
Expensed	**(7)**	(16)
Impairment	**(252)**	—
Transfers to PP&E	**(13)**	(232)
Balance, end of year	**$ 243**	$ 505

On December 31, 2015 as a result of a decrease in commodity price forecasts and an associated reduction in Penn West's planned future capital expenditures, Penn West assessed its E&E plays for impairment indicators. Due to minimal capital activity planned in its natural gas weighted properties within the Cordova area of British Columbia, the Company completed an impairment test on this property and concluded that the carrying amount exceeded its fair value which resulted in an impairment charge of $185 million ($252 million before-tax). In the future, as commodity price forecasts fluctuate, the Company will assess its plans in the area which could lead to an increase in the recoverable amount and the potential for a reversal of the impairment.

At December 31, 2014, no impairment existed related to exploration and evaluation assets. An impairment test was completed on amounts reclassified into PP&E during 2014 at which time the estimated fair value exceeded the carrying amount and no impairment was indicated.

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

7. Property, plant and equipment

Cost

	Oil and gas assets	Facilities	Turnarounds	Corporate assets	Total
Balance at January 1, 2014	$ 12,356	$ 5,450	$ 15	$ 153	$17,974
Capital expenditures	397	232	—	11	640
Joint venture, carried capital	13	—	—	—	13
Acquisitions	10	2	—	—	12
Dispositions	(1,133)	(283)	—	—	(1,416)
Transfers from E&E	186	46	—	—	232
Net decommissioning additions	1	—	—	—	1
Balance at December 31, 2014	**$ 11,830**	**$ 5,447**	**$ 15**	**$ 164**	**$17,456**
Capital expenditures	**288**	**167**	**—**	**5**	**460**
Joint venture, carried capital	**31**	**—**	**—**	**—**	**31**
Acquisitions	**6**	**1**	**—**	**—**	**7**
Dispositions	**(1,231)**	**(308)**	**—**	**—**	**(1,539)**
Transfers from E&E	**10**	**3**	**—**	**—**	**13**
SR&ED tax credits (note 12)	**(29)**	**—**	**—**	**—**	**(29)**
Net decommissioning dispositions	**(189)**	**—**	**—**	**—**	**(189)**
Balance at December 31, 2015	**$ 10,716**	**$ 5,310**	**$ 15**	**$ 169**	**$16,210**

Accumulated depletion, depreciation and impairment

	Oil and gas Assets	Facilities	Turnarounds	Corporate assets	Total
Balance at January 1, 2014	$ 6,947	$ 1,873	$ 12	$ 67	$ 8,899
Depletion and depreciation	576	160	1	13	750
Impairments	413	221	—	—	634
Dispositions	(586)	(147)	—	—	(733)
Balance at December 31, 2014	**$ 7,350**	**$ 2,107**	**$ 13**	**$ 80**	**$ 9,550**
Depletion and depreciation	**503**	**149**	**1**	**14**	**667**
Impairments	**1,360**	**340**	**—**	**—**	**1,700**
Dispositions	**(682)**	**(170)**	**—**	**—**	**(852)**
Balance at December 31, 2015	**$ 8,531**	**$ 2,426**	**$ 14**	**$ 94**	**$11,065**

Net book value

	As at December 31	
	2015	2014
Total	**$5,145**	$7,906

In 2015, Penn West recorded a net gain on dispositions of $85 million (2014 - $190 million loss), which included $6 million expense related to advisory fees (2014 – nil).

Due to decreases in commodity price forecasts from September 30, 2015, Penn West determined that there were indicators of impairment at December 31, 2015 and completed impairment tests on all CGU's and consequently recorded an $632 million impairment charge ($866 million before-tax). On a CGU basis, the after-tax impairment charges were as follows: Swan Hills ($228 million), Slave Point ($133 million), Cardium ($130 million), Edmonton ($73 million), Fort St. John ($42 million) and Wainwright ($26 million). The impairments recorded in areas outside the Cardium were primarily due to lower commodity price forecasts compared to September 30, 2015, lower estimated reserve recoveries and minimal future development capital planned in these areas. The impairment in the Cardium was due to lower commodity price forecasts compared to September 30, 2015 and a reduction in future development costs to align with the Company's current year capital budget. The Company will continue to assess its development plans in all areas as commodity prices fluctuate which could result in an increase in the recoverable amount and the potential for a reversal of the impairment.

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

The following table outlines benchmark prices the Company used in the impairment tests as at December 31, 2015:

	WTI ($US/ bbl)	AECO ($CAD/mcf)	Exchange rate ($US equals $1 CAD)
2016	$ 45.00	$ 2.25	$ 0.75
2017	60.00	2.95	0.80
2018	70.00	3.42	0.83
2019	80.00	3.91	0.85
2020	81.20	4.20	0.85
2021 – 2026	$ 85.57	$ 4.47	$ 0.85
Thereafter (inflation percentage)	1.5%	1.5%	—

During the third quarter of 2015, Penn West recorded a $318 million impairment charge ($435 million before-tax) related to certain properties in the Fort St. John area of northeastern British Columbia and in the Swan Hills and Wainwright areas of Alberta primarily as a result of decreases in commodity price forecasts. Also, as a result of entering into two definitive sale agreements during the third quarter of 2015, at September 30, 2015, the Company classified certain non-core assets located in the Mitsue area of Central Alberta and in the Weyburn area of Southeast Saskatchewan as assets held for sale and recorded a $291 million impairment ($399 million before-tax). During the fourth quarter of 2015, the Mitsue disposition closed for total proceeds of $193 million and the Weyburn disposition closed for total proceeds of $205 million, subject to post-closing adjustments.

On December 31, 2014, Penn West recorded a $473 million impairment charge ($634 million after-tax) primarily related to certain properties in the Fort St. John area of northeastern British Columbia, in the Swan Hills area of Alberta and in certain properties in Manitoba. This was mainly due to lower commodity price forecasts compared to the prior year and minimal future development capital planned in these areas. The recoverable amounts used in the impairment tests, based on fair value less cost to sell, related to these CGUs were calculated using proved plus probable reserves and incremental development drilling locations at a pre-tax discount rate of 10 percent.

8. Goodwill

	Year ended December 31	
	2015	2014
Balance, beginning of year	**$ 734**	$ 1,912
Dispositions	**(28)**	(78)
Impairment	**(706)**	(1,100)
Balance, end of year	**$ —**	$ 734

Penn West's opening goodwill balance is primarily associated with a group of CGUs which represent light-oil properties in the Cardium, Slave Point, Swan Hills and Edmonton areas of Alberta and the Viking primarily within Saskatchewan.

Penn West completed a goodwill impairment test on the group of CGUs at December 31, 2015 and the carrying value exceeded the recoverable amount resulting in an impairment charge of $684 million. The recoverable amount was determined based on the fair value less cost to sell method. The key assumptions used in determining the recoverable amount include the forecasted commodity prices, future development costs, future cash flows using reserve and resource forecasts, discount rates, foreign exchange rates and inflation rates estimated by independent reserve engineers and other internal estimates based on historical experiences and trends.

These values were based on future cash flows of proved plus probable reserves discounted at a rate of pre-tax 10 percent (2014 – 10 percent). The future cash flows also consider, when appropriate, past capital activities, competitor analysis, observable market conditions, comparable transactions and future development costs primarily based on anticipated development capital programs.

Additionally during 2015, the Company recorded $22 million of goodwill impairment as a result of classifying certain non-core assets as assets held for sale during the third quarter.

On December 31, 2014, Penn West completed a goodwill impairment test and the carrying value exceeded the recoverable, thus an impairment was recorded. The recoverable amount was determined based on the fair value less cost to sell method.

9. Long-term debt

	As at December 31	
	2015	2014
Bankers' acceptances and prime rate loans	**$ 462**	$ —
U.S. Senior secured notes – 2007 Notes (1)		
6.18%, US$160 million, matured May 31, 2015	**—**	185
7.30%, US$98 million, maturing May 31, 2017	**136**	180
7.40%, US$85 million, maturing May 31, 2019	**118**	162
7.55%, US$10 million, maturing May 31, 2022	**14**	23
Senior secured notes – 2008 Notes (1)		
7.62%, US$118 million, maturing May 29, 2016	**164**	177
7.66%, CAD$30 million, maturing May 29, 2018	**30**	30
7.80%, US$180 million, maturing May 29, 2018	**249**	323
7.90%, US$36 million, maturing May 29, 2020	**49**	57
UK Senior secured notes – UK Notes (1)		
6.95%, £35 million, maturing July 31, 2018 (2)	**71**	103
Senior secured notes – 2009 Notes (1)		
10.39%, US$18 million, maturing May 5, 2016	**24**	40
10.82%, US$32 million, maturing May 5, 2019	**44**	39
10.39%, US$15 million, maturing May 5, 2019 (3)	**20**	29
9.15%, £14 million, maturing May 5, 2019 (4)	**29**	36
9.22%, €6 million, maturing May 5, 2019 (5)	**9**	14
Senior secured notes – 2010 Q1 Notes (1)		
4.53%, US$28 million, matured March 16, 2015	**—**	32
4.88%, CAD$50 million, matured March 16, 2015	**—**	50
6.79%, US$51 million, maturing March 16, 2017	**71**	75
7.35%, US$74 million, maturing March 16, 2020	**103**	132
7.45%, US$13 million, maturing March 16, 2022	**17**	29
7.60%, US$10 million, maturing March 16, 2025	**14**	23
Senior secured notes – 2010 Q4 Notes (1)		
5.94%, CAD$7 million, matured December 2, 2015	**—**	10
5.67%, US$18 million, maturing December 2, 2017	**25**	21
6.88%, CAD$27 million, maturing December 2, 2020	**27**	50
6.38%, US$60 million, maturing December 2, 2020	**83**	98
6.48%, US$18 million, maturing December 2, 2022	**25**	21
6.73%, US$25 million, maturing December 2, 2025	**35**	58
Senior secured notes – 2011 Q4 Notes (1)		
5.14%, US$20 million, maturing November 30, 2016	**27**	29
5.73%, US$3 million, maturing November 30, 2018	**4**	14
6.13%, CAD$16 million, maturing November 30, 2018	**16**	30
6.29%, US$53 million, maturing November 30, 2021	**74**	79
Total long-term debt	**$1,940**	$2,149

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

(2) These notes bear interest at 8.45 percent in Pounds Sterling, however, contracts were entered into which fixed the interest rate at 6.95 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).

(3) This portion of the 2009 Notes has equal repayments, which began in 2013 with a repayment of US$5 million, and extend over the remaining six years.

(4) These notes bear interest at 10.65 percent in Pounds Sterling, however, contracts were entered into which fixed the interest rate at 9.15 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).

(5) These notes bear interest at 10.72 percent in Euros, however, contracts were entered into which fixed the interest rate at 9.22 percent in Canadian dollars and to fix the exchange rate on the repayment (refer to Note 11).

There were no senior notes issued in either 2015 or 2014.

The split between current and non-current long-term debt is as follows:

	As at December 31	
	2015	2014
Current portion	**$ 222**	$ 283
Long-term portion	**1,718**	1,866
Total	**$1,940**	$2,149

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

	As at December 31	
	2015	2014
Weighted average remaining life (years)	**3.1**	3.7
Weighted average interest rate (1)	**7.6%**	6.0%

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

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

	As at December 31	
	2015	2014
2007 Notes	**$ 249**	$ 560
2008 Notes	**470**	612
UK Notes	**66**	106
2009 Notes	**123**	183
2010 Q1 Notes	**183**	339
2010 Q4 Notes	**176**	239
2011 Notes	**101**	141
Total	**$1,368**	$2,180

At December 31, 2015, the Company had a secured, revolving syndicated bank facility with an aggregate borrowing limit of $1.2 billion maturing on May 6, 2019. The syndicated bank facility contains provisions for stamping fees on bankers' acceptances and LIBOR loans and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios. At December 31, 2015, the Company had $689 million of unused credit capacity available.

Drawings on the Company's bank facility are subject to fluctuations in short-term money market rates as they are generally held as short-term borrowings. As at December 31, 2015, 24 percent (2014 – none) of Penn West's long-term debt instruments were exposed to changes in short-term interest rates.

Letters of credit totalling $49 million were outstanding on December 31, 2015 (2014 – $30 million) that reduce the amount otherwise available to be drawn on the bank facility.

During 2015, Penn West repaid senior notes in an aggregate amount of US$193 million and $57 million as part of normal maturities and additional amounts of US$445 million, $40 million, £28 million and €4 million of senior notes were prepaid as a result of the offers made at par to its noteholders using asset disposition proceeds. In 2015, Penn West also repaid a total of $147 million outstanding under its syndicated bank facility using asset disposition proceeds. Penn West records unrealized foreign exchange gains or losses on its senior notes as amounts are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

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

	Year ended December 31	
	2015	2014
Realized foreign exchange loss on debt maturities	**$ (36)**	$ (3)
Realized foreign exchange loss on debt pre-payments	**(123)**	—
Unrealized foreign exchange loss	**(151)**	(152)
Foreign exchange loss	**$ (310)**	$ (155)

The Company is subject to certain financial covenants under its syndicated bank facility and senior notes. These types of financial covenants are typical for senior lending arrangements and include senior debt and total debt to EBITDA and senior debt and total debt to capitalization, as more specifically defined in the applicable lending agreements. At December 31, 2015, the Company was in compliance with all of its financial covenants under such lending agreements.

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

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

The Company also agreed to the following:

- to temporarily grant floating charge security over all of its property in favor of the lenders and the noteholders on a pari passu basis, which security will be fully released upon the Company achieving both (i) a Senior Debt to EBITDA ratio of 3:1 or less for four consecutive quarters, and (ii) an investment grade rating on its senior secured debt;
- to cancel the $500 million tranche of the Company's existing $1.7 billion syndicated bank facility that was set to expire on June 30, 2016, the remaining $1.2 billion tranche of the syndicated bank facility remains available to the Company in accordance with the terms of the agreements governing such facility;
- to temporarily reduce its quarterly dividend commencing in the first quarter of 2015 to $0.01 per share or less until the earlier of (i) the Senior Debt to EBITDA being less than 3:1 for two consecutive quarters ending on or after September 30, 2015, and (ii) March 30, 2017; and
- until March 30, 2017, to use net proceeds from any asset dispositions to repay at par $650 million of the outstanding principal amounts owing to noteholders, with corresponding pro rata amounts from such asset dispositions to be used to repay any outstanding amounts drawn under its syndicated bank facility. During 2015, Penn West had closed $800 million in asset dispositions with the proceeds used for debt prepayments to its noteholders and syndicated bank facility.

As a result of continued declines in commodity price forecasts, if current strip pricing continues, the Company anticipates it will not be in compliance with its existing financial covenants by the end of the second quarter of 2016. The Company is considering several options that address the risk of default, including engaging its lenders to amend its financial covenants, reaching agreements on additional non-core property dispositions or securing additional subordinated debt and/or equity capital from strategic investors. Additionally, due to an active hedging program, the Company has a number of favorable hedging positions which could be monetized if approved by its lenders.

10. Decommissioning liability

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

The decommissioning liability was determined by applying an inflation factor of 2.0 percent (2014 - 2.0 percent) and the inflated amount was discounted using a credit-adjusted rate of 7.5 percent (2014 – 6.5 percent) over the expected useful life of the underlying assets, currently extending over 50 years into the future.

The split between current and non-current decommissioning liability is as follows:

	As at December 31	
	2015	2014
Current portion	**$ 21**	$ 52
Long-term portion	**376**	533
Total	**$ 397**	$ 585

Changes to the decommissioning liability were as follows:

	Year ended December 31	
	2015	2014
Balance, beginning of year	**$ 585**	$ 603
Net liabilities disposed (1)	**(61)**	(75)
Increase (decrease) due to changes in estimates (2)	**(128)**	76
Liabilities settled	**(36)**	(55)
Accretion charges	**37**	36
Balance, end of year	**$ 397**	$ 585

(1) Includes additions from drilling activity, facility capital spending and disposals from net property dispositions.
(2) Includes $153 million decrease as a result of the increase in the discount rate (2014 – nil).

11. Risk management

Financial instruments consist of accounts receivable, fair values of derivative financial instruments, accounts payable and accrued liabilities, dividends payable and long-term debt. Except for the senior notes described in Note 9, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments, the mark to market values recorded for the financial instruments and the market rate of interest applicable to the syndicated bank facility.

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

As at December 31, 2015 and 2014, the only asset or liability measured at fair value on a recurring basis was the risk management asset and liability, which was valued based on “Level 2 inputs” being quoted prices in markets that are not active or based on prices that are observable for the asset or liability.

A comparison of the carrying value to the fair value of the financial instruments included in the balance sheet was as follows:

		Carrying value		Fair value	
	Classification	**2015**	2014	**2015**	2014
Accounts receivable	Loans and receivables	**$ 154**	$ 182	**$ 154**	$ 182
Derivative financial assets	FV through profit/loss	**107**	133	**107**	133
Derivative financial liabilities	FV through profit/loss	**3**	19	**3**	19
Accounts payable and accrued liabilities	Financial liabilities	**380**	529	**380**	529
Dividends payable	Financial liabilities	**—**	70	**—**	70
Bankers’ acceptances and prime rate loans	Financial liabilities	**462**	—	**462**	—
Senior notes (1)	Financial liabilities	**$1,478**	$2,149	**$1,368**	$2,180

(1) Calculated as the present value of the interest and principal payments at December 31.

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

	Year ended December 31	
Risk management asset (liability)	**2015**	2014
Balance, beginning of year	**$ 114**	$ 12
Unrealized gain (loss) on financial instruments:		
Commodity collars, swaps and assignments	**13**	51
Electricity swaps	**6**	(2)
Interest rate swaps	**—**	1
Foreign exchange forwards	**(47)**	48
Cross currency swaps	**18**	4
Total fair value, end of year	**$ 104**	$ 114
Total fair value consists of the following:		
Fair value, end of year – current asset portion	**$ 44**	$ 31
Fair value, end of year – current liability portion	**(3)**	(9)
Fair value, end of year – non-current asset portion	**63**	102
Fair value, end of year – non-current liability portion	**—**	(10)
Total fair value, end of year	**$ 104**	$ 114

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

	As at December 31	
	2015	2014
Risk management		
Current asset	**$ 44**	$ 31
Non-current asset	**63**	102
Current liability	**(3)**	(9)
Non-current liability	**$ —**	$ (10)

Penn West had the following financial instruments outstanding as at December 31, 2015. Fair values are determined using external counterparty information, which is compared to observable market data. Penn West limits its credit risk by executing counterparty risk procedures which include transacting only with institutions within Penn West's credit facility or companies with high credit ratings and by obtaining financial security in certain circumstances.

	Notional volume	**Remaining term**	**Pricing**	**Fair value (millions)**
Natural gas				
AECO Swaps	19,000 mcf/d	Jan/16 – Dec/16	$ 3.08/mcf	$ 4
Crude Oil				
WTI Swaps	5,000 bbl/d	Jan/16 – Dec/16	$ 72.08/bbl	27
WTI Swaps	4,500 bbl/d	Jan/16 – Mar/16	$ 73.67/bbl	8
WTI Swaps	2,000 bbl/d	Apr/16 – Jun/16	$ 68.25/bbl	2
WTI Swaps	1,000 bbl/d	Jul/16 – Sep/16	$ 66.05/bbl	1
WTI Swaps	1,000 bbl/d	Oct/16 – Dec/16	$ 67.05/bbl	1
WTI Swaps	3,000 bbl/d	Jan/17 – Mar/17	$ 69.37/bbl	2
Electricity swaps				
Alberta Power Pool	25 MW	Jan/16 – Dec/16	$ 49.90/MWh	(4)
Crude oil assignment				
18 – month term	10,000 boe/d	Jan/16 – May/16	Differential WCS (Edm) vs. WCS (USGC)	2
Foreign exchange forwards on senior notes				
3 to 15-year initial term	US$140	2016 – 2019	0.9951 CAD/USD	51
Short-term (< 1 year)	US$9	2016	1.3883 CAD/USD	—
Cross currency swaps				
10-year initial term	£57	2018	2.0075 CAD/GBP, 6.95%	4
10-year initial term	£20	2019	1.8051 CAD/GBP, 9.15%	6
10-year initial term	€10	2019	1.5870 CAD/EUR, 9.22%	—
Total				$ 104

Based on December 31, 2015 pricing, a $1.00 change in the price per barrel of liquids would have changed pre-tax unrealized risk management by $3 million and a $0.10 change in the price per mcf of natural gas would change pre-tax unrealized risk management by $1 million.

Subsequent to December 31, 2015, the Company entered into additional gas swaps as follows: 4,700 mcf per day of production from February to December of 2016 at AECO $2.69 per mcf and 4,700 mcf per day of production in 2017 at AECO $2.96 per mcf.

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

	Year ended December 31	
	2015	2014
Realized		
Settlement of commodity contracts/assignment	**$ 63**	$ (42)
Monetization of commodity contracts	**18**	—
Settlement of foreign exchange contracts	**40**	2
Monetization of foreign exchange contracts	**95**	—
Total realized risk management gain (loss)	**216**	(40)
Unrealized		
Commodity contracts	**21**	53
Electricity swaps	**6**	(2)
Interest rate swaps	**—**	1
Crude oil assignment	**(8)**	(2)
Foreign exchange contracts	**(47)**	48
Cross-currency swaps	**18**	4
Total unrealized risk management gain (loss)	**(10)**	102
Risk management gain	**$ 206**	$ 62

A realized loss of $16 million (2014 - $6 million loss) on electricity contracts has been included in operating expenses for 2015.

Market Risks

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

Commodity Price Risk

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

Foreign Currency Rate Risk

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

In 2015, the Company monetized a total of US$404 million of foreign exchange forward contracts on senior notes and settled foreign exchange forward contracts as part of normal course maturities and on prepayments made to its noteholders. At December 31, 2015, the following foreign currency forward contracts were outstanding:

Nominal Amount	Settlement date	Exchange rate
Buy US$9	2016	1.388 CAD/USD
Buy US$70	2017	0.999 CAD/USD
Buy US$70	2019	0.991 CAD/USD

At December 31, 2015, Penn West had US dollar denominated debt with a face value of approximately US$800 million (2014 - US$1.0 billion) on which the repayment of the principal amount in Canadian dollars was not fixed.

Credit Risk

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

As at December 31, 2015, the maximum exposure to credit risk was $261 million (2014 – $315 million) which comprised of $154 million (2014 - $182 million) being the carrying value of the accounts receivable and $107 million (2014 – $133 million) related to the fair value of the derivative financial assets.

Interest Rate Risk

A portion of the Company's debt capital can be held in floating-rate bank facilities, which results in exposure to fluctuations in short-term interest rates, which remain at lower levels than longer-term rates. From time to time, Penn West may increase the certainty of its future interest rates by entering fixed interest rate debt instruments or by using financial instruments to swap floating interest rates for fixed rates or to collar interest rates. As at December 31, 2015, 24 percent of the Company's long-term debt instruments were exposed to changes in short-term interest rates (2014 – none).

As at December 31, 2015, a total of $1.5 billion (2014 – $2.1 billion) of fixed interest rate debt instruments was outstanding with an average remaining term of 3.1 years (2014 – 3.7 years) and an average interest rate of 7.6 percent (2014 – 6.0 percent).

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial liabilities as they come due. Management utilizes short and long-term financial and capital forecasting programs to ensure credit facilities are sufficient relative to forecast debt levels, dividend and capital program levels are appropriate, and that financial covenants will be met. Management also regularly reviews capital markets to identify opportunities to optimize the debt capital structure on a cost effective basis. In the short term, liquidity is managed through daily cash management activities, short-term financing strategies and the use of swaps, collars and other financial instruments to increase the predictability of cash flow from operating activities. Refer to Note 9 for further discussion on liquidity risk.

The following table outlines estimated future obligations for non-derivative financial liabilities as at December 31, 2015:

	2016	2017	2018	2019	2020	Thereafter
Senior secured notes	**$222**	$238	$375	$201	$263	$ 179
Accounts payable and accrued liabilities	**376**	—	—	—	—	—
Share-based compensation accrual	**4**	3	—	—	—	—
Total	**$602**	$241	$375	$201	$263	$ 179

12. Income taxes

The provision for income taxes is as follows:

	Year ended December 31	
	2015	2014
Deferred tax recovery	**$ (619)**	$ (118)

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

	Year ended December 31	
	2015	2014
Loss before taxes	**$ (3,265)**	$ (1,851)
Combined statutory tax rate (1)	**26.2%**	25.4%
Computed income tax recovery	**$ (855)**	$ (470)
Increase (decrease) resulting from:		
Share-based compensation	**1**	2
Non-deductible foreign exchange losses	**54**	39
Disposition of goodwill	**7**	20
Non-deductible impairment	**185**	279
Changes in tax rates	**41**	—
Adjustments related to prior years	**(53)**	—
Other	**1**	12
Deferred tax recovery	**$ (619)**	$ (118)

(1) The tax rate represents the combined federal and provincial statutory tax rates for the Company and its subsidiaries for the years ended December 31, 2015 and December 31, 2014.

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

During the second quarter, the corporate tax rate increased in Alberta from 10 percent to 12 percent which resulted in an increase in the Company's deferred tax liability.

During 2015, with the Canada Revenue Agency ("CRA") approval of the 2012 and 2013 SR&ED Investment Tax Credit ("ITC") claims, the Company recognized $29 million of SR&ED ITC's against the deferred tax liability and a reduction of PP&E assets.

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

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

	Balance January 1, 2014	Provision (Recovery) in Income	Recognized in Property, Plant and Equipment	Balance December 31, 2014
Deferred tax liabilities (assets)				
PP&E	$ 1,940	$ (309)	$ (8)	$ 1,623
Risk management	3	26	—	29
Decommissioning liability	(153)	5	—	(148)
Share-based compensation	(5)	3	—	(2)
Non-capital losses	(745)	157	—	(588)
Net deferred tax liability	$ 1,040	$ (118)	$ (8)	$ 914

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

A deferred tax asset has not been recognized with respect to certain realized and unrealized capital losses in the amount of $223 million as these losses may only be applied against future capital gains.

13. Shareholders' equity

a) Authorized

i) An unlimited number of Common Shares.

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

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

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

b) Issued

Shareholders' capital	Common Shares	Amount
Balance, January 1, 2014	489,077,284	$ 8,913
Issued on exercise of equity compensation plans	1,067,000	12
Issued to dividend reinvestment plan	7,175,803	58
Balance, January 1, 2015	**497,320,087**	**$ 8,983**
Issued on exercise of equity compensation plans	**—**	**1**
Issued to dividend reinvestment plan	**4,843,076**	**10**
Balance, December 31, 2015	**502,163,163**	**$ 8,994**

	Year ended December 31	
Other Reserves	**2015**	2014
Balance, beginning of year	**$ 89**	$ 80
Share-based compensation expense	**4**	10
Net benefit on options exercised (1)	**(1)**	(1)
Balance, end of year	**$ 92**	$ 89

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

Preferred Shares

No Preferred Shares were issued or outstanding.

14. Share-based compensation

Stock Option Plan

Penn West has an Option Plan that allows Penn West to issue options to acquire common shares to officers, employees and other service providers. The current plan came into effect on January 1, 2011.

Under the terms of the plan, at December 31, 2015, the number of options reserved for issuance under the Option Plan shall not exceed nine percent of the aggregate number of issued and outstanding common shares of Penn West. Subsequent to year-end, in March 2016, the Option Plan was amended by the Board of Directors so that the number of options reserved for issuance under the Option Plan shall not exceed 5.25 percent of the aggregate number of issued and outstanding common shares of Penn West. The grant price of options is equal to the volume-weighted average trading price of the common shares on the TSX for a five-trading-day period immediately preceding the date of grant. Options granted to date vest over a four-year period and expire five years after the date of grant.

Options	2015 Number of Options	2015 Weighted Average Exercise Price	Year ended December 31 2014 Number of Options	2014 Weighted Average Exercise Price
Outstanding, beginning of year	**14,460,158**	**$ 13.91**	14,951,830	$ 17.63
Granted	**5,122,600**	**1.85**	8,332,400	8.84
Exercised	**—**	**—**	(1,067,000)	9.80
Forfeited	**(8,987,030)**	**11.39**	(7,757,072)	16.20
Outstanding, end of year	**10,595,728**	**$ 10.21**	14,460,158	$ 13.91
Exercisable, end of year	**3,907,426**	**$ 17.21**	4,162,904	$ 20.14

Range of Grant Prices	Options Outstanding Number Outstanding	Options Outstanding Weighted Average Exercise Price	Options Outstanding Weighted Remaining Contractual Life (years)	Options Exercisable Number Exercisable	Options Exercisable Weighted Average Exercise Price
$ 1.00 - $ 7.99	3,780,150	$ 2.29	4.2	148,238	$ 4.76
$ 8.00 - $14.99	4,649,800	10.21	2.7	1,840,250	10.74
$15.00 - $21.99	1,134,590	20.80	1.2	887,750	20.72
$22.00 - $27.99	1,031,188	27.55	0.3	1,031,188	27.55
	10,595,728	$ 10.21	1.9	3,907,426	$ 17.21

Restricted Share Unit ("RSU") plan

Under the RSU plan (formerly named the Long-term Retention and Incentive Plan "LTRIP"), Penn West employees receive consideration that fluctuates based on Penn West's share price on the TSX and, at the discretion of the Board, is paid in either cash or shares. Eligible employees receive a grant of a specific number of units (each of which notionally represents a common share) that vest over a three-year period with the value paid to the employee in either cash or shares on each vesting date. If the service requirements are met, the cash or share consideration paid is based on the number of units vested and the five-day weighted average trading price of the common shares prior to the vesting date plus dividends declared by Penn West during the period preceding the vesting date.

RSU awards (number of shares equivalent)	Year ended December 31 2015	2014
Outstanding, beginning of year	**3,166,476**	2,813,769
Granted	**9,156,290**	2,749,440
Vested and paid	**(1,281,077)**	(1,132,029)
Forfeited	**(4,715,735)**	(1,264,704)
Outstanding, end of year	**6,325,954**	3,166,476

At December 31, 2015, RSU obligations of $3 million were classified as a current liability (2014 - $4 million) included in accounts payable and accrued liabilities and $2 million were classified as a non-current liability (2014 - $3 million) included in other non-current liabilities.

Deferred Share Unit ("DSU") plan

The DSU plan became effective January 1, 2011, allowing Penn West to grant DSUs in lieu of cash fees to non-employee directors providing a right to receive, upon retirement, a cash payment based on the volume-weighted-average trading price of the common shares on the TSX for the five trading days immediately prior to the day of payment. Management directors are not eligible to participate in the DSU Plan. At December 31, 2015, 457,398 DSUs (2014 – 181,873) were outstanding and $1 million was recorded as a current liability (2014 – $1 million).

Performance Share Unit ("PSU") plan

The PSU plan became effective February 13, 2013, allowing Penn West to grant PSUs to employees of Penn West. Upon meeting the vesting conditions, the employee could receive a cash payment based on performance factors determined by the Board of Directors and the share price. Members of the Board of Directors are not eligible for the PSU Plan.

	Year ended December 31	
PSU awards (number of shares equivalent)	**2015**	2014
Outstanding, beginning of year	**771,020**	969,723
Granted	**1,483,000**	620,000
Vested	**(294,567)**	(570,770)
Forfeited	**(336,572)**	(247,933)
Outstanding, end of year	**1,622,881**	771,020

The PSU obligation is classified as a liability due to the cash settlement feature. The change in the fair value of outstanding PSU awards is charged to income based on the common share price at the end of each reporting period plus accumulated dividends multiplied by a performance factor determined by the Board of Directors. At December 31, 2015, $1 million was classified as a non-current liability (December 31, 2014 – $1 million) and included in other non-current liabilities.

Share-based compensation

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

	Year ended December 31	
	2015	2014
Options	**$ 4**	$ 10
RSU	**2**	2
Share-based compensation	**$ 6**	$ 12

In 2015, both the DSU and PSU expense was insignificant (2014 – insignificant). During 2015, there was nil PSU expense (2014 - $1 million) accelerated and reclassified from share-based compensation to restructuring expense in the Consolidated Statement of Income (Loss) as it related to the severance of former executives.

The share price used in the fair value calculation of the RSU, PSU and DSU obligations at December 31, 2015 was $1.17 (2014 – $2.43).

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

	Year ended December 31	
	2015	2014
Average fair value of options granted (per share)	**$ 0.63**	$ 1.14
Expected life of options (years)	**4.0**	4.0
Expected volatility (average)	**43.7%**	35.3%
Risk-free rate of return (average)	**0.6%**	1.4%
Dividend yield (average)	**2.0%**	5.5%

Employee retirement savings plan

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

15. Dividends

Dividends were previously paid quarterly at the discretion of the Board of Directors and were deducted from retained earnings as declared.

In 2015, Penn West paid dividends of $85 million or $0.17 per share (2014 - $275 million or $0.56 per share). In September 2015, Penn West suspended the Dividend plan effective after the October 15, 2015 payment until further notice.

16. Per share amounts

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

	Year ended December 31	
	2015	2014
Net loss – basic and diluted	**$ (2,646)**	$ (1,733)

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

	Year ended December 31	
	2015	2014
Basic and Diluted	**501,977,401**	493,668,553

For 2015, 10.6 million shares (2014 – 14.5 million) that would be issued under the Option Plan were excluded in calculating the weighted average number of diluted shares outstanding as they were considered anti-dilutive.

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

	Year ended December 31	
	2015	2014
Accounts receivable	**$ 28**	$ 83
Other current assets	**4**	11
Deferred funding obligation	**17**	15
Accounts payable and accrued liabilities (1)	**(152)**	(82)
	$ (103)	$ 27
Operating activities	**$ 31**	$ (32)
Investing activities	**(134)**	59
	$ (103)	$ 27
Interest paid	**$ 167**	$ 158
Income taxes recovered	**$ 2**	$ —

(1) Includes long-term share-based payment plans.

18. Capital management

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

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

Management continuously reviews Penn West's capital structure to ensure the objectives and strategies of Penn West are being met. The capital structure is reviewed based on a number of key factors including, but not limited to, current market conditions, hedging positions, trailing and forecast debt to capitalization ratios, debt to EBITDA and other economic risk factors. Dividends are paid quarterly at the discretion of the Board of Directors. In September 2015, Penn West suspended the Dividend plan effective after the October 15, 2015 payment until further notice.

The Company is subject to certain quarterly financial covenants under its secured, syndicated credit facility and the senior secured notes. These financial covenants are typical for senior secured lending arrangements and include senior debt and total debt to EBITDA and senior debt and total debt to capitalization as defined in Penn West's lending agreements. As at December 31, 2015, the Company was in compliance with all of its financial covenants under such lending agreements.

(millions, except ratio amounts)	Year ended December 31 2015	2014
Components of capital		
Shareholders' equity	**$ 2,935**	$ 5,582
Long-term debt	**$ 1,940**	$ 2,149
Ratios		
Senior debt to EBITDA (1)	**4.6**	2.1
Total debt to EBITDA (2)	**4.6**	2.1
Senior debt to capitalization (3)	**40%**	28%
Total debt to capitalization (4)	**40%**	28%
Priority debt to consolidated tangible assets (5)	**—**	—
EBITDA (6)	**$ 427**	$ 1,022
Credit facility debt and senior notes	**$ 1,940**	$ 2,149
Letters of credit (7)	**15**	5
Senior debt and total debt	**1,955**	2,154
Total shareholders' equity	**2,935**	5,582
Total capitalization	**$ 4,890**	$ 7,736

(1) Less than 5:1 and not to exceed 5.5:1 in the event of a material acquisition.
(2) Less than 5:1.
(3) Not to exceed 50 percent.
(4) Not to exceed 55 percent.
(5) Priority debt not to exceed 15% of consolidated tangible assets.
(6) EBITDA is calculated in accordance with Penn West's lending agreements wherein unrealized risk management and impairment provisions are excluded.
(7) Letters of credit defined as financial covenants under the lending agreements are included in the calculation.

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

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

19. Commitments and contingencies

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

	2016	2017	2018	2019	2020	Thereafter
Long-term debt	**$222**	$238	$375	$663	$263	$ 179
Transportation	**27**	59	75	76	76	296
Power infrastructure	**19**	9	9	9	9	7
Drilling rigs	**11**	7	—	—	—	—
Interest obligations	**125**	92	73	37	17	21
Office lease	**65**	62	62	63	63	280
Decommissioning liability	**$ 21**	$ 21	$ 20	$ 19	$ 18	$ 298

Penn West's syndicated bank facility has $1.2 billion due for renewal on May 6, 2019. In addition, Penn West has an aggregate of $1.5 billion in senior notes maturing between 2016 and 2025.

Penn West's commitments relate to the following:

- Transportation commitments relate to costs for future pipeline access. In 2014, Penn West temporarily assigned a portion of its commitment (35,000 boe per day) on the Flanagan South line for terms of 18 and 30 months.
- Power infrastructure commitments pertain to electricity contracts.
- Drilling rigs are contracts held with service companies to ensure Penn West has access to specific drilling rigs at the required times.
- Interest obligations are the estimated future interest payments related to Penn West's debt instruments.
- Office leases pertain to total leased office space. A portion of this office space has been sub-leased to other parties to minimize Penn West's net exposure under the leases. The future office lease commitments above will be reduced by sublease recoveries totaling $337 million. For 2015, lease costs, net of recoveries totaled $19 million.
- The decommissioning liability represents the inflated, discounted future reclamation and abandonment costs that are expected to be incurred over the life of the properties.

In February 2016, Penn West announced it had entered into agreements to settle all class action proceedings in Canada and United States against the Company related to damages alleged to have been incurred due to a decline in share price related to the restatement of certain of Penn West's historical financial statements and related MD&A in 2014. The settlement agreements provide for a payment of $53 million split evenly between Canadian and US investors that will be fully funded by insurance coverage maintained by Penn West. As a result, the payment will not impact the Company's cash or financial position. The proposed settlements are subject to the satisfaction of the conditions stated in the settlement documents as well as the receipt of court approval in each of Alberta, Ontario and Quebec and in New York. There can be no assurance that these conditions will be satisfied or that the settlements will be approved by the courts. The receipt of such court approvals is dependent on a number of factors and therefore the timing thereof cannot be predicted at this time.

20. Related-party transactions

Operating entities

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

Compensation of key management personnel

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

	Year ended December 31	
	2015	2014
Salary and employee benefits	**$ 4**	$ 4
Termination benefits	**1**	6
Share-based payments (1)	**—**	2
	$ 5	$ 12

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

21. Supplemental Items

In the consolidated financial statements, compensation costs are included in both operating and general and administrative expenses. For 2015, employee compensation costs of $61 million (2014 - $70 million) were included in operating expenses and $87 million (2014 - $118 million) were included in general and administrative expenses.

Exhibit 99.4

SUPPLEMENTARY OIL AND GAS INFORMATION - (UNAUDITED)

The disclosures contained in this section provide oil and gas information in accordance with the U.S. standard, “Extractive Activities – Oil and Gas”. Penn West’s financial reporting is prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

For the years ended December 31, 2015 and 2014, Penn West has filed its reserves information under National Instrument 51-101 – “Standards of Disclosure of Oil and Gas Activities” (“NI 51-101”), which prescribes the standards for the preparation and disclosure of reserves and related information for companies listed in Canada.

There are significant differences to the type of volumes disclosed and the basis from which the volumes are economically determined under the United States Securities and Exchange Commission (“SEC”) requirements and NI 51-101. The SEC requires disclosure of net reserves, after royalties, using 12-month average prices and current costs; whereas NI 51-101 requires gross reserves, before royalties, using forecast pricing and costs. Therefore the difference between the reported numbers under the two disclosure standards can be material.

For the purposes of determining proved crude oil and natural gas reserves for SEC requirements as at December 31, 2015 and 2014 Penn West used the 12-month average price, defined by the SEC as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period.

NET PROVED OIL AND NATURAL GAS RESERVES

Penn West engaged independent qualified reserve evaluator, Sproule Associates Ltd. (“Sproule”), to evaluate Penn West’s proved developed and proved undeveloped oil and natural gas reserves. As at December 31, 2015, substantially all of Penn West’s oil and natural gas reserves are located in Canada. The changes in the Company’s net proved reserve quantities are outlined below.

Net reserves include Penn West’s remaining working interest and royalty reserves, less all Crown, freehold, and overriding royalties and other interests that are not owned by Penn West.

Proved reserves are those estimated quantities of crude oil, natural gas and natural gas liquids that can be estimated with a high degree of certainty to be economically recoverable under existing economic and operating conditions.

Proved developed reserves are those proved reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure to put the reserves on production. Proved developed reserves may be subdivided into producing and non-producing.

Proved undeveloped reserves are those reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

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

YEAR ENDED DECEMBER 31, 2015
CONSTANT PRICES AND COSTS

Net Proved Developed and Proved Undeveloped Reserves [1]	Light and Medium Oil (mmbbl)	Heavy Oil and Bitumen (mmbbl)	Natural Gas (bcf)	Natural Gas Liquids (mmbbl)	Barrels of Oil Equivalent (mmboe)
December 31, 2014	187	35	550	20	334
Extensions & Discoveries	—	—	1	—	1
Improved Recovery & Infill Drilling	—	1	—	—	1
Technical Revisions	(61)	(8)	(232)	(8)	(116)
Acquisitions	—	—	—	—	—
Dispositions	(28)	—	(30)	(2)	(36)
Production	(15)	(4)	(60)	(2)	(31)
Change for the year	(104)	(11)	(321)	(12)	(181)
December 31, 2015	83	24	230	7	153
Developed	74	23	214	7	139
Undeveloped	9	2	16	1	14
Total [2]	83	24	230	7	153

(1) Columns may not add due to rounding.
(2) Penn West does not file any estimates of total net proved crude oil or natural gas reserves with any U.S. federal authority or agency other than the SEC.

YEAR ENDED DECEMBER 31, 2014
CONSTANT PRICES AND COSTS

Net Proved Developed and Proved Undeveloped Reserves [1]	Light and Medium Oil (mmbbl)	Heavy Oil and Bitumen (mmbbl)	Natural Gas (bcf)	Natural Gas Liquids (mmbbl)	Barrels of Oil Equivalent (mmboe)
December 31, 2013	193	37	601	21	351
Extensions & Discoveries	—	—	—	—	—
Improved Recovery & Infill Drilling	23	—	56	3	36
Technical Revisions	(7)	3	61	1	7
Acquisitions	—	—	—	—	—
Dispositions	(8)	(1)	(103)	(3)	(29)
Production	(14)	(4)	(65)	(2)	(31)
Change for the year	(6)	(2)	(51)	(1)	(18)
December 31, 2014	187	35	550	20	334
Developed	121	33	397	13	233
Undeveloped	66	3	154	7	101
Total [2]	187	35	550	20	334

(1) Columns may not add due to rounding.
(2) Penn West does not file any estimates of total net proved crude oil or natural gas reserves with any U.S. federal authority or agency other than the SEC.

In both 2015 and 2014, Penn West closed a number of asset dispositions as it consolidated its asset portfolio and de-levered its balance sheet.

CAPITALIZED COSTS

As at December 31, ($CAD millions)	2015	2014
Proved oil and gas properties	$ 16,210	$17,456
Unproved oil and gas properties	243	505
Total capitalized costs	16,453	17,961
Accumulated depletion and depreciation	(11,065)	(9,550)
Net capitalized costs	$ 5,388	$ 8,411

COSTS INCURRED

For the years ended December 31, ($CAD millions)	2015	2014
Property acquisition (disposition) costs (1)		
Proved oil and gas properties - acquisitions	$ 7	$ 12
Proved oil and gas properties - dispositions	(807)	(572)
Unproved oil and gas properties	2	2
Exploration costs (2)	12	115
Development costs (3)	482	633
Joint venture, carried capital	(31)	(29)
Capital expenditures	(335)	161
Corporate acquisitions	—	—
Total expenditures	$(335)	$ 161

(1) Acquisitions are net of disposition of properties.
(2) Cost of geological and geophysical capital expenditures and costs on exploratory plays.
(3) Includes equipping and facilities capital expenditures.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AND CHANGES THEREIN

The standardized measure of discounted future net cash flows is based on estimates made by Sproule of net proved reserves. Future cash inflows are computed based on constant prices and cost assumptions from annual future production of proved crude oil and natural gas reserves. Future development and production costs are based on constant price assumptions and assume the continuation of existing economic conditions. Constant prices are calculated as the average of the first day prices of each month for the prior 12-month calendar period. Deferred income taxes are calculated by applying statutory income tax rates in effect at the end of the fiscal period. Penn West is currently not cash taxable. The standardized measure of discounted future net cash flows is computed using a 10 percent discount factor.

Penn West cautions users of this information that the discounted future net cash flows relating to proved oil and gas reserves are neither an indication of the fair market value of our oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor is consideration given to the effect of anticipated future changes in crude oil and natural gas prices, development, asset retirement and production costs and possible changes to tax and royalty regulations. The prescribed discount rate of 10 percent is arbitrary and may not reflect applicable future interest rates.

($CAD millions)	2015	2014
Future cash inflows	$ 6,629	$ 26,560
Future production costs	(4,213)	(12,747)
Future development costs	(353)	(2,880)
Undiscounted pre-tax cash flows	2,063	10,932
Deferred income taxes (1)	—	(1,760)
Future net cash flows	2,063	9,172
Less 10% annual discount factor	(756)	(4,389)
Standardized measure of discounted future net cash flows	$ 1,307	$ 4,783

(1) Penn West is currently not cash taxable.

($CAD millions)	2015	2014
Standardized measure of discounted future net cash flows at beginning of year	$ 4,783	$ 5,162
Oil and gas sales during period net of production costs and royalties (1)	(516)	(1,285)
Changes due to prices (2)	(5,482)	740
Development costs during the period (3)	470	732
Changes in forecast development costs (4)	1,671	(1,221)
Changes resulting from extensions, infills and improved recovery (5)	28	93
Changes resulting from acquisitions of reserves (5)	—	—
Changes resulting from dispositions of reserves (5)	(741)	(358)
Accretion of discount (6)	478	516
Net change in income tax (7)	665	(101)
Changes resulting from other changes and technical reserves revisions plus effects on timing (8)	(49)	504
Standardized measure of discounted future net cash flows at end of year	$ 1,307	$ 4,783

(1) Company actual before income taxes, excluding general and administrative expenses.
(2) The impact of changes in prices and other economic factors on future net revenue.
(3) Actual capital expenditures relating to the exploration, development and production of oil and gas reserves.
(4) The change in forecast development costs.
(5) End of period net present value of the related reserves.
(6) Estimated as 10 percent of the beginning of period net present value.
(7) The difference between forecast income taxes at beginning of period and the actual taxes for the period plus forecast income taxes at the end of period.
(8) Includes changes due to revised production profiles, development timing, operating costs, royalty rates and actual prices received versus forecast, etc.

Exhibit 99.5

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, David E. Roberts, certify that:

1. I have reviewed this annual report on Form 40-F of Penn West Petroleum Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 10, 2016

/s/ David E. Roberts

David E. Roberts
President and Chief Executive Officer

Exhibit 99.6

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, David A. Dyck, certify that:

1. I have reviewed this annual report on Form 40-F of Penn West Petroleum Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 10, 2016

/s/ David A. Dyck

David A. Dyck
Senior Vice President and Chief Financial Officer

Exhibit 99.7

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penn West Petroleum Ltd. (the "Company") on Form 40-F for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David E. Roberts, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David E. Roberts
David E. Roberts
President and Chief Executive Officer

March 10, 2016

Exhibit 99.8

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penn West Petroleum Ltd. (the "Company") on Form 40-F for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Dyck, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David A. Dyck
David A. Dyck
Senior Vice President and Chief Financial Officer

March 10, 2016

Exhibit 99.9

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Shareholders of Penn West Petroleum Ltd.

We consent to the use of our reports dated March 9, 2016 with respect to the consolidated financial statements of Penn West Petroleum Ltd., which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statements of loss, statement of changes in shareholders' equity and cash flows for the year ended December 31, 2015, and a summary of significant accounting policies and other explanatory information, and the effectiveness of internal control over financial reporting of Penn West Petroleum Ltd. as at December 31, 2015, included in an exhibit to the Annual Report (Form 40-F) for the year ended December 31, 2015.

"signed" Ernst & Young LLP

Calgary, Canada

March 9, 2016

Exhibit 99.10

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Penn West Petroleum Ltd.

We consent to the use of our report, dated March 10, 2016, with respect to the 2014 consolidated financial statements included in this annual report on Form 40-F.

We also consent to the incorporation by reference of such report in the registration statements (No. 33-171675) on Form F-3 of Penn West Petroleum Ltd.

KPMG LLP

Chartered Professional Accountants

March 9, 2016
Calgary, Canada

Exhibit 99.11

Reserves Certification

Strategic Advisory

Reservoir Characterization & Integrated Services

Field Development & Capital Strategies

Sproule Academy

March 10, 2016

Securities and Exchange Commission (SEC)

Re: Evaluation of the P&NG Reserves of Penn West Petroleum Ltd.
(As of December 31, 2015)

We refer to our report dated February 3, 2016 entitled "Evaluation of the P&NG Reserves of Penn West Petroleum Ltd. (" **Penn West**") (As of December 31, 2015)" (the "**Sproule Report**").

We hereby consent to the inclusion of, or incorporation by, reference of and reference to, the Sproule Report in Penn West's:

(i) Annual Report on Form 40-F for the year ended December 31, 2015;

(ii) Registration Statement on Form F-3 (No. 333-171675); and

(iii) press release regarding 2015 year-end results;

(collectively, the "**Disclosure Documents**").

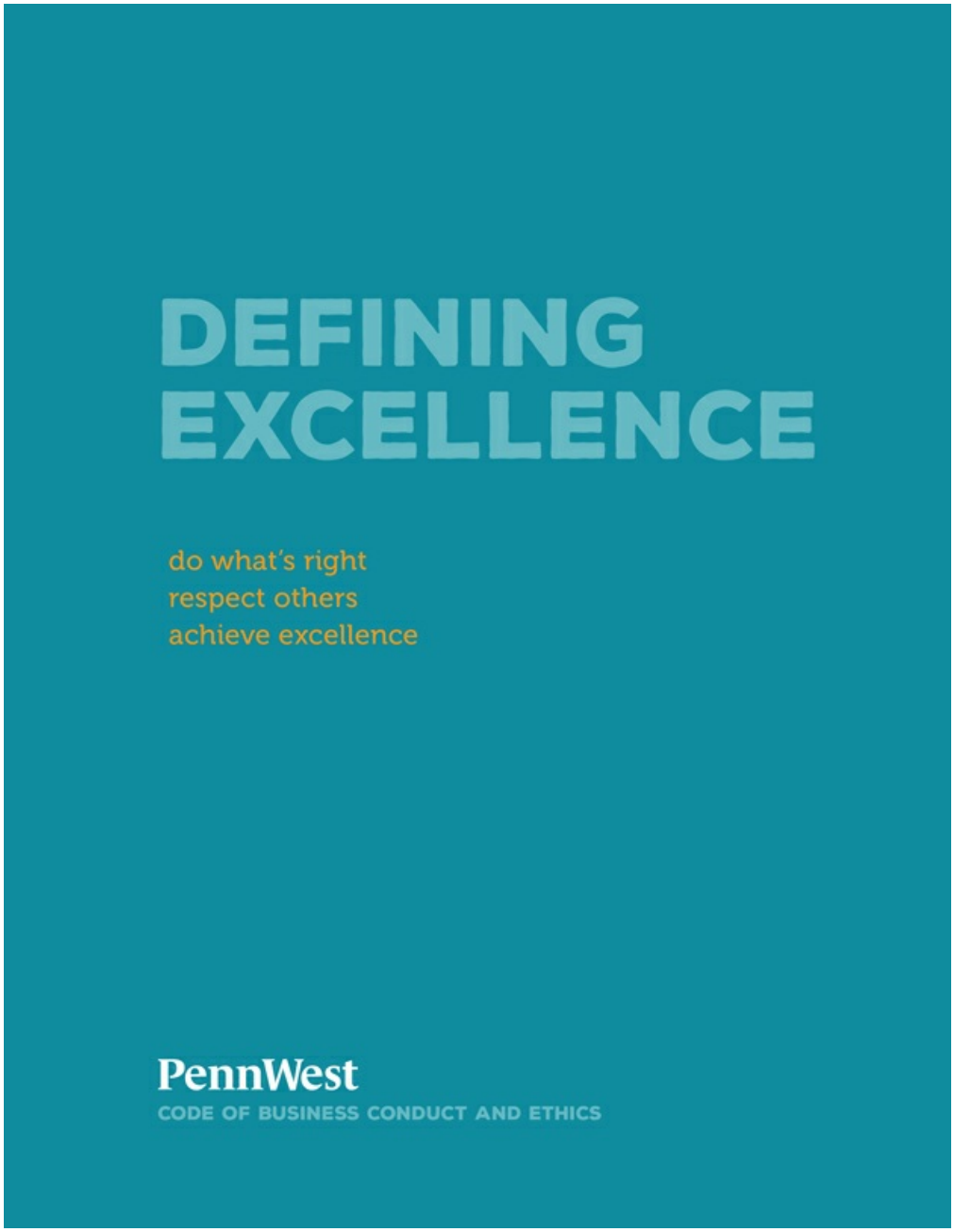
We have read the Disclosure Documents and have no reason to believe that there are any misrepresentations in the information contained therein that is derived from the Report, or that is within our knowledge as a result of the services performed by us in connection with the Report.

Sincerely,

SPROULE ASSOCIATES LIMITED

Gary R. Finnis, P.Eng.
Manager, Engineering and Partner

Exhibit 99.12





OUR CHARACTER 3

OUR CULTURE 4

OUR VALUES AND COMMITMENTS

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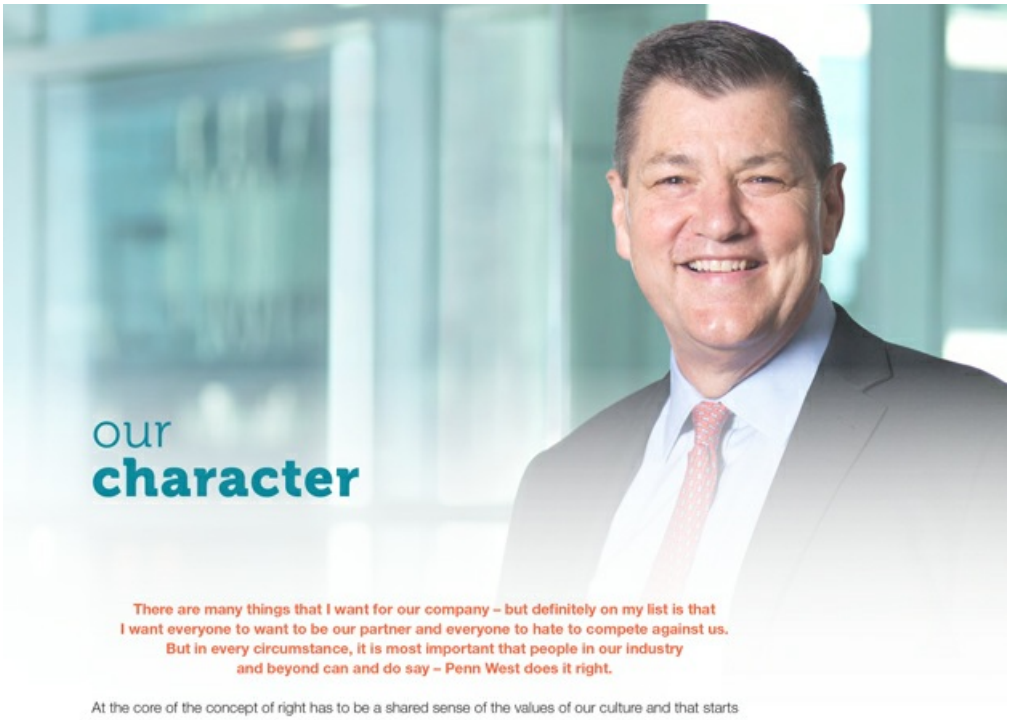
We Protect our Assets 12

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DECLARATION OF CONFLICT OF INTEREST FORM 18

REQUEST FOR APPROVAL OF GIFT AND/OR ENTERTAINMENT FORM 19

Approved by the Board of Directors effective as of July 29, 2015



our **character**

There are many things that I want for our company – but definitely on my list is that I want everyone to want to be our partner and everyone to hate to compete against us. But in every circumstance, it is most important that people in our industry and beyond can and do say – Penn West does it right.

At the core of the concept of right has to be a shared sense of the values of our culture and that starts with an unerring sense of doing business with ethics and integrity – our character. Now I have had the opportunity to work around the world and I can tell you that people everywhere aspire to a state of high ethics and character. A phrase that was repeated to me often at university was an abridged quote from Ghandi – "These things will destroy us – knowledge without character, science without humanity and business without ethics."

"These things will destroy us – knowledge without character, science without humanity and business without ethics."
Ghandi

Our business will be defined by our relationships; our relationships defined by our ethics and our ethical base defined personally.

We have a responsibility to act to defend our culture and our values. There can be no choice. Now I like to think that we have created a place where people feel they can speak out to their supervisors or other leaders in the organization but if not, there are other avenues our people can pursue to get things right – the whistle blower line is the best example. Whatever path to the truth is taken, there will be no retribution. You have my word on it.

All of us are trained on the policy when we come in and there is an annual requirement in which we refresh our knowledge of the Code and affirm that we "get it". That's required, but it makes good business sense as well and reminds us all of the standards we have committed ourselves to – standards that will help us become the admired Canadian oil and gas enterprise we aspire to be.

Thank you,

Dave Roberts President and Chief Executive Officer



our **culture**

How we achieve the result, is every bit as important as the result itself.

The Code of Business Conduct and Ethics (the "Code") supports the culture of Penn West. Our commitment is to ensure that we act with integrity. We hold one another accountable to comply with our shared values.

Throughout the Code there are examples of actions or behaviours that are required or prohibited. In addition to complying with these rules, Penn West demands a high standard of professional conduct. This includes the exercise of good judgment. If actions cannot be characterized as ethical, such that they enhance the effectiveness and reputation of Penn West, then those actions contravene the Code regardless of the absence of a specific prohibition.

We understand that in order to be successful, we must do what is required by law and we must do what is right. The test for this is simple.

ask yourself two questions

Is there any reason you would not want a co-worker, an associate, a neighbour or a regulator to be fully aware of your conduct and motives?

Is anyone's life, health or safety, or the environment endangered by the action?

If these questions cannot quickly be answered 'No', then you need to rethink your actions. If there is any doubt that your actions will comply with the Code, you are expected to seek guidance.

To work at or with Penn West you must commit to uphold this Code. We recognize that while it takes time to build a reputation of trust and integrity, a single thoughtless or unethical act can destroy what we have carefully built over years.

We will not tolerate violations of the Code to achieve results.

do what's right

our
values & commitments

We Comply with Policies and Procedures

Policy and procedures exist to ensure the efficient and effective management of our operations. Compliance with those policies and procedures is a condition of working with Penn West.

When we are confronted by circumstances not covered by policy or procedure, we are accountable for exercising good judgment as to the appropriate course of action. Our leader, manager or other colleagues are trained to assist and provide guidance.

Representatives in leadership roles promote a working environment of trust where compliance questions and reporting is welcomed.

A Representative whose actions violate our shared values will be disciplined. The circumstances will dictate whether this will include termination of their employment, contract or consulting services.

Internal Controls protect us from risk and ensure efficient operations – we do not ignore controls when they appear to be inconvenient.

Our Workplace is Safe and We Minimize our Impact on the Environment

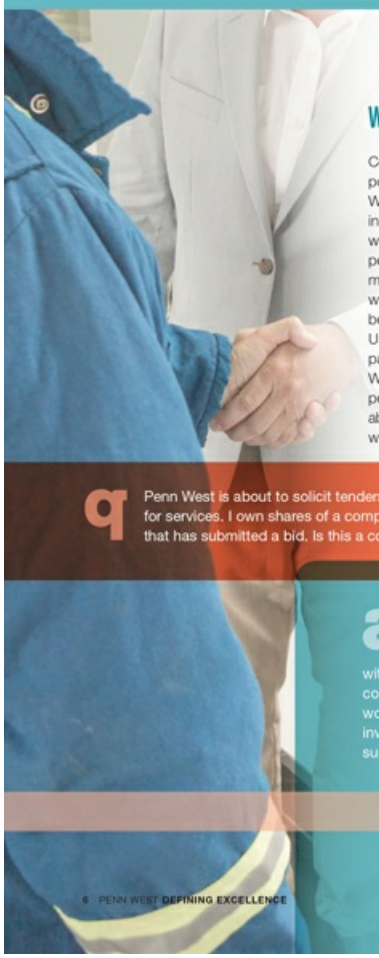
As part of our commitment to one another, the communities in which we operate, and the environment:

- We understand and comply with the health, safety and environmental regulations that apply to the tasks we perform.
- We take the appropriate precautions to protect ourselves, the public, and our fellow Representatives. This includes holding each other accountable to ensure that our workplaces are free from the influence of any substances that could impair the orderly, safe and effective conduct of our business.
- We immediately report any loss of containment, accidents, injuries, unsafe equipment, practices or conditions.
- We strive to continually improve our health and safety as well as our environmental and regulatory performance. This involves consistently looking for efficiencies to reduce our environmental footprint and ways to prevent waste, emissions, spills and other releases from our operations.

For more information, see the Penn West Alcohol & Drug, Health and Safety, and Environmental Policies.



our
values & commitments



We Avoid Conflicts of Interest

Conflicts of interest include actual, potential or perceived conflicts of interest. We never let our personal interests interfere, or appear to interfere, in any way with the interests of Penn West. A personal interest is any situation that might cause someone to question whether a Representative is acting to benefit a party other than Penn West. Using our position to benefit another party is prohibited, even where Penn West is not impacted financially as the perceived conflict may jeopardize our ability to develop trusting relationships with our stakeholders.

Our operations are in local communities and we all have friends, family and close associates working in the oil and gas business. Penn West recognizes that not all conflicts can be avoided. However, conflicts must be disclosed so that they can be managed.

All actual, potential or perceived conflicts of interest must be disclosed using the "Declaration of Conflict of Interest Form" included to this document as "Schedule A".

q Penn West is about to solicit tenders for services. I own shares of a company that has submitted a bid. Is this a conflict?

a Yes. Penn West requires disclosure. If obtaining or retaining the contract with Penn West would impact the contractors share price, Penn West would likely not permit you to be involved in the tender process or to supervise the contractor.

Directors, officers, employees, consultants, contractors and agents of Penn West are all "Representatives"

our
values & commitments

To Avoid Conflicts of Interest

- We do not take part in business transactions or have a financial or personal interest that may be in conflict with our obligations to Penn West. This includes holding a position such as director, officer, employee, contractor or consultant of any other entity whose interests may be in conflict with those of Penn West. The only exceptions are those conflicts expressly authorized by Penn West.

- We do not accept undisclosed financial or other benefits from a party bidding for or approved to work for Penn West.

- We do not accept gifts, entertainment or favours that may unfairly influence a business relationship in any way.

- We do not participate in the review of bids or proposals to work for Penn West or supervise or approve payment to vendors where we personally, a family member, or friend, may benefit from the relationship with the vendor (including as director, owner, employee, shareholder of the vendor). Passive investments in public or private entities where the Representative holds less than one per cent of the outstanding shares will not be viewed as "competing" with Penn West.

- We require vendors and suppliers to advise Penn West of the identity of their Representatives that are close associates of Penn West directors, officers, employees or consultants so that perceived conflicts of interest can be managed.

- We do not have family members or individuals with which we have a close personal relationship reporting through our reporting lines. We will also not involve ourselves in any administrative process concerning such an individual.

q I am considering working in the evenings or on days off for another employer or as a consultant. Do I need to disclose this to Penn West?

a Yes. Disclosure is required under the Code and is required as a term of your employment with Penn West. Once you have authorization you must keep your other work separate from your Penn West job and never use Penn West resources for your other job.

do what's right

our
values & commitments



Gifts and Entertainment Can Create Conflicts of Interest

We will not allow gifts to create the perception that our decisions are based on anything other than commercial criteria. When we accept or give gifts and entertainment, we consider the tone it sets concerning how Penn West conducts its business. Accepting gifts and entertainment can cause problems when they compromise – or appear to compromise – our ability to make fair and objective business decisions.

do what's right

our
values & commitments

Gifts and Entertainment

Before accepting a gift or entertainment, consider:

- We do not solicit personal gifts and invitations. In limited circumstances, Penn West receives gifts or entertainment for corporate use as part of sanctioned events.

- Invitations to conferences, social, cultural or sporting events are acceptable if your host will be present. Your attendance serves a business purpose and the event is customary within the industry for people in similar roles.

- A Representative that frequently gives/accepts gifts or invitations might create the perception that Penn West is not treating contractors or vendors fairly. Any gift or entertainment that might unfairly influence a business relationship is prohibited.

- No gifts or entertainment can be accepted from anyone that is currently bidding for work or in the process of negotiating or renewing a contract.

- Receipt of an invitation or gift reasonably expected to exceed $250 requires prior approval. Approval is obtained through the submission of a "Request for Approval of Gift and/or Entertainment Form" included in this document as "Schedule B".

Respectfully refuse an inappropriate gift or invitation. It is important that we communicate that all vendors are treated equally and that commercial decisions will be based on commercial criteria.

q A Penn West vendor offers you a battery charger that can be used to recharge your Penn West phone. The charger has the vendor's name and phone number stenciled on the top and is worth less than $50.

Is it an issue to accept the charger?

a Before you accept consider how another vendor might view the situation if they saw the charger on your desk. Would another vendor feel obligated to reciprocate?

If so, accepting the gift is not appropriate.

our
values & commitments

We Act Fairly and Treat Everyone with Respect

We are committed to conducting our business with honesty, integrity, accountability and fairness. We value and respect the rights and contributions of our Representatives to our success.

In our workplace and on our worksites, we value the diversity of our employees and will provide equal opportunity in all aspects of employment. All Representatives will be provided a comfortable and welcoming workplace. We will encourage each other to speak up and report concerns. We will not tolerate harassment or discrimination. For more information, see the Penn West Respectful Workplace Policy.

We respect personal privacy. In accordance with the Penn West Privacy Policy, we only collect, use and retain records and information about Penn West Representatives, landowners, shareholders and other business associates that is necessary for us to safely administer our business effectively and efficiently. This information is only for internal use by Penn West and will not be shared or used for other purposes except as permitted or required by law. See the Penn West Privacy Policy for more information.

We promote fair and open competition. We will deal honestly and fairly with our fellow Representatives, competitors and other stakeholders. We benefit where we encourage competition between our vendors. We will not abuse the confidential information of our Representatives or competitors.

We respect and support the right of our Representatives to participate in political activities. We also understand and recognize that we must separate our personal political activities from our role with Penn West. This means:

- Representatives take care to represent their views as their own and not those of Penn West.
- Personal political activities should not be conducted on Penn West time or involve the use of any Company resources including telephones, computers or supplies.



our
values & commitments

We Act Fairly and Treat Everyone with Respect

We respect our obligations concerning material information. Material information is non-public information that, if disclosed, would reasonably be expected to have a significant impact on the market value of the shares of Penn West or any other publically traded company.

Where a Representative becomes aware of non-public material information, this information must be provided to a member of the Penn West Disclosure Committee.

Buying or selling securities when one is in possession of undisclosed material information is illegal. Providing undisclosed material information to anyone, including family and friends, is also illegal. This prohibition includes the undisclosed material information of Penn West or any other company with which Penn West does business.

For more information, including details of trading restrictions and blackout periods, see the Penn West Disclosure Policy.

Integrity in interactions with Public Officials. Lobbying involves contacting any government employee or elected official in order to communicate the position of Penn West in order to influence regulatory change or public policy. Only employees of Penn West who are registered as lobbyists may contact a government representative for this purpose.

We will not offer, pay or promise to provide anything of value to any public official to obtain a favorable decision or to attract or retain business. This commitment includes a prohibition against "facilitating" payments (i.e. payments to facilitate or expedite "routine governmental action").

For guidance in interactions with public officials, contact the Penn West Public Affairs Manager.

q My friends and family often ask whether I think it is a good time to buy Penn West stock. We are continually improving our operations.

Is it an issue to offer my opinion?

a The same rules apply when you buy or sell stock yourself. You need to ensure that you do not provide the details of undisclosed material information and, if your recommendation would be impacted by non-public material information, you should decline to provide your opinion.

our
values & commitments



Confidential Information

Corporate information is an asset that we safeguard. Confidential information includes:

- All non-public corporate information regardless of whether it might be of use to Penn West's competitors, or might be harmful to Penn West or its customers if disclosed;
- The inventions, discoveries, software, procedures and documents created by Penn West employees and vendors where the vendor has assigned ownership to Penn West;
- The information of our partners or business associates.

To protect our asset, we:

- Do not disclose confidential information to anyone who does not need to know the information for business purposes, even if that person is a Penn West Representative;
- Protect confidential information from theft or unauthorized use or access;
- Do not speak, present or provide written statements about Penn West or its activities unless the material has been approved by Public Affairs and/or Investor Relations.

Information that you acquire about Penn West and its business interests, whether written or verbal, is confidential unless it is public knowledge. Documents don't need to be marked "trade secret" or "confidential" to be treated confidentially.

our
values & commitments

We Act to Protect our Assets from Fraud or other Dishonest Conduct

We have a Zero Tolerance approach to fraud and dishonest conduct. Fraud occurs when someone acts dishonestly in order to profit at our expense. Examples include inflating or invoicing for goods or services not received, theft, misusing Penn West assets, undisclosed conflicts of interest, and receipt of unauthorized payments or kickbacks.

We report any suspected fraudulent activity and fully investigate any suspected acts of fraud, misappropriation or other irregularity. Penn West will pursue all avenues of recourse available to it.



q Your manager takes your team for lunch to celebrate the success of your recent project. When the bill comes, your manager asks you to pay the bill advising that she will authorize the expense.

Is this an issue?

a Yes. The senior most leader must pay. Otherwise the effect is that the manager is approving her own expenses. Our internal controls require that the supervisor of your manager independently verify that the expense should be paid by Penn West.

our
values & commitments

Official Spokesperson

Certain Penn West Representatives have been designated as official spokespersons of the Company. Representatives who are not spokespersons are prohibited from responding to inquiries from the investment community, the media or others unless specifically asked to do so by an authorized spokesperson.

Please see Penn West's Disclosure Policy for more information on authorized communication.

This includes:

- Communications using electronic collaboration, such as email or instant messaging;
- Communications using social networking and media such as Facebook, LinkedIn, or Twitter;
- News media disclosure;
- Speaking engagements such as conference presentations and panel discussions.

Confidentiality obligations remain in effect following termination of employment, service agreement or appointment with Penn West.



q If you see inaccurate information concerning Penn West operations posted on social media or an online newspaper, should you comment to correct the information?

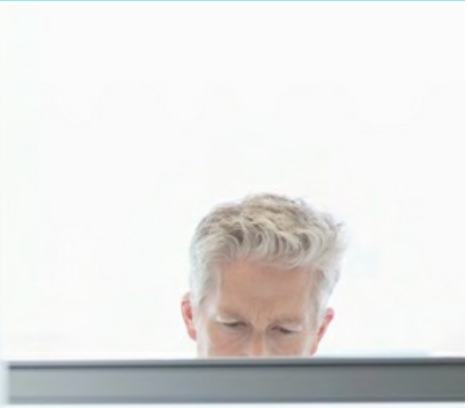
a No. Contact Public Affairs and/or Investor Relations. If a correction is required, an authorized Penn West spokesperson will correct the information or comment.

our
values & commitments

We Use Information Technology Resources Responsibly

Penn West IT, Electronic Equipment, Data, Software and Other Assets are for business use. Occasional personal use is permitted, but never for personal gain or any improper purposes. Information you view and share and the content of any emails or communications must be appropriate, respectful and otherwise comply with our policies. You should not expect personal privacy for communications that you send, receive or store on Penn West systems.

The Penn West IT Security and Information Management Policy addresses the use of computers and information technology equipment.



q My colleague explained that he often copies the reports he prepares at Penn West to his flash drive for his library of "precedents".

Is this an issue?

a Yes. Personal flash drives represent a security risk to Penn West's information technology infrastructure. In addition, reports and other documents prepared for Penn West by its Representatives are confidential information and should not be copied or used for personal use or to benefit organizations other than Penn West.

our
values & commitments

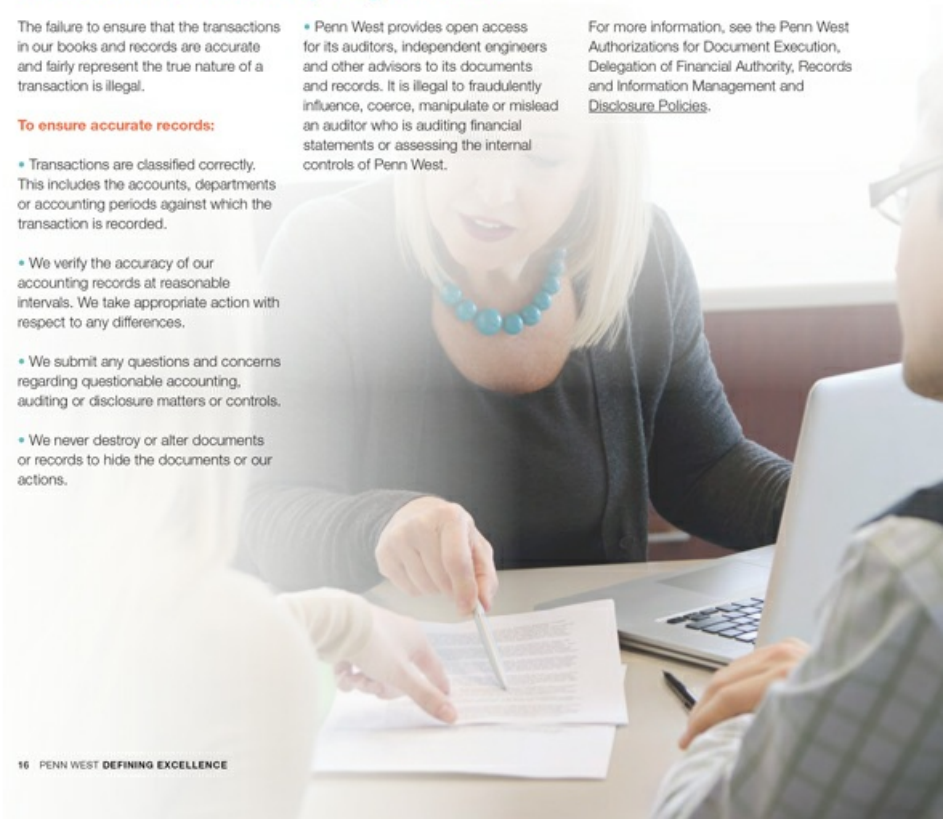
We Ensure our Records and Reporting is Accurate

The failure to ensure that the transactions in our books and records are accurate and fairly represent the true nature of a transaction is illegal.

To ensure accurate records:

- Transactions are classified correctly. This includes the accounts, departments or accounting periods against which the transaction is recorded.
- We verify the accuracy of our accounting records at reasonable intervals. We take appropriate action with respect to any differences.
- We submit any questions and concerns regarding questionable accounting, auditing or disclosure matters or controls.
- We never destroy or alter documents or records to hide the documents or our actions.
- Penn West provides open access for its auditors, independent engineers and other advisors to its documents and records. It is illegal to fraudulently influence, coerce, manipulate or mislead an auditor who is auditing financial statements or assessing the internal controls of Penn West.

For more information, see the Penn West Authorizations for Document Execution, Delegation of Financial Authority, Records and Information Management and Disclosure Policies.





getting the **right** result?

Candour and honest communication is essential – absence of these qualities is demoralizing and exposes our company and representatives to risk

We Seek Guidance and Report Unethical Behaviour

• We understand that resources are available if we are deciding on the appropriate course of action in relation to an issue. Our colleagues, leaders and the Executive team are all ready to assist.

• We report suspected non-compliance. Reporting protects Penn West and its stakeholders and allows us to continue to improve our operations. Reports directly to a leader are encouraged so that corrective measures can be implemented. If you are not comfortable reporting concerns to your leader, you are to report them to the Penn West Compliance Officer, the Executive team or through the EthicsPoint hotline. Leaders are obligated to report suspected breaches and corrective measures to the Compliance Officer.

• We respect requests for anonymity and act against any retaliatory action. Where a person raising a concern wishes to remain anonymous, we will respect this request and will maintain the anonymity of the individual unless prohibited by law. All complaints, whether or not received anonymously, are treated as confidential and access to information concerning the complaint is limited to only those that have a need to know.

• We will not allow any retaliatory action against any Representative who, in good faith, reports a possible violation or concern. Anyone who retaliates against a Representative for speaking up will be disciplined. This may include termination of employment, contract or consulting services.

achieve excellence

Penn West Ethics Hotline
1-877-309-9397 or pennwest.ethicspoint.com

schedule a

declaration of conflict of interest form

I, _____ , hereby declare the following actual or potential conflict of interest:

My Department: _____ My Supervisor: _____

Name of company(s) and/or individual(s) involved with the actual or potential conflict of interest:

_____

_____

_____

Clear description of the actual or potential conflict of interest:

_____

_____

_____

_____

This section to be completed by the Compliance Officer of Penn West or a member of the legal department (the "Approving Officer").

As a result from discussions with the Approving Officer, the following actions are to be taken or measures are to be put in place to mitigate the actual or potential conflict of interest (if any):

_____

_____

_____

_____

Signature of Employee: _____ Date: _____

Signature of Approving Officer: _____ Date: _____

schedule b

request for approval of

gift and/or entertainment form

Name of Representative: _____ Department: _____

Description of Gift and/or Entertainment:

_____

_____

Approximate value of Gift and/or Entertainment: _____

Business Purpose for Gift and/or Entertainment:

_____

_____

If the Gift/Entertainment breaches the Gifts and Entertainment provisions of the Code:

a) approval by an Officer of Penn West is required,

b) in the case of an Officer of Penn West who is not an Executive Officer, approval by an Executive Officer is required,

c) in the case of an Executive Officer, approval by the President, Chief Executive Officer or Chief Financial Officer is required, and

d) in the case of the President, the Chief Executive Officer or the Chief Operating Officer, approval by the Chair of the Governance Committee is required.

Signature of Employee: _____ Date: _____

Signature of Supervisor: _____ Date: _____

Signature of Approving Officer: _____ Date: _____

Penn West Ethics Hotline
1-877-309-9397 or www.pennwest.ethicspoint.com

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www.pennwest.com

TSX: **PWT** NYSE: **PWE**