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Second Quarter 2016 Financial Report

EAGLE ENERGY™
INC.

Management's Discussion and Analysis

August 4, 2016

This Management's Discussion and Analysis ("**MD&A**") of financial condition and results of operations for Eagle Energy Inc. ("**Eagle**"), dated August 4, 2016, should be read in conjunction with Eagle's unaudited condensed consolidated interim financial statements and accompanying notes for the three months and six months ended June 30, 2016 ("**Interim Financial Statements**") and Eagle's audited consolidated financial statements and accompanying notes and related MD&A for the year ended December 31, 2015 and Eagle's Annual Information Form dated March 17, 2016 ("**AIF**"), which are available online at www.sedar.com and on Eagle's website at www.EagleEnergy.com.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Items included in the financial statements of Eagle and each of its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Interim Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of Eagle.

Figures within this MD&A are presented in Canadian dollars unless otherwise indicated.

The foreign exchange rate at June 30, 2016 was $US 1.00 equal to $CA 1.29 (December 31, 2015 - $US 1.00 equal to $CA 1.38), and the average foreign exchange rate for the six months ended June 30, 2016 was $US 1.00 equal to $CA 1.33 (for the six months ended June 30, 2015 - $US 1.00 equal to $CA 1.24).

This MD&A contains information that is forward-looking and refers to non-IFRS financial measures. Investors should read the "Note about Forward-Looking Statements" and "Non-IFRS Financial Measures" sections at the end of this MD&A.

Financial data other than non-IFRS financial measures has been prepared in accordance with IFRS.

Overview of Eagle

On January 27, 2016, Eagle Energy Trust closed a plan of arrangement (the "**Arrangement**") involving the acquisition, by way of share exchange, of Maple Leaf Royalties Corp. ("**Maple Leaf**") and conversion of Eagle Energy Trust into a corporate structure. The resulting public entity, named Eagle Energy Inc., is listed on the Toronto Stock Exchange with its common shares trading under the symbol "EGL". Eagle is an oil and gas corporation created to provide investors with a sustainable business while delivering stable growth in production and overall growth through accretive acquisitions.

This MD&A discusses Eagle's operating segments in the United States and Canada, in addition to its Corporate segment. The United States segment relates to Eagle's assets in Texas and Oklahoma and the Canadian segment relates to Eagle's assets in Alberta. The Corporate segment includes expenditures related to Eagle's hedging program, public company, and other expenses incurred in the overall financing and administration of Eagle.

Highlights for the Three Months ended June 30, 2016

- Achieved quarterly production in excess of 4,100 barrels of oil equivalent per day ("**boe/d**") for the first time in the history of Eagle, and expects 2016 average production to be at the upper end of the guidance range.
- Reduced per boe operating costs (inclusive of transportation) by 12% from the first quarter of 2016 and 16% from the prior year's comparative quarter.
- Assumed operatorship of the Dixonville properties (where Eagle holds a 50% working interest) on June 1, 2016, thereby allowing Eagle to commence pipeline upgrades in order to bring "behind-pipe" production on-stream; upgrades which the former operator, being in receivership, was not capitalized to complete. Eagle expects to add 200 to 250 boe/d of production (gross to the field) by the end of 2016.
- Increased second quarter 2016 production to 4,147 boe/d, more than doubled second quarter funds flow from operations of $5.1 million when compared to the first quarter of 2016 and expects a year end 2016 debt to trailing funds flow from operations ratio of 3.7 times.
- Successfully drilled the second well of its two well drilling program at Salt Flat in Texas, with costs coming in considerably under budget. The first well came on production in April and the second well at the end of June, with the drilling program exceeding expectations from both a cost control and productivity perspective.

2016 Outlook

This outlook section is intended to provide shareholders with information about Eagle's expectations for capital expenditures, production and operating costs for 2016. 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 discussions under "Note about Forward-Looking Statements" at the end of this MD&A.

Eagle's 2016 capital budget, average production and operating cost guidance remains unchanged from what Eagle previously announced on May 5, 2016 and June 6, 2016, and is as follows:

	2016 Guidance	Notes
Capital Budget	$5.0 mm	1
Average Production	3,400 to 3,800 boe/d	2
Operating Costs per month	$2.0 to $2.4 mm	

Notes:

(1) The 2016 capital budget of $CA 5.0 million consists of $US 3.0 million for Eagle's operations in the United States and $0.8 million for Eagle's operations in Canada. At an assumed $US 47.50 per barrel West Texas Intermediate ("**WTI**") oil price, Eagle's 2016 capital budget of $5.0 million and dividend of $0.005 per common share of Eagle per month ($0.06 per share annualized) results in a corporate payout ratio of 57%.

(2) 2016 average production is forecast to consist of 88% oil, 9% natural gas and 3% natural gas liquids ("**NGLs**") and includes both working interest and royalty interest production.

Eagle's Expected Funds Flow from Operations and Corporate Payout Ratio

For 2016, Eagle expects to be at the upper end of its stated average production guidance range. In addition, the reduction in Eagle's monthly dividend to $0.005 (one half cent) per share, beginning with the June 2016 dividend, combined with updated commodity price and foreign exchange rate assumptions results in a change in Eagle's expected 2016 funds flow from operations and corporate payout ratio from that disclosed on June 6, 2016 as follows:

	Amount	Notes
Funds Flow from Operations	$15.6 mm	(1)
Basic Payout Ratio	27%	(2)
Plus: Capital Expenditures	30%	
Equals: Corporate Payout Ratio	57%	(3)

Notes:

(1) 2016 funds flow from operations is expected to be approximately $CA 15.6 million (previously $CA 11.1 million) based on the following assumptions:

(a) average production of 3,800 boe/d (the upper end of the guidance range) (previously 3,600);
(b) pricing at $US 47.50 (previously $50.00) per barrel WTI oil, $CA 2.47 per Mcf AECO gas (previously $CA 1.75) and $US 16.63 per barrel of NGL (NGL price is calculated as 35% of the WTI price);
(c) differential to WTI is $US 3.10 discount per barrel in Salt Flat, $US 3.50 discount per barrel in Hardeman, $CA 16.17 discount per barrel in Dixonville and $CA 12.67 discount per barrel in Twining;
(d) average operating costs of $CA 2.2 million per month ($US 0.8 million per month for Eagle's operations in the United States and $CA 1.1 million per month for Eagle's operations in Canada), the mid-point of the guidance range;
(e) foreign exchange rate of $US 1.00 equal to $CA 1.30 (previously $CA 1.31); and
(f) field netback (excluding hedges) of $16.82 per boe (previously $16.59).

(2) Eagle calculates its Basic Payout Ratio as follows:

$$\frac{\text{Shareholder Dividends}}{\text{Funds Flow from Operations}} = \text{Basic Payout Ratio}$$

(3) Eagle calculates its Corporate Payout Ratio as follows:

$$\frac{\text{Capital Expenditures + Shareholder Dividends}}{\text{Funds Flow from Operations}} = \text{Corporate Payout Ratio}$$

(4) Funds flow from operations, field netback, basic payout ratio and corporate payout ratio are non-IFRS measures. See the section below titled "Non-IFRS Financial Measures".

The following tables show the sensitivity of Eagle's expected 2016 funds flow from operations, corporate payout ratio and debt to trailing funds flow from operations ratio to changes in commodity prices, exchange rates and production:

Sensitivity to Commodity Price	2016 Average WTI (2016 Average Production 3,800 boe/d)		
	$US 37.50 (FX 1.35)	$US 47.50 (FX 1.30)	$US 57.50 (FX 1.25)
Funds Flow from Operations ($CA)	$14.4	$15.6	$15.9
Corporate Payout Ratio	62%	57%	56%
Debt to Trailing Funds Flow from Operations	4.1x	3.7x	3.6x

Sensitivity to Production	2016 Average Production (boe/d) (WTI $US 47.50, F/X 1.30)		
	3,700	**3,800**	**3,900**
Funds Flow from Operations ($CA)	$15.1	$15.6	$16.1
Corporate Payout Ratio	59%	57%	55%
Debt to Trailing Funds Flow from Operations	3.9x	3.7x	3.6x

Assumptions:

(1) Annualized dividends are assumed to be $0.06 per share per year ($212,000 per month).
(2) Operating costs are assumed to be $2.2 million per month (mid-point of guidance range).
(3) Differential to WTI held constant.
(4) Foreign exchange rate is assumed to be $US 1.00 equal to $CA 1.30 unless otherwise indicated in the table.
(5) 2016 average production is assumed to be 3,800 boe/d (the upper end of the guidance range).

Acquisition and Conversion into a Corporate Structure

On January 27, 2016, Eagle acquired all of the issued and outstanding shares of Maple Leaf and converted into a corporate structure. Eagle assumed the working capital and non-operated oil and gas royalty and working interests in properties in west central Alberta. Maple Leaf did not have any debt.

Under the transaction, Eagle issued 7,141,815 shares at $0.73 per share for total consideration of $5,213,525. An additional 446,444 shares with a value of $325,904 were issued as consideration for the termination of the Maple Leaf management agreement and this amount has been expensed in general and administrative costs as part of the deal transaction costs. No incremental debt, capital expenditures or overhead is needed to manage the production and associated cash flow added as a result of the acquisition of Maple Leaf.

Sensitivities

Eagle's results and ability to generate sufficient amounts of cash to fund ongoing operations are affected by external market factors such as fluctuations in the prices of crude oil and natural gas as well as movements in foreign-exchange rates and interest rates. Changes in production also affect funds flow from operations. Sensitivities to these factors are summarized below.

	Quarterly impact on ➔	**Funds flow from operations ($000's)**	**Funds flow from operations / share[(1)]**
Gas price[(2)]	+ $US $0.10/Mcf Henry HUB	38	-
Oil price[(2)]	+ $US $1.00/bbl WTI	392	0.01
Gas production	+1000 Mcf/d	33	-
Oil production	+100 bbls/d	174	-
Currency[(2)]	+ $CA weaken by $0.01	97	-
Interest rate	+1% prime	(169)	-

Notes:

(1) Per share figures are based on 41,325,892 weighted average basic shares outstanding for the six months ended June 30, 2016.

(2) Price and currency sensitivities are calculated assuming an average yearly production rate equal to year to date average working interest and royalty sales volumes of 4,000 boe/d.

Consolidated Results of Operations

Production

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	**%**	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	**%**
Working interest (boe/d)	3,864	3,034	27	3,779	3,015	25
Royalty interest (boe/d)	283	-	-	222	-	-
Total (boe/d)	**4,147**	3,034	37	**4,000**	3,015	33

Working interest sales volumes for the second quarter of 2016 averaged 3,864 boe/d (87% oil, 2% NGLs, 11% natural gas), and royalty interest volumes for the quarter averaged 283 boe/d (25% oil, 17% NGLs, 58% natural gas), for total average production of 4,147 boe/d, an increase of 37% over the previous year comparative quarter. The increase is due to acquisitions in the third quarter of 2015 and the first quarter of 2016, as well as through Eagle's successful drilling program in Salt Flat.

Average Daily Production by Product Type

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	%
Working Interest						
Oil (bbl/d)	3,367	2,912	16	3,300	2,904	14
Natural gas (Mcf/d)	2,495	394	533	2,311	334	592
NGLs (bbl/d)	81	56	44	93	55	69
Oil equivalent sales volumes (boe/d @6:1)	**3,864**	3,034	27	**3,778**	3,015	25
Royalty Interest						
Oil (bbl/d)	71	-	-	50	-	-
Natural gas (Mcf/d)	976	-	-	795	-	-
NGLs (bbl/d)	49	-	-	39	-	-
Oil equivalent sales volumes (boe/d @6:1)	**283**	-	-	**222**	-	-
Total						
Oil (bbl/d)	3,438	2,912	18	3,350	2,904	15
Natural gas (Mcf/d)	3,474	394	781	3,106	334	830
NGLs (bbl/d)	130	56	132	132	55	140
Oil equivalent sales volumes (boe/d @6:1)	**4,147**	3,034	37	**4,000**	3,015	33

Revenue

$000's	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	Six Months Ended June 30,2016	Six Months Ended June 30,2015	%
Working Interest Revenue[(1)]						
Oil	15,691	15,936	(2)	26,245	29,453	(11)
Natural gas	278	82	239	703	153	359
NGLs	169	81	109	334	167	100
Other	247	226	9	476	429	11
	16,385	16,325	(2)	**27,758**	30,202	(10)
Royalty Interest Revenue[(1)]						
Oil	265	-	-	375	-	-
Natural gas	52	-	-	153	-	-
NGLs	83	-	-	152	-	-
Other	-	-	-	-	-	-
	400	-	-	**680**	-	-
Total Gross Revenue[(1)]						
Oil	15,956	15,936	-	26,620	29,453	(10)
Natural gas	330	82	302	856	153	459
NGLs	252	81	211	486	167	191
Other	247	226	9	476	429	11
	16,785	16,325	3	**28,438**	30,202	(6)

Notes:

(1) Converted from $US at the average foreign exchange rate for the period indicated

For the three and six months ended June 30, 2016, sales before royalties were on par with the prior year, despite an increase in production of 37% and 33%, respectively, period over period. Realized prices per boe decreased by 25% and 29%, respectively, period over period, with the greatest decrease in gas prices.

Product Prices

Realized Prices	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30,2016**	Six Months Ended June 30,2015	%
Oil ($/bbl)	50.99	60.12	(15)	43.65	56.04	(22)
Natural gas ($/Mcf)	1.04	2.29	(54)	1.51	2.63	(42)
NGLs ($/bbl)	21.34	16.08	33	20.24	16.68	21
Other ($/bbl)	0.66	0.82	(20)	0.66	0.79	(16)
Revenue ($/boe)	**44.48**	59.13	(25)	**39.06**	55.35	(29)

Benchmark prices	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30,2016**	Six Months Ended June 30,2015	%
WTI crude oil ($US/bbl)	45.59	57.94	(21)	39.52	53.29	(26)
Exchange rate ($CA/$US)	1.29	1.23	5	1.33	1.24	7
Edmonton Par crude oil ($CA/bbl)	55.01	53.28	3	48.11	61.08	(21)
NYMEX Gas ($US/Mcf)	2.24	2.81	(20)	2.12	2.77	(23)
AECO natural gas ($CA/Mcf)	1.42	2.75	(48)	1.62	2.71	(40)

Eagle's quarterly total gross revenue is 95% derived from oil. Realized oil prices in Canadian dollars for the six months ended June 30, 2016 decreased by 22% when compared to the six months ended June 30, 2015. This decrease was less than the benchmark WTI decrease due to narrower negative price differentials.

For Eagle's U.S. properties, there is a quality differential between the benchmark $US WTI price and the $US price realized by Eagle. Eagle enters into field marketing contracts to obtain predictable pricing. Management monitors pricing regularly and endeavours to maximize realized sales prices while minimizing counterparty risk. For the Salt Flat properties, the field marketing contracts use Louisiana Light Sweet ("**LLS**") as a benchmark reference price instead of WTI. For the period January 1, 2016 to March 31, 2016, Eagle had a month-to-month contract with a fixed field pricing adjustment, while allowing the LLS-WTI differential and the Argus P+ differential to float. Commencing April 1, 2016, a new month-to-month term contract was negotiated, resulting in the fixed pricing adjustment improving by $US 1.13 per barrel, while continuing to allow the LLS-WTI differential and the Argus P+ differential to float. For the Hardeman properties, field marketing contracts are on a month-to-month term, use WTI as a reference price and hold all other field pricing adjustments fixed.

For the Dixonville properties in Canada, the entire differential to WTI, including quality and transportation for the second quarter, was a discount of $CA 17.32 per barrel. For the Twining properties in Canada, the entire differential to WTI, including quality and transportation for the second quarter, was a discount of $CA 11.10 per barrel. On October 1, 2015, to mitigate the effect of fluctuating differentials on a portion of its production, Eagle entered into a fixed price financial swap on 1,000 barrels per day of oil fixing the price differential between Edmonton light sweet and WTI at $US 3.65 per barrel for the period December 1, 2015 to December 31, 2016. The portion of the differential between Edmonton light sweet and realized field price was not fixed in this transaction. The differential was hedged at a narrower amount than the historical WTI to Edmonton light sweet differential.

The above prices do not include realized gains or losses from financial commodity contracts, which amounted to a realized gain of $4.5 million ($6.13/boe) for the six months ended June 30, 2016. See *Realized and Unrealized Risk Management Gain/Loss.*

Royalty Expense

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	**%**	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	**%**
Working interest ($000's)	**3,478**	3,441	1	**5,967**	7,112	(16)
$/boe	9.89	12.46	(21)	8.68	13.03	(33)
Royalty interest[(1)] ($000's)	**158**	-	-	**223**	-	-
$/boe	6.15	-	-	5.54	-	-
Total ($000's)	**3,636**	3,441	6	**6,190**	7,112	(13)
$/boe[(2)]	9.64	12.46	(23)	8.50	13.03	(35)
Royalty rate on working interest sales:	**21%**	21%	-	**22%**	24%	(8)

Notes:

(1) Freehold mineral tax.
(2) Total $/boe amounts are calculated using working interest and royalty interest volumes.

The overall royalty rate of approximately 22% for the six months ended June 30, 2016 was lower than the prior year comparative periods due to the increase in production from Canadian properties, which currently have a royalty rate of approximately 12% compared to an average royalty rate of 28% on the U.S. properties. Production from the Canadian properties for the six months ended June 30, 2016 increased to 50% of total production from 38% in 2015. As well, the sliding scale nature of royalties paid on Canadian properties affects the royalty rate. Crown royalty rates in Alberta depend on four components: (i) production volumes; (ii) commodity prices; (iii) product density; and (iv) Crown royalty percentage. Commodity prices have decreased quarter-over-quarter since December 31, 2014, causing a downward trend in Alberta Crown royalty rates.

For the six months ended June 30, 2016, royalties paid decreased by 35% on a per boe basis when compared to the prior year. This decrease is attributable to lower realized commodity pricing resulting from the decline in the WTI benchmark price over the 2015 comparative period and the increased exposure to the Canadian royalty structure that adjusts more with movements in commodity price. Royalty rates for Eagle's U.S. properties do not generally fluctuate with underlying commodity prices.

Operating Costs

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	%
Working interest ($000's)						
Operating costs	5,471	4,662	17	11,127	10,600	5
Transportation and marketing expenses	457	509	(10)	1,066	1,033	3
	5,928	5,171	15	**12,194**	11,633	5
($/boe)						
Operating costs	15.56	16.89	(8)	16.18	19.43	(17)
Transportation and marketing expenses	1.30	1.84	(29)	1.55	1.89	(18)
	16.86	18.73	(10)	**17.73**	21.32	(17)
Royalty interest ($000's)						
Operating costs	-	-	-	-	-	-
Transportation and marketing expenses	-	-	-	-	-	-
	-	-	-	-	-	-
($/boe)						
Operating costs	-	-	-	-	-	-
Transportation and marketing expenses	-	-	-	-	-	-
	-	-	-	-	-	-
Total operating expenses ($000's)						
Operating costs	5,471	4,662	17	11,127	10,600	5
Transportation and marketing expenses	457	509	(10)	1,066	1,033	3
	5,928	5,171	15	**12,194**	11,633	5
($/boe)[(1)]						
Operating costs	14.50	16.89	(14)	15.28	19.43	(21)
Transportation and marketing expenses	1.21	1.84	(34)	1.46	1.89	(23)
	15.71	18.73	(16)	**16.75**	21.32	(21)

Notes:

(1) Total $/boe amounts are calculated using working interest and royalty interest average volumes of 4,147 boe/d for the three months ended June 30, 2016 and 4,000 boe/d for the six months ended June 30, 2016.

Per boe operating costs (inclusive of transportation and marketing expenses) decreased 12% from the first quarter of 2016 ($15.71 per boe compared to $17.86 per boe) and were 16% lower than the prior year comparative quarter.

Operating costs (inclusive of transportation and marketing expenses) totalling $5.9 million for the three months ended June 30, 2016 are comprised primarily of power (22%), chemicals (9%), oil transportation (9%), water disposal fees (8%) and field salaries (7%). For the six months ended June 30, 2015, operating costs of $12.2 million were comprised primarily of power (20%), chemicals (9%), oil transportation (8%), water disposal fees (7%) and field salaries (7%).

Per boe operating costs on a year-over-year basis decreased due to increased production volumes from two wells in Salt Flat that were drilled and brought on production in the second quarter of 2016. As well, both Canadian and U.S. properties saw a reduction in per boe operating costs in the three and six months ended June 30, 2016 when compared to the same period in 2015 due to Eagle's cost reduction initiatives. The addition of the Twining property in the third quarter of 2015 and the Maple Leaf properties in the first quarter of 2016 added to absolute second quarter 2016 operating costs when compared to the second quarter of 2015.

Quarter-over-quarter transportation and marketing expenses on a per boe basis are lower due to lower negotiated trucking contracts in Canada. The transportation costs for the U.S. wells have decreased due to improved marketing charges that were negotiated for the U.S. properties.

Field Netback

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		**Six Months Ended June 30, 2016**		Six Months Ended June 30, 2015	
	$000's	**$/boe**	$000's	$/boe	**$000's**	**$/boe**	$000's	$/boe
Revenue	16,785	44.48	16,325	59.13	28,438	39.06	30,202	55.35
Royalty expense	(3,636)	(9.64)	(3,441)	(12.46)	(6,190)	(8.50)	(7,112)	(13.03)
Operating expenses	(5,471)	(14.50)	(4,662)	(16.89)	(11,127)	(15.28)	(10,600)	(19.43)
Transportation and marketing expenses	(457)	(1.21)	(509)	(1.84)	(1,066)	(1.46)	(1,033)	(1.89)
Field netback	**7,221**	**19.13**	7,713	27.94	**10,055**	**13.82**	11,457	21.00
Sales volumes (boe/d)		**4,147**		3,034		**4,000**		3,015

During the quarter, Eagle averaged revenue of $44.48 per boe and realized a field netback of $19.13 per boe. For the six months ended June 30, 2016, Eagle averaged revenue of $39.06 per boe and realized a field netback of $13.82 per boe. When compared to the prior year comparative periods, the decrease in field netback is primarily due to the decrease in commodity prices being partially offset by the results of Eagle's efforts to lower field operating expenses, as well as lower price-sensitive royalty expense for Canadian properties.

Field netback is a Non-IFRS financial measure. See "Non-IFRS Financial Measures".

Administrative Expenses

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Administrative expenses ($000's)	**2,494**	2,344	6	**6,140**	4,804	28
$/boe	**6.61**	8.49	(22)	**8.43**	8.80	(4)

Total administrative expenses for the three months ended June 30, 2016 were $2.5 million, approximately 22% of full year 2016 expected levels. Staff and related employment costs, office costs and professional fees accounted for 68%, 18% and 12% respectively of administrative expenses for the three months ended June 30, 2016. For the six months ended June 30, 2016, total administrative expenses were $6.1 million, representing approximately 55% of full year expected levels. Staff and related employment costs, professional fees and office costs accounted for 60%, 23% and 18% respectively of administrative expenses for the six months ended June 30, 2016. Costs increased by 28% for the six months ended June 30, 2016 over the prior year comparative period, primarily due to $1.0 million of costs related to the acquisition of Maple Leaf and conversion to a corporate entity, as well as additional staff and related employment costs related to the corporate acquisition of the Twining properties in the third quarter of 2015. Deal transaction costs include $325,000 to terminate the Maple Leaf management agreement that was settled through the issuance of shares and was therefore a non-cash expenditure.

Looking forward, rent for the Calgary office is expected to be lower as a result of the amended lease (see the Commitments section of this MD&A) and overhead recoveries are expected to increase as a result of Eagle assuming operatorship of the Dixonville properties on June 1, 2016.

Realized and Unrealized Risk Management Gain/Loss

As part of Eagle's ongoing strategy to mitigate the effects of fluctuating prices on a portion of its production, the following contracts have been put in place:

	Volume	*Measure*	*Beginning*	*Term*	*Floor $US*	*Ceiling $US*
Oil Fixed Price						
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	65.00	65.00
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	53.32	53.32
NYMEX (i)	300	bbls/d	Mar-16	Jul-16	36.00	36.00
NYMEX (i)	200	bbls/d	Mar-16	Jul-16	37.25	37.25
NYMEX (i)	400	bbls/d	Aug-16	Dec-16	40.05	40.05
NYMEX (i)	300	bbls/d	Aug-16	Dec-16	40.27	40.27
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	45.10	45.10
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	44.75	44.75
Gas Fixed Price						
CGPR ALT daily spot (ii)	1,500	GJs/day	Jan-16	Dec-16	$CA 2.83	$CA 2.83
Differential						
Oil Edmonton SW (iii)	1,000	bbls/d	Dec 15	Dec 16	3.65	3.65

(i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).
(ii) Represents a fixed price financial swap transaction with a set forward sale price (Alberta daily spot price averages).
(iii) Represents a fixed price differential between Edmonton SW Blended oil and WTI.

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Realized gain	(1,133)	(5,626)	(80)	(4,460)	(12,922)	(65)
Unrealized loss	8,166	7,984	2	10,900	12,167	(10)
Net loss (gain)	**7,033**	2,358	198	**6,440**	(755)	(953)

On a quarter-over-quarter basis, the net value of the commodity price contracts decreased. The net value of the commodity price contracts moved from a net asset as at December 31, 2015 to a net liability at June 30, 2016. Net value of the contracts is dependent upon current and forward commodity pricing and, in the case of realized gains and losses, the price of the contract relative to the benchmark oil price at time of settlement. Although Eagle currently has no intention to unwind the contracts that are in place, it is required to calculate and record, using a mark-to-market valuation, the fair value of the remaining term of the contracts at the end of each reporting period, hence the change in value of the unrealized portion of the commodity contracts. When compared to the second quarter of 2015, the forward commodity pricing environment and the average hedge price decreased, which caused the future value of the unrealized contracts to decrease on the balance sheet at June 30, 2016.

Eagle had 1,500 barrels of oil per day hedged at an average WTI price of $US 51.61 for the second quarter of 2016, and 1,335 at an average WTI price of $53.47 hedged for the six months ended June 30, 2016. For the remainder of 2016, Eagle has 1,666 barrels of oil per day hedged at an average WTI price of $US 51.37. For 2017, Eagle has hedges in places with a weighted average forward sale price of $US 44.93 WTI per barrel on 750 barrels of oil per day. In addition, Eagle has a natural gas hedge on 1,500 GJs per day at a fixed price of $CA 2.83 per GJ for the period January 1, 2016 to December 31, 2016.

Eagle also has a fixed price financial swap on 1,000 barrels per day of oil fixing the differential between Edmonton light sweet and WTI at $US 3.65 per barrel for the period December 1, 2015 to December 31, 2016.

Finance Expense

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Finance expense ($000's)	**920**	683	35	**1,813**	1,456	25
$/boe	**2.44**	2.47	(1)	**2.49**	2.67	(7)

For the three months and six months ended June 30, 2016, finance expense increased over the prior year's comparative period due to higher outstanding advances on Eagle's credit facility.

For the six months ended June 30, 2016, the effective interest rate on bank debt for the period was 3.4% compared to 3.9% for the comparable period in 2015. During the quarter, Eagle borrowed by way of banker's acceptance (funds drawn were denominated in Canadian dollars), which was lower than the prime rate option on its borrowings. The prior year's comparative quarter also utilized borrowings by way of banker's acceptance (funds drawn were denominated in Canadian dollars), which was lower than the prime rate option on its borrowings.

Funds Flow from Operations

The following table summarizes funds flow from operations on an absolute and on a per boe basis:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		**Six Months Ended June 30, 2016**		Six Months Ended June 30, 2015	
	$000's	**$/boe**	$000's	$/boe	**$000's**	**$/boe**	$000's	$/boe
Field netback	7,221	19.13	7,713	27.94	10,055	13.82	11,457	21.00
Cash settled award payments	(18)	(0.05)	(56)	(0.21)	(43)	(0.06)	(114)	(0.21)
Administrative expenses - cash	(2,494)	(6.61)	(2,344)	(8.49)	(5,815)	(7.99)	(4,804)	(8.80)
Realized risk management gain (loss)	1,133	3.00	5,626	20.38	4,460	6.13	12,922	23.68
Finance expense	(657)	(1.74)	(452)	(1.64)	(1,303)	(1.79)	(1,023)	(1.87)
Income tax recovery	(36)	(0.09)	44	0.16	(36)	(0.05)	44	0.08
Realized foreign exchange gain (loss)(1)	(1)	(0.00)	1	0.00	(3)	(0.00)	(223)	(0.41)
Funds flow from operations	**5,148**	**13.64**	10,532	38.14	**7,315**	**10.06**	18,259	33.46

Note:

(1) This represents settled foreign currency transactions related to operating activities.

Funds flow from operations and field netback are non-IFRS financial measures. See "Non-IFRS financial measures".

Share-based Compensation

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Share-based compensation expense (recovery)	**125**	991	(87)	**(29)**	868	(103)

A non-cash, share-based compensation expense of $107,000 was recorded during the second quarter of 2016 and $18,000 was paid out in cash for amounts related to vested RURs for a total of $125,000. The decrease in payments year-over-year is due to the reduction in Eagle's monthly cash dividend as RUR payments track with dividends.

Eagle's share-based compensation program consists of: (i) a new long-term equity compensation incentive plan ("**2016 Equity Incentive Plan**"), which was implemented following the closing of the Arrangement, and under which Restricted Share Units ("**RSUs**") and Performance Share Units ("**PSUs**") have been awarded; (ii) a share option plan

that was previously in place ("**2010 Option Plan**"), which was adjusted to entitle holders of options to purchase shares of Eagle on identical terms and conditions; and (iii) cash-settled restricted unit rights ("**RUR**") agreements which were previously in place and have been adjusted to entitle holders to identical rights, terms and conditions.

The cash-settled Unit Rights ("**URs**") granted to U.S.-based officers, employees and certain consultants of Eagle Hydrocarbons Inc. were voluntarily cancelled on February 23, 2016 and the UR Plan was terminated on March 31, 2016.

Effective June 9, 2016, all holders of options outstanding under the 2010 Option Plan agreed to a voluntary cancellation of options and the 2010 Option Plan was terminated.

The dollar amount of share-based compensation expense does not represent cash paid by Eagle.

Depreciation, Depletion and Amortization

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**%**	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	**%**
Depreciation, depletion and amortization	**5,611**	6,033	(7)	**11,028**	12,203	(10)

The depletion, depreciation, and amortization provision for the three and six months ended June 30, 2016 for all properties except the Maple Leaf properties was based on proved plus probable reserves, including the future development costs associated with those reserves, as outlined in the year-end 2015 reserves evaluation report prepared by Eagle's independent reserves evaluators. The depletion calculation for the Maple Leaf properties was calculated using proved plus probable reserves as calculated by Eagle's internal qualified reserves evaluator.

For the Dixonville properties, despite a slight increase in reserves quarter over quarter, a significant decrease in carrying value due to an impairment charge at the end of 2015 resulted in a lower per boe depletion rate when compared to the second quarter of 2015, from $11.27 to $7.77 per boe. The lower rate, combined with a slight decrease in production resulted in a decrease in total depletion for the Dixonville area of $450,000 when compared to the second quarter of 2015.

The Twining area properties were acquired in the third quarter of 2015. The depletion rate for these properties in the second quarter of 2016 was $13.01 per boe.

For the Hardeman properties, a decrease in carrying value due to an impairment charge, along with a slight decrease in reserves primarily attributed to lower prices, resulted in a per boe depletion rate of $US 15.89 in the second quarter of 2016 compared to $US 18.12 in the second quarter of 2015. The lower rate, combined with a slight decrease in production, resulted in a decrease in total depletion for the Hardeman area of $US 150,000.

For the Salt Flat properties, a significant decrease in carrying value due to a 2015 impairment, along with a slight decrease in reserves primarily attributed to lower prices, resulted in a per boe depletion rate of $US 16.66 in the second quarter of 2016 compared to $US 25.92 in the second quarter of 2015. Even with an increase in production quarter-over-quarter, total depletion for the Salt Flat area for the three months ended June 30, 2016 decreased by $US 750,000 due to a decrease in the carrying value of 43%.

Due to the low price oil environment in 2015, impairments were taken on all of Eagle's properties, resulting in lower current carrying values, even after adding assets from the two business combinations. Reserves in the existing properties remained fairly consistent, with only slight decreases. Given that the effect of the lower carrying value of Eagle's properties and the relatively consistent reserves was mostly offset by an increase in production volumes, total depletion in the second quarter of 2016 decreased only slightly when compared to the second quarter of 2015.

At June 30, 2016, Eagle assessed each of its CGUs and determined that there were not any indicators of impairment. An assessment will be done for each quarter in 2016.

Foreign Exchange Loss (Gain) on Intercompany Loan

The foreign exchange loss (gain) on an intercompany loan is a non-cash entry resulting from the U.S. subsidiary holding a Canadian dollar denominated loan issued by its parent, Eagle Energy Trust. Although the intercompany loan is eliminated on consolidation, it is no longer considered part of the net investment in the subsidiary because amounts have been repaid, thus any related period end foreign exchange translation adjustment is recorded in earnings or loss.

For the six months ended June 30, 2016, Eagle recorded a foreign exchange loss of $5.6 million due primarily to a decrease in the average foreign exchange rate from the fourth quarter of 2015.

Capital Expenditures

Capital expenditures during the three month and six month periods ended June 30, 2016 were as follows:

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Exploration and evaluation[1]	-	-	5	-
Acquisition - Maple Leaf Royalties Corp.	-	-	5,144	-
Intangible drilling and completions	1,230	4,777	3,127	6,741
Well equipment and facilities	366	1,606	702	2,702
Other	-	5	-	5
Total	**1,596**	6,388	**8,978**	9,448

Note:

(1) Exploration and evaluation expenditures relate to amounts spent to which no proven reserves are yet assigned.

Summary of Quarterly Results

	Q2/2016	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015	Q4/2014	Q3/2014
($000's except for boe/d and per share amounts)								
Sales volumes – boe/d	4,147	3,854	3,783	3,607	3,034	2,995	1,929	2,859
Revenue, net of royalties	13,149	9,099	11,603	13,428	12,884	10,206	10,238	17,143
per boe	34.84	25.94	33.34	40.46	46.66	37.86	57.67	65.19
Operating costs	5,928	6,265	6,356	6,473	5,171	5,978	3,396	4,312
per boe	15.71	17.86	18.26	19.50	18.73	22.18	19.13	16.39
Field netback	7,221	2,834	5,246	6,956	7,713	3,744	6,841	12,832
per boe	19.13	8.08	15.08	20.96	27.94	13.89	38.54	48.80
Funds flow from operations	5,148	2,167	5,147	7,332	10,532	7,727	5,670	7,476
per boe	13.64	6.18	14.79	22.09	38.14	28.67	31.94	28.43
per share – basic	0.12	0.05	0.15	0.21	0.30	0.22	0.16	0.22
per share – diluted	0.12	0.05	0.15	0.21	0.30	0.22	0.15	0.16
Earnings (loss)	(9,288)	(11,713)	(23,198)	(51,784)	(6,541)	5,477	(35,192)	8,104
per share – basic	(0.23)	(0.29)	(0.67)	(1.48)	(0.19)	0.16	(1.01)	0.24
per share - diluted	(0.23)	(0.29)	(0.67)	(1.48)	(0.19)	0.16	(1.13)	0.18
Cash dividends paid	1,274	1,584	2,614	3,143	3,130	3,153	7,159	9,036
per issued share	0.03	0.04	0.07	0.09	0.09	0.09	0.21	0.26
Current assets	10,618	12,829	19,767	21,862	13,382	31,459	33,245	76,566
Current liabilities	75,035	5,472	9,397	8,033	7,754	8,642	10,720	13,587
Total assets	195,044	199,708	208,572	228,959	245,009	265,342	257,172	240,458
Total non-current liabilities	32,397	96,317	92,616	91,316	52,012	60,835	57,547	2,565
Shareholders' equity	87,612	97,919	106,559	129,611	185,243	195,865	188,905	224,306
Shares issued	42,452	42,452	34,863	34,893	34,961	35,023	35,017	34,821

Funds flow from operations is a non-IFRS measure. See the section below titled "Non-IFRS Financial Measures".

For the three months ended June 30, 2016, sales volumes increased when compared to the previous quarter due to initial production from the two new drills in Salt Flat, one of which came on production at the end of April, and one at the end of June. In addition, royalty volumes from non-operated properties acquired in January 2016 increased as wells that were shut in temporarily in the first quarter came back on production.

Funds flow from operations increased in the second quarter of 2016 versus the first quarter of 2016 primarily due to higher volumes and an increase in commodity prices in the second quarter.

Earnings (loss) on a quarterly basis often does not move directionally or by the same amount as movements in funds flow from operations. This is primarily due to items of a non-cash nature that factor into the calculation of earnings (loss), and those that are required to be fair valued at each quarter end. Second quarter 2016 funds flow from operations increased 138% from the first quarter 2016 while the second quarter loss only decreased by 21% due primarily to rising commodity prices which caused a mark-to-market risk management loss in the second quarter.

Current liabilities increased from the first quarter of 2016 because the May 27, 2017 maturity date of the credit agreement falls within twelve months of the second quarter balance sheet date of June 30, 2016 and this amount therefore has been moved from non-current to current liabilities. In the course of renewing this credit agreement in prior years, the maturity date has been set at a date which is approximately two years from the renewal date, thereby causing the outstanding debt to be classified as a non-current liability. This year, the syndicate of banks changed this

practice, leaving the maturity date of the credit agreement unchanged at May 27, 2017 which resulted in the outstanding debt being classified as a current liability. Refer to the "Liquidity and Capital Resources" section of this MD&A.

Segmented Operations

Eagle's operating activities relate solely to the exploration, development and production of petroleum and natural gas resources in the United States and Canada. Costs incurred in the corporate segment relate to Eagle's hedging program and other expenses incurred in overall financing and administration of Eagle.

United States

Production	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**%**	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	**%**
Working interest						
Oil (bbl/d)	2,007	1,780	13	1,917	1,773	8
Natural gas (Mcf/d)	239	282	(15)	242	257	(6)
NGLs (bbl/d)	45	56	(21)	43	55	(23)
Oil equivalent sales volumes (boe/d @ 6:1)	**2,092**	1,883	11	**2,000**	1,871	7
Royalty interest						
Oil (bbl/d)	-	-	-	-	-	-
Natural gas (Mcf/d)	-	-	-	-	-	-
NGLs (bbl/d)	-	-	-	-	-	-
Oil equivalent sales volumes (boe/d @ 6:1)	**-**	-	-	**-**	-	-
Total						
Oil (bbl/d)	2,007	1,780	13	1,917	1,773	8
Natural gas (Mcf/d)	239	282	(15)	242	257	(6)
NGLs (bbl/d)	45	56	(21)	43	55	(23)
Oil equivalent sales volumes (boe/d @ 6:1)	**2,092**	1,883	11	**2,000**	1,871	7

Field Netback ($000's)	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**%**	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	**%**
Gross revenue	10,444	11,369	(8)	17,418	20,971	(17)
Royalty expense	(2,904)	(3,187)	(9)	(4,884)	(5,989)	(18)
Operating expenses	(2,875)	(2,740)	5	(6,044)	(6,596)	(8)
Transportation and marketing expenses	(19)	(31)	(40)	(34)	(62)	(45)
Field netback	**4,646**	5,411	(14)	**6,456**	8,324	(22)
($/boe)						
Gross revenue	54.87	66.36	(17)	47.87	61.94	(23)
Royalty expense	(15.26)	(18.60)	(18)	(13.42)	(17.69)	(24)
Operating expenses	(15.11)	(16.00)	(6)	(16.61)	(19.48)	(15)
Transportation and marketing expenses	(0.10)	(0.18)	(46)	(0.09)	(0.18)	(48)
Field netback	**24.40**	31.58	(23)	**17.75**	24.59	(28)

Capital Activity	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	%	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	%
Capital expenditures ($000's)	1,540	7,366	(79)	3,731	9,576	(61)
Wells drilled (rig -released)						
Gross	1.0	6.0	(83)	2.0	6.0	(67)
Net	1.0	6.0	(83)	2.0	6.0	(67)
Wells brought on-stream						
Gross	2.0	4.0	(50)	2.0	4.0	(50)
Net	2.0	4.0	(50)	2.0	4.0	(50)

During the second quarter of 2016, capital expenditures were $1.5 million in the United States with average working interest sales volumes of 2,092 boe/d. To date, capital costs have come in considerably under budget and results from the capital program have exceeded expectations with Eagle expecting to achieve the upper range of its 2016 production guidance.

Revenue for the quarter was received primarily from two customers, Texican Crude, Hydrocarbons, LLC ("Texican") and Plains Marketing L.P. ("Plains"), with revenue received amounting to $6.2 million (60%) and $1.8 million (14%) respectively. For the second quarter of 2015, $7.1 million (63%) of revenue was received from Eagle's previous marketer, Sunoco Partners Marketing and Terminals LP, and $2.1 million (18%) from Plains.

Salt Flat Properties, Texas

At Salt Flat, Eagle successfully drilled the second well of its two well program, with drilling costs considerably under budget. One new well was brought on production in late April and the other in late June, with the drilling program exceeding expectations from both a cost control and productivity perspective.

Hardeman Properties, Texas and Oklahoma

At Hardeman, production in the second quarter of 2016 increased 8% from the first quarter of 2016, with activity focused on operational maintenance and cost improvements.

Canada

Production	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Working interest						
Oil (bbl/d)	1,360	1,132	20	1,383	1,131	22
Natural gas (Mcf/d)	2,256	112	1,915	2,069	77	2,587
NGLs (bbl/d)	36	-	-	51	-	-
Oil equivalent sales volumes (boe/d @ 6:1)	**1,772**	1,151	54	**1,779**	1,144	56
Royalty interest						
Oil (bbl/d)	71	-	-	50	-	-
Natural gas (Mcf/d)	979	-	-	795	-	-
NGLs (bbl/d)	49	-	-	39	-	-
Oil equivalent sales volumes (boe/d @ 6:1)	**283**	-	-	**222**	-	-
Total						
Oil (bbl/d)	1,431	1,132	26	1,433	1,131	27
Natural gas (Mcf/d)	3,235	112	2,786	2,864	77	3,619
NGLs (bbl/d)	85	-	-	90	-	-
Oil equivalent sales volumes (boe/d @ 6:1)	**2,055**	1,151	79	**2,000**	1,144	75

Field Netback ($000's)	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Gross revenue	6,341	4,956	28	11,020	9,231	19
Royalty expense	(732)	(254)	188	(1,306)	(1,123)	16
Operating expenses	(2,596)	(1,922)	35	(5,083)	(4,004)	27
Transportation and marketing expenses	(438)	(478)	(8)	(1,032)	(971)	6
Field netback	**2,575**	2,302	12	**3,599**	3,133	15
($/boe)						
Gross revenue	33.90	47.31	(28)	34.02	44.58	(24)
Royalty expense	(3.91)	(2.42)	62	(4.03)	(5.42)	(26)
Operating expenses	(13.88)	(18.34)	(24)	(15.69)	(19.34)	(19)
Transportation and marketing expenses	(2.34)	(4.57)	(49)	(3.19)	(4.69)	(32)
Field netback	**13.77**	21.98	(37)	**11.11**	15.13	(27)

Capital Activity	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Capital expenditures ($000's)	55	(982)	(106)	103	(133)	(177)
Wells drilled (rig -released)						
Gross	-	-	-	-	-	-
Net	-	-	-	-	-	-
Wells brought on-stream						
Gross	-	-	-	-	-	-
Net	-	-	-	-	-	-

Revenue for the quarter was primarily from Trafigura Canada General Partnership in the amount of $4.7 million (74%). In the second quarter of 2015, 100% of the revenue was received from the previous operator, Spyglass Resources Corp. ("**Spyglass**").

Dixonville Properties, Alberta

Effective June 1, 2016, under the joint operating agreement between Eagle and Spyglass Resources Corp., Eagle was appointed operator of the Dixonville properties in which Eagle has a 50% working interest.

Eagle has begun work on several pipeline upgrades to bring "behind pipe" production on-stream, activities which Spyglass, the former operator that was in receivership, was not capitalized to complete. Eagle expects that, by the end of 2016, it will have added approximately 200 to 250 boe/d of production (gross to the field). In addition, using internal waterflood expertise, Eagle intends to commence a field study to improve the long-term effectiveness of the waterflood and develop a more efficient artificial lift strategy. As well, in the medium term, Eagle believes a number of improvements can be made in the areas of field operations, trucking and marketing.

Twining Properties, Alberta

There was no capital activity in the Twining area in the second quarter of 2016, with activity focused on operational maintenance and production improvements. Production in Twining has remained consistent quarter-over-quarter with minimal production declines.

Other Properties, Alberta

Production from the properties acquired pursuant to the January 27, 2016 Maple Leaf acquisition was maintained with no capital expenditures.

Corporate

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	%	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015	%
Administrative expenses - cash	(2,494)	(2,344)	6	(5,815)	(4,804)	21
Risk management gain (loss) - realized	1,133	5,626	(80)	4,460	12,922	(65)
Cash settled award payments	(18)	(56)	(67)	(43)	(113)	(61)
Finance expense	(657)	(452)	45	(1,303)	(1,024)	27
Income tax recovery	(36)	44	(181)	(36)	44	(181)
Realized foreign exchange gain (loss)	(1)	1	(215)	(3)	(223)	(99)
	(2,073)	2,819	(174)	**(2,740)**	6,803	(140)

Liquidity and Capital Resources

Generally, three sources of funding are available to Eagle: (1) internally generated funds flow from operations; (2) debt financing, when appropriate and available on favourable terms; and (3) the issuance of additional shares, if available on favourable terms.

Eagle's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Eagle manages its capital structure and makes adjustments to it based upon economic conditions and the risk characteristics of the underlying oil and natural gas assets. Eagle sets its dividend levels monthly as well as prepares annual capital expenditure and operating budgets, which are updated as necessary depending on factors such as current and forecast prices, successful capital deployment, authorized borrowing base levels and general industry conditions. Eagle actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecast and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to refinance existing first-lien debt, issue subordinated debt or issue additional common shares.

Eagle targets a corporate payout ratio at or below 100% and therefore believes that its expected funds flow from operations and undrawn credit facility will be sufficient to fund its current and expected financial obligations. Refer to the "2016 Outlook" section for a discussion of Eagle's future plans. Other than the items noted in the "Commitments" section of this MD&A, capital spending and dividends are discretionary.

Credit Agreement

As of June 30, 2016, Eagle had approximately $3.1 million of unused credit on its $70.0 million dollar credit agreement (the "**Credit Agreement**"), which is held with a syndicate of Canadian chartered banks. The amount drawn on the Credit Agreement is now classified as a "current" instead of a "non-current" liability. This is because the May 27, 2017 maturity date of the Credit Agreement falls within twelve months of the June 30, 2016 balance sheet date, as described below. Amounts drawn on the Credit Agreement were $66.9 million, primarily by way of bankers' acceptances.

At June 30, 2016 there were no covenant violations under or in connection with the Credit Agreement.

Eagle accelerated a portion of its 2016 capital program into the first quarter and by the end of the second quarter was 80% through its 2016 capital budget of $5.0 million. For the second, third and fourth quarters of 2016 combined, it is therefore expected that: (i) funds flow from operations will exceed capital expenditures; (ii) year end 2016 debt will be reduced to approximately $58 million; and (iii) the year end 2016 debt to trailing funds flow from operations ratio will be approximately 3.7x. Refer to the 2016 Outlook section of this MD&A.

On May 31, 2016, Eagle finalized its semi-annual borrowing base redetermination which resulted in: (i) amendments being made to its Credit Agreement; (ii) a borrowing base level being set at $CA 70 million and; (iii) a maturity date of May 27, 2017 remaining unchanged. Security granted under the Credit Agreement remained unchanged and is by way of a first priority security interest on substantially all of the property and assets of Eagle Energy Inc. and Eagle Hydrocarbons Inc. (each a borrower under the Credit Agreement). A summary of the significant amendments made to the Credit Agreement effective May 31, 2016 is set forth below and a redacted version of the entire Credit Agreement can be found under Eagle's issuer profile on SEDAR at www.sedar.com.

Prior to the May 31, 2016 redetermination, the previous semi-annual borrowing base redetermination that had closed on October 7, 2015 had resulted in a borrowing base level being set at $US 80 million. In the period between these two redeterminations, sustained weakness in global commodity prices resulted in downward pressure on the commodity price forecasts used by lenders when determining borrowing base levels. Typical of oil and gas companies its size, Eagle has a reserves-based lending facility that is reviewed twice annually by the lending syndicate. Having a reserves-based lending facility means Eagle's borrowing capacity is based on, among other things, the following factors: its oil and gas reserves; the commodity price forecast used by its lenders to ascribe their value to those reserves; and the commodity hedges Eagle has in place to manage price uncertainty. Eagle posted solid results in its year-end 2015 report on oil and gas reserves and increased year-over-year proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) by 10%, and total proved reserves by 14%, not including the additional reserves associated with the January 2016 acquisition of Maple Leaf. Eagle's borrowing capacity was adversely impacted by the drop in oil prices, which, in turn, caused the lenders to lower their internal price forecasts used to calculate their clients' asset values.

The next semi-annual borrowing base redetermination is scheduled to be finalized no later than November 30, 2016 and will be conducted based on lenders' price forecasts then in effect. Current and forward crude oil prices have recovered from their lows in early February 2016 (which also corresponded to the time when lenders perform year end borrowing base reviews), and Eagle anticipates that a rebound in oil price levels will be incorporated into lenders'

borrowing base redeterminations affording Eagle increased liquidity and flexibility. In the event, however, that a borrowing base redetermination results in a reduction of the borrowing base below the aggregate amounts outstanding under the Credit Agreement (such that a "borrowing base deficiency" exists), the Credit Agreement instructs that Eagle shall, after receipt of written notice from the lenders regarding such deficiency, take any of the following actions and notify the lenders of its election of the following actions within ten days after receipt of the deficiency notice from the lenders: (1) repay the borrowing base deficiency within ten days; (2) pledge additional acceptable collateral such that the borrowing base deficiency is cured within 30 days; or, (3) deliver an election in writing to the lender to agree to repay the borrowing base deficiency within 30 days. A failure by Eagle to take such actions to remedy any borrowing base deficiency within the time periods specified above would constitute an event of default.

Summary of Significant Amendments to Covenants, Terms and Conditions of Credit Facility

Under the Credit Agreement, Eagle is required to satisfy certain customary affirmative and negative covenants, including financial covenants. The following is a summary of the significant amendments made to the Credit Agreement's covenants, terms and conditions effective May 31, 2016.

- The borrowing base was amended to $CA 70 million (previously $US 80 million).
- The covenant that restricts Eagle from paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing, or would result from such dividend, or, if the cash dividend payments made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined by the Credit Agreement, and which was $20.6 million at June 30, 2016) for the trailing four quarters, remained unchanged.
- A new covenant was added that restricts Eagle from paying dividends in an amount that exceeds $0.005 (half a cent) per share per month, beginning with the dividend declared in July 2016 (which is payable in August 2016) and ending with any dividend that may be declared in June 2017 (which would be payable in July 2017).
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a maximum debt to four quarter trailing EBITDAX ratio of 3.00 to 1.00, was amended to proactively manage the effect that the precipitous drop in oil prices will have on this trailing covenant calculation. Beginning with the fiscal quarter ending June 30, 2016, and for five quarters through to and including the fiscal quarter ending June 30, 2017, the maximum ratios are amended as follows: for the fiscal quarter ending June 30, 2016 - 4.00 to 1.00; for the fiscal quarter ending September 30, 2016 - 5.00 to 1.00; for each fiscal quarter ending December 31, 2016 through to the fiscal quarter ending June 30, 2017 – 6.00 to 1.00; and for each fiscal quarter ending after June 30, 2017, 3.00 to 1.00. The definition of EBITDAX remains unchanged from that disclosed in Eagle's 2015 annual financial statements.
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a minimum current ratio of not less than 1.00 to 1.00 remained unchanged.
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a minimum four quarter trailing interest expense coverage ratio of 3.00 to 1.00 was deleted.
- In the course of renewing this Credit Agreement in prior years, the maturity date has been set at a date which is approximately two years from the renewal date, thereby causing the outstanding debt to be classified as a non-current liability. This year, the syndicate of banks changed this practice, leaving the maturity date of the Credit Agreement unchanged at May 27, 2017 which resulted in the outstanding debt being classified as a current liability. The maturity date represents the date (the "commitment termination date") through which the syndicate of Canadian bank lenders are obligated under the terms and conditions set forth in the Credit Agreement to make advances to Eagle up to the authorized borrowing base amount in effect from time to time. The Credit Agreement continues to be subject to semi-annual (November and May) redeterminations of the borrowing base by the lenders. In the event that, prior to May 27, 2017: (i) Eagle and its syndicate of Canadian bank lenders have not amended the Credit Agreement to reflect a later maturity date, or; (ii) Eagle does not repay amounts outstanding under the existing Credit Agreement by refinancing with a new credit agreement (which may or may not include some of the existing syndicate of Canadian bank lenders), the Credit Agreement instructs that Eagle shall repay all outstanding principal and accrued interest amounts on May 27, 2017. Since Eagle currently estimates the present value of its proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) discounted at 10%, and using mid-July 2016 forward pricing assumptions to be in excess of its current $CA 70 million borrowing base by approximately 50%, Eagle expects that it is likely that either a refinancing or an amendment to extend the maturity date will occur prior to May 27, 2017. However, there can be no assurance that such refinancing will be successful. Cash flow forecasts show sufficient cash flows from operating activities to fund operations and service the amounts currently drawn, or expected to be drawn, on the Credit Agreement. In addition, and with consideration given to the present value of its proved developed producing reserves, as well as forecast cash flows from operating activities, Eagle has concluded

through discussions with various lenders that it is likely a refinancing could occur prior to the May 27, 2017 maturity date of the Credit Agreement.

Working Capital

At June 30, 2016, Eagle had a $64.4 million working capital deficit which excludes the $2.3 million risk management asset and the $2.3 million risk management liability, but includes the $66.9 million drawn on its $CA 70 million Credit Agreement described above. The amount drawn on the Credit Agreement is included in current liabilities because the May 27, 2017 Credit Agreement maturity date falls within twelve months of the second quarter balance sheet date of June 30, 2016 thereby requiring the amount drawn on the Credit Agreement to be reclassified as a “current” instead of a “non-current” liability.

Shareholders’ Equity, Dividends and Outstanding Share Data

From January 21, 2015 to January 20, 2016, Eagle had a normal course issuer bid (“**NCIB**”) in place. Under the NCIB, Eagle could purchase for cancellation up to 2,852,829 of its units, representing ten percent of its public float as of January 16, 2015. No purchases were made under the NCIB during 2016 and the NCIB was not renewed.

Eagle pays monthly dividends to shareholders at the discretion of the Board of Directors. Effective with the dividend declared for February 29, 2016, Eagle reduced its monthly dividend to $0.01 (one cent) per share from $0.015 (one and one half cents) per share, concurrent with announcing a 51% reduction in its 2016 capital program, both of which were in response to the significant and ongoing uncertainty and volatility in commodity prices at that time. With that reduction, Eagle’s corporate payout ratio was expected to be at or below 100%, keeping Eagle on track to conduct business within cash flow. However, the May 31, 2016 Credit Agreement amendment contained a requirement of Eagle’s lenders to further reduce its dividend to not exceed half a cent per month. Eagle reduced its monthly dividend to $0.005 (one half cent) per share ($0.06 annualized) beginning with the June 2016 dividend payable on July 22, 2016. In addition, the Credit Agreement contains a covenant that restricts Eagle from paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing or would result from such dividend, or if the cash dividend payments made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined in the Credit Agreement). At June 30, 2016, there were no covenant violations under or in connection with the Credit Agreement. In addition, it is likely that either a refinancing or an amendment to extend the maturity date will occur prior to the May 27, 2017 maturity date of the Credit Agreement. There can be no assurance, however, that such refinancing or extension will be successful, and dividends would be curtailed in those circumstances.

Cash dividends paid in the second quarter (for the March 31, 2016, April 29, 2016 and May 31, 2016 record dates) totalled approximately $1.3 million. Cash dividends paid for the six months ended June 30, 2016 totalled approximately $2.9 million.

On January 27, 2016, Eagle Energy Trust closed the Arrangement involving the acquisition, by way of share exchange, of Maple Leaf and conversion of the Trust into a corporate structure. Pursuant to the Arrangement, the Trust’s units were exchanged indirectly for Eagle common shares on a one-for-one basis, which resulted in 34,863,364 common shares being issued. In addition, Eagle acquired all of the issued and outstanding common shares of Maple Leaf on the basis of 0.0947 of a common share of Eagle being issued for each outstanding common share of Maple Leaf, resulting in 7,141,815 common shares of Eagle being issued. In addition, Eagle issued 446,444 common shares to terminate the Maple Leaf management agreement. After the Arrangement, former unitholders of Eagle Energy Trust held approximately 82% of the 42,451,623 outstanding common shares of Eagle.

At June 30, 2016, Eagle had issued 42,451,623 shares (December 31, 2015 – 34,863,634; June 30, 2015 – 34,961,364).

As at the date of this MD&A, 42,451,623 shares are issued and outstanding, and 902,515 RSUs and 383,478 PSUs have been issued.

Commitments

Eagle has committed to future payments as follows:

$000's	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases [1] [2] [3]	3,781	1,003	1,573	1,205
Total contractual obligations	**3,781**	**1,003**	**1,573**	**1,205**

Notes:

(1) On January 1, 2013, Eagle entered into a lease for office space in Calgary which originally had an approximate 61 month term from January 8, 2013 to February 7, 2018. In May 2016, the lease was amended to extend the lease term and decrease the annual basic rental charge. The new term began August 1, 2016 and terminates February 28, 2023. Total minimum lease payments during the term of the lease from June 30, 2016 through February 28, 2023 approximate $3.1 million and include a leasehold improvement allowance up to $0.2 million, with 80 months and approximately $3.0 million remaining at June 30, 2016.

(2) On August 20, 2015, concurrent with the closing of an acquisition, Eagle assumed an office lease obligation. The term of the lease is from March 1, 2011 to February 28, 2017. Total minimum lease payments during the term of the lease approximate $1.4 million, with 8 months and approximately $0.16 million remaining at June 30, 2016.

(3) Eagle entered into a lease in Houston on April 1, 2011, which originally had an approximate 30 month term from April 7, 2011 through September 30, 2013. On November 21, 2012, the lease was extended for an additional 63 month period from October 1, 2013 to December 31, 2017 and the premise space was expanded to incorporate additional square footage. Total minimum lease payments during the term of the lease include a leasehold improvement allowance of $US 0.1 million and approximate $US 0.9 million, with 18 months and approximately $US 0.4 million remaining at June 30, 2016. In $CA the remaining future minimum lease payments approximate $0.6 million translated at the exchange rate in effect at the balance sheet date of $US 1 equal to $CA 1.29.

Non-IFRS Financial Measures

Statements throughout this MD&A make reference to the terms "funds flow from operations", "field netback", "basic payout ratio" and "corporate payout ratio", which are non-IFRS financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. Management believes that these terms provide useful information to investors and management since such measures reflect the quality of production, the level of profitability, the ability to drive growth through the funding of future capital expenditures and the sustainability of dividends to shareholders.

"Funds flow from operations" is calculated before changes in non-cash working capital and abandonment expenditures. Management considers funds flow from operations to be a key measure as it demonstrates Eagle's ability to generate the cash necessary to pay dividends, repay debt, fund decommissioning liabilities and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow from operations provides a useful measure of Eagle's ability to generate cash that is not subject to short-term movements in non-cash operating working capital. Refer to the table below for a reconciliation of funds flow from operations to earnings (loss).

"**Field netback**" is calculated by subtracting royalties and operating costs from revenues.

"Basic payout ratio" is calculated by dividing shareholder dividends by funds flow from operations.

"Corporate payout ratio" is calculated by dividing capital expenditures (excluding acquisition capital) plus shareholder dividends by funds flow from operations.

The following table reconciles the non-IFRS financial measures "funds flow from operations" and "field netback" to "loss", the most directly comparable measure in Eagle's Interim Financial Statements:

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Loss	**(9,288)**	(6,541)	**(21,001)**	(1,064)
Add back (deduct) items not involving cash:				
Administrative expenses - non-cash portion	-	-	325	-
Share-based compensation – non-cash portion	106	934	(72)	754
Unrealized risk management loss	8,166	7,984	10,900	12,167
Depreciation, depletion and amortization	5,611	6,033	11,028	12,203
Finance expense - non-cash portion	264	232	510	433
Foreign exchange loss (gain) on intercompany loan	289	1,890	5,625	(6,234)
Funds flow from operations	**5,148**	10,532	**7,315**	18,259
Add back (deduct) items not directly related to field operations:				
Administrative expenses - cash portion	2,494	2,344	5,815	4,804
Cash settled award payments	18	56	43	113
Risk management gain - realized	(1,133)	(5,626)	(4,460)	(12,922)
Finance expense - cash portion	657	452	1,303	1,024
Realized foreign exchange loss (gain)	1	(1)	3	223
Income tax expense (recovery)	36	(44)	36	(44)
Field netback	**7,221**	7,713	**10,055**	11,457

No Change in Internal Controls over Financial Reporting and Disclosure Controls and Procedures during the Period April 1, 2016 to June 30, 2016

During the period beginning on April 1, 2016 through June 30, 2016, there was no change in Eagle's internal controls over financial reporting and disclosure controls and procedures that has materially affected, or is reasonably likely to materially affect, Eagle's internal controls over financial reporting and disclosure controls and procedures. It should be noted that Eagle's control system, no matter how well designed, can provide only reasonable but not absolute assurance of detecting, preventing and deterring errors or fraud.

Critical Accounting Estimates

The following changes have been made to Eagle's critical accounting estimates and judgments in 2016. As a result of the conversion to a corporate structure, the critical accounting estimate titled "Classification of Trust Units as Equity" described in the prior year end financial statements no longer applies after January 27, 2016. In addition, the amount of compensation expense accrued for share based compensation arrangements is subject to management's best estimate of the future share price and the future outcome of the performance conditions. Further information about Eagle's critical accounting estimates and judgments can be found in the notes to Eagle's annual audited consolidated financial statements and MD&A for the year ended December 31, 2015.

Accounting Standards and Interpretations

The accounting policies followed in these interim financial statements are consistent with those of the previous financial year (except for income tax expense for an interim period which is based on an estimated average annual effective income tax rate) and accounting policies adopted as a result of the conversion into a corporate structure.

There were no new or amended standards issued during the three and six months ended June 30, 2016 which will be applicable to Eagle in future periods.

Note about Forward-Looking Statements

Certain of the statements made and information contained in this MD&A are forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of Canadian securities laws. All statements other than statements of historic fact are forward-looking statements. Eagle cautions investors that important factors could cause Eagle's actual results to differ materially from those projected, or set out, in any forward-looking statements included in this MD&A.

In particular, and without limitation, this MD&A contains forward-looking statements pertaining to the following:

- Eagle's 2016 capital budget and specific uses;
- Eagle's expected 2016 full year average production, operating costs and field netbacks;
- Eagle's expected 2016 funds flow from operations, basic payout ratio, corporate payout ratio and debt to trailing funds flow from operations, and sensitivities of some of these metrics to production rates, foreign exchange rates and commodity prices;
- Eagle's expectation that its funds flow from operations will exceed capital expenditures for the second, third and fourth quarters of 2016 combined;
- Eagle's expectation that its year end 2016 debt will be reduced to approximately $58 million;
- anticipated crude oil, natural gas liquids and natural gas production levels and mix;
- Eagle's expectations regarding its Dixonville properties, including commencing pipeline upgrades to bring "behind-pipe" production on-stream, adding production and making improvements to the effectiveness of the waterflood, field operations, trucking and marketing;
- Eagle's expectations that its rent for the Calgary office will be lower due to an amended lease and that its overhead recoveries will increase as a result of Eagle assuming operatorship of the Dixonville properties on June 1, 2016.
- Eagle's hedging program;
- Eagle's expectations regarding dividends;
- Eagle's belief that its expected funds flow from operations and undrawn credit facility will be sufficient to fund its current and expected financial obligations; and
- Eagle's belief that its current estimate of the present value of its proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) discounted at 10% and using July 2016 forward pricing assumptions is in excess of its current borrowing base by approximately 50%, and that it is therefore likely that either a refinancing or an amendment to extend the maturity date of the Credit Agreement will occur prior to May 27, 2017.

With respect to forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things:

- future oil, natural gas liquid and natural gas prices and weighting;
- future currency exchange rates;
- future production levels;
- future recoverability of reserves;
- future dividend levels;
- future capital expenditures and the ability of Eagle to obtain financing or refinancing on acceptable terms for its capital projects and future acquisitions;
- Eagle's 2016 capital budget, which is subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations;
- not including capital required to pursue future acquisitions in the forecasted capital expenditures;
- estimates of anticipated future production, which is based on the proposed drilling program with a success rate that, in turn, is based upon historical drilling success and an evaluation of the particular wells to be drilled; and
- projected operating costs, which are based on historical information and anticipated changes in the cost of equipment and services.

Eagle's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and those in the AIF.

- volatility of oil, natural gas liquid, and natural gas prices;
- commodity supply and demand;
- fluctuations in currency exchange and interest rates;
- inherent risks and changes in costs associated in the development of petroleum properties;
- ultimate recoverability of reserves;
- timing, results and costs of drilling and production activities;
- availability of financing and capital; and

- new regulations and legislation that apply to Eagle and the operations of its subsidiaries.

Additional risks and uncertainties affecting Eagle are contained in the AIF under the heading “Risk Factors”.

As a result of these risks, actual performance and financial results in 2016 may differ materially from any projections of future performance or results expressed or implied by these forward-looking statements. Eagle’s production rates, operating costs, field netbacks, drilling program, 2016 capital budget, funds flow from operations, and dividends are subject to change in light of ongoing results, prevailing economic circumstances, obtaining regulatory approvals, obtaining financing, commodity prices and industry conditions and regulations. New factors emerge from time to time, and it is not possible for management to predict all of these factors or to assess, in advance, the impact of each such factor on Eagle’s business, or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. Although management believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date the forward-looking statements were made, there can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to Eagle and its shareholders. Eagle does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise.

Advisory Regarding Oil and Gas Equivalency Measures

This MD&A contains disclosure expressed as "boe" or "boe/d". All oil and natural gas equivalency volumes have been derived using the conversion ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil. Equivalency measures may be misleading, particularly if used in isolation. A 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 well head. In addition, given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 Mcf:1 bbl would be misleading as an indication of value.

Eagle Energy Inc.

Condensed Consolidated Interim Financial Statements
(in Canadian dollars) (unaudited)

For the three and six months ended June 30, 2016 and June 30, 2015

Eagle Energy Inc.

Condensed Consolidated Interim Balance Sheets

(Thousands of Canadian dollars) (unaudited)

	Note	**June 30, 2016**	December 31, 2015
ASSETS			
Current assets			
Cash		357	3,089
Trade and other receivables		7,006	5,207
Prepaid expenses		980	2,309
Risk management asset	4	2,275	9,162
		10,618	**19,767**
Non-current assets			
Exploration and evaluation assets	13	969	1,033
Oil and gas properties	14	182,717	186,859
Property, plant and equipment		98	168
Other intangible assets		642	745
Deferred income tax	11	-	-
		184,426	**188,805**
Total Assets		**195,044**	**208,572**
LIABILITIES			
Current liabilities			
Trade and other payables		5,638	8,647
Dividends payable		212	523
Share-based payments	8	-	227
Risk management liability	4	2,330	-
Debt	15	66,855	-
		75,035	**9,397**
Non-current liabilities			
Debt	15	-	65,618
Risk management liability	4	1,969	-
Decommissioning liability	16	30,428	26,998
		32,397	**92,616**
Total Liabilities		**107,432**	**102,013**
SHAREHOLDERS' EQUITY			
Share capital	17	320,012	315,379
Currency reserves	9	35,430	35,615
Contributed surplus	8	154	-
Deficit		(267,984)	(244,435)
Total Shareholders' Equity		**87,612**	**106,559**
Total Liabilities and Shareholders' Equity		**195,044**	**208,572**

The notes are an integral part of these condensed consolidated interim financial statements.
See note 18 "Commitments".

Eagle Energy Inc.

Condensed Consolidated Interim Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

(Thousands of Canadian dollars, except per share amounts) (unaudited)

	Note	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Revenue		16,785	16,325	28,438	30,202
Royalties		(3,636)	(3,441)	(6,190)	(7,112)
		13,149	**12,884**	**22,248**	**23,090**
Operating expenses		5,471	4,662	11,127	10,600
Transportation and marketing expenses		457	509	1,066	1,033
Administrative expenses		2,494	2,344	6,140	4,804
Depreciation, depletion and amortization		5,611	6,033	11,028	12,203
Operating income (loss)		**(884)**	**(664)**	**(7,113)**	**(5,550)**
Share-based compensation expense (recovery)	8	125	991	(29)	868
Finance expense	10	920	683	1,813	1,456
Risk management loss (gain)	4	7,033	2,358	6,440	(755)
Foreign exchange loss (gain) net	9	1	(1)	3	223
Foreign exchange loss (gain) on intercompany loan	9	289	1,890	5,625	(6,234)
Loss before taxes		**(9,252)**	**(6,585)**	**(20,965)**	**(1,108)**
Income tax expense (recovery)	11	36	(44)	36	(44)
Loss		**(9,288)**	**(6,541)**	**(21,001)**	**(1,064)**
Foreign currency translation gain (loss)		(47)	(743)	(185)	3,868
Comprehensive earnings (loss)		**(9,335)**	**(7,284)**	**(21,186)**	**2,804**
Loss per share	12				
Basic and diluted		**(0.23)**	**(0.19)**	**(0.51)**	**(0.03)**

The notes are an integral part of these condensed consolidated interim financial statements.

Eagle Energy Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Thousands of Canadian dollars) (unaudited)

	Note	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Share Capital	17		
Balance, beginning of period		315,379	317,150
Issuance of share capital due to acquisition		5,539	-
Issuance of share capital		-	67
Share issue costs		(906)	-
Cancellation of shares pursuant to NCIB		-	(892)
Balance, end of period		**320,012**	316,325
Currency Reserves			
Balance, beginning of period		35,615	29,494
Foreign currency translation gain (loss)		(185)	3,868
Balance, end of period		**35,430**	33,362
Contributed Surplus			
Balance, beginning of period		-	-
Share-based payments	8	154	-
Balance, end of period		**154**	-
Deficit			
Balance, beginning of period		(244,435)	(157,739)
Loss		(21,001)	(1,064)
Cancellation of shares pursuant to NCIB		-	642
Dividends		(2,548)	(6,283)
Balance, end of period		**(267,984)**	(164,444)

The notes are an integral part of these condensed consolidated interim financial statements.

Eagle Energy Inc.

Condensed Consolidated Interim Cash Flow Statements

(Thousands of Canadian dollars) (unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Cash flows from operating activities				
Loss	(9,288)	(6,541)	(21,001)	(1,064)
Adjustments for non-cash items:				
Depreciation, depletion and amortization	5,611	6,033	11,028	12,203
Share-based compensation – non-cash portion	107	934	(72)	754
Unrealized risk management loss	8,166	7,984	10,900	12,167
Foreign exchange loss (gain) on intercompany loan	289	1,890	5,625	(6,234)
Finance expense	263	232	510	433
Administrative expenses - non-cash portion	-	-	325	-
	5,148	10,532	7,315	18,259
Changes in working capital:				
Trade and other receivables	(1,872)	(1,199)	(1,905)	(2,348)
Prepaid expenses	620	156	1,302	311
Trade and other payables	1,369	258	(1,467)	(4,156)
Working capital acquired	-	-	143	-
	117	(785)	(1,927)	(6,193)
Net cash generated by operating activities	**5,265**	**9,747**	**5,388**	**12,066**
Cash flows from investing activities				
Exploration and evaluation	-	-	(5)	-
Oil and gas properties	(1,596)	(6,384)	(3,829)	(9,443)
Property, plant and equipment	-	(4)	-	(5)
Change in non-cash working capital	(677)	(2,595)	(1,263)	(60)
Net cash used in investing activities	**(2,273)**	**(8,983)**	**(5,097)**	**(9,508)**
Cash flows from financing activities				
Debt	(802)	(7,650)	1,293	(7,200)
Proceeds from issuance of shares	-	-	-	67
Purchase of shares for cancellation	-	(191)	-	(250)
Share issue costs	(16)	-	(906)	-
Cash dividends to shareholders	(1,062)	(3,130)	(2,548)	(6,283)
Deferred financing charges	(147)	(189)	(182)	(365)
Change in non-cash working capital	(212)	-	(310)	-
Net cash used in financing activities	**(2,239)**	**(11,160)**	**(2,653)**	**(14,031)**
Net increase (decrease) in cash and cash equivalents	**753**	**(10,396)**	**(2,362)**	**(11,473)**
Effects of exchange rates on cash and cash equivalents	(396)	(76)	(370)	520
Cash at beginning of the period	-	10,646	3,089	11,127
Cash at end of the period	**357**	**174**	**357**	**174**

The notes are an integral part of these condensed consolidated interim financial statements.

Eagle Energy Inc.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

For the three months and six months ended June 30, 2016 and June 30, 2015

(in Canadian dollars)

1. Reporting Entity / Structure of Eagle Energy Inc.

On January 27, 2016, Eagle Energy Trust (the "**Trust**") closed the plan of arrangement (the "**Arrangement**") involving the acquisition by way of share exchange, of Maple Leaf Royalties Corp. ("**Maple Leaf**") and conversion of the Trust into a corporate structure. The resulting public entity, named Eagle Energy Inc. ("**Eagle**"), is listed on the Toronto Stock Exchange with its common shares trading under the symbol "EGL". Pursuant to the Arrangement, the Trust's units were exchanged indirectly for Eagle common shares on a one-for-one basis, which resulted in 34,863,364 common shares of Eagle being issued. In addition, Eagle acquired all of the issued and outstanding common shares of Maple Leaf on the basis of 0.0947 of a common share of Eagle being issued for each outstanding common share of Maple Leaf, which resulted in 7,141,815 common shares of Eagle being issued. Refer to note 6 "Business Combination". After the Arrangement, former unitholders of the Trust held approximately 82% of the 42,451,623 outstanding common shares of Eagle. Concurrently, with the approval of the Arrangement, the unitholders of the Trust and the shareholders of Maple Leaf approved the adoption by Eagle of a new long-term equity compensation incentive plan for Eagle's directors, officers, employees and consultants. Refer to note 8 "Share-based Payments". Holders of options to purchase Trust units had their option agreements adjusted to entitle them to purchase shares of Eagle on identical terms and conditions. All outstanding options to purchase shares of Maple Leaf were terminated.

Throughout these notes to the condensed consolidated interim financial statements, Eagle and its subsidiaries are referred to collectively as the "Company" or "Eagle" for purposes of convenience.

Liquidity

Refer to note 15 "Debt". At June 30, 2016, the Company had a $64.4 million working capital deficit, which excludes the $2.3 million risk management asset and the $2.3 million risk management liability, but includes the $66.9 million drawn on its $CA 70 million credit agreement (the "**Credit Agreement**") with a syndicate of Canadian banks. The amount drawn on the Credit Agreement is included in current liabilities because the May 27, 2017 maturity date of the Credit Agreement falls within 12 months of the June 30, 2016 balance sheet date. This Credit Agreement maturity date represents the date (the "commitment termination date") through which the syndicate of Canadian bank lenders are obligated under the terms and conditions set forth in the Credit Agreement to make advances to Eagle up to the authorized borrowing base amount in effect from time to time. The Credit Agreement continues to be subject to semi-annual (November and May) redeterminations of the borrowing base by the lenders. In the event that, prior to May 27, 2017: (i) Eagle and its syndicate of Canadian bank lenders have not amended the Credit Agreement to reflect a later maturity date, or; (ii) Eagle does not repay amounts outstanding under the existing Credit Agreement by refinancing with a new credit agreement (which may or may not include some of the existing syndicate of Canadian bank lenders), the Credit Agreement instructs that Eagle shall repay all outstanding principal and accrued interest amounts on May 27, 2017. Since Eagle currently estimates the present value of its proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) discounted at 10% and using mid-July 2016 forward pricing assumptions to be in excess of its current $CA 70 million authorized borrowing base by approximately 50%, Eagle anticipates that it is likely that either a refinancing or an amendment to extend the maturity date will occur prior to May 27, 2017. However, there is no assurance that such refinancing will be successful. Eagle actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecast and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to refinance existing first-lien debt, issue subordinated debt or issue additional common shares. Cash flow forecasts show sufficient cash flows from operating activities to fund operations and service the amounts currently drawn, or expected to be drawn, on the Credit Agreement. In addition, Eagle has concluded, through discussions with various lenders, it is likely that a refinancing could occur prior to the May 27, 2017 maturity date of the Credit Agreement since Eagle's current estimate of the present value of its proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) discounted at 10% and using mid-July 2016 forward pricing assumptions exceeds Eagle's $CA 70 million borrowing base by approximately 50%.

The next semi-annual borrowing base redetermination is scheduled to be finalized no later than November 30, 2016 and will be conducted based on the lenders' price forecasts then in effect. Current and forward crude oil prices have

recovered from their lows in early February 2016 (which also corresponded to the time when lenders perform year end borrowing base reviews) and Eagle anticipates that a rebound in oil price levels will be incorporated into lenders' borrowing base redeterminations affording Eagle increased liquidity and flexibility.

Eagle intends to pay dividends to shareholders from a portion of its available cash and use the remainder of its available cash to reinvest to fund growth through acquisitions and capital expenditures. Cash flow is provided from properties owned directly by Eagle and indirectly by its wholly-owned subsidiary, Eagle Hydrocarbons Inc. On May 31, 2016, a new covenant was added to Eagle's Credit Agreement that restricts Eagle from paying dividends in an amount that exceeds $0.005 (half a cent) per share per month, beginning with the dividend declared in July 2016 (which is payable in August 2016) and ending with any dividend that may be declared in June 2017 (which would be payable in July 2017). In addition, the Credit Agreement contains a covenant that restricts Eagle from paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing or would result from such dividend, or if the cash dividend payments made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined in the Credit Agreement). At June 30, 2016, there were no covenant violations under or in connection with the Credit Agreement. In addition, it is likely that either a refinancing or an amendment to extend the maturity date will occur prior to the May 27, 2017 maturity date of the Credit Agreement. There can be no assurance, however, that such refinancing or extension will be successful, and dividends would be curtailed in those circumstances.

The address of Eagle is: Suite 2710, 500-4th Avenue SW, Calgary, AB T2P 2V6.

2.1. Basis of Preparation

The foreign exchange rate at June 30, 2016 was $US 1.00 equal to $CA 1.29 (December 31, 2015 - $US 1.00 equal to $CA 1.38), and the average foreign exchange rate for the six months ended June 30, 2016 was $US 1.00 equal to $CA 1.1.33 (for the six months ended June 30, 2015 - $US 1.00 equal to $CA 1.24).

Basis of Accounting

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors made on August 4, 2016.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and have been prepared following the same accounting policies as the annual audited IFRS consolidated financial statements for the year ended December 31, 2015, except for income tax expense for an interim period (which is based on an estimated average annual effective income tax rate) and accounting policies adopted as a result of the conversion of the Trust into a corporate structure (refer to note 2.2 "Changes in Accounting Policy and Disclosures"). The condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB. When reading prior financial statements, references to "unit" or "units" should now be read to refer to "share" or "shares" as a result of the conversion of the Trust into a corporate structure on January 27, 2016.

2.2. Changes in Accounting Policy and Disclosures

Other than the accounting policies below, which have been adopted as a result of the conversion of the Trust into a corporate structure, the accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year.

Share-based Compensation

The Company's share-based compensation program consists of: (i) a new long-term equity compensation incentive plan which was implemented following the closing of the Arrangement; (ii) a share option plan which was previously in place (and has been adjusted to entitle holders of options to purchase shares of Eagle on identical terms and conditions); and, (iii) restricted unit rights agreements which were previously in place (and have been adjusted to entitle holders to identical rights, terms and conditions).

(*i) New long-term equity compensation incentive plan:* Under this equity-settled plan, the Company has issued time-based restricted share units ("**RSUs**") and performance-based performance share units ("**PSUs**") to directors officers and employees of the Company. The PSUs have been granted with a performance multiplier. This multiplier, ranging from zero to two, will be applied at vesting and is dependent on the performance of the Company relative to

pre-defined corporate performance measures for a particular period at the Board of Director's discretion. The RSUs and PSUs are accounted for using the fair-value method. With respect to the RSUs, the fair value of the RSUs is estimated at the date of grant using the trading price of the underlying shares of Eagle on the relevant valuation date. With respect to the PSUs, since the performance conditions attached to the PSUs are not specifically measurable, the PSUs that have been issued are not considered granted in accordance with the definition of grant in IFRS 2. As a result, the fair value of the PSUs are determined at each reporting period and at the date of settlement based on either the closing trading price for the shares of Eagle on the TSX multiplied by an estimated payout multiplier for the number of PSUs expected to vest (in the case of valuation at each reporting period, and with the Black-Scholes option pricing model yielding a similar fair value) or based on the actual Fair Market Value (defined as the volume weighted average trading price for the shares of Eagle on the TSX for the five days on which the shares traded preceding the date of reference) and actual payout multiplier applied to the number of PSUs vested. As a result of revaluing the PSUs each reporting period, fluctuations in compensation expense may occur due to the re-measurement of the value of the shares as well as changes in estimating the outcome of the performance conditions (i.e. the performance multiplier). The fair value thus established is recognized as compensation expense on a graded basis over the settlement period of the RSUs or PSUs with an equivalent increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of RSUs or PSUs settled. All RSUs and PSUs are equity settled.

(ii) Share option plan that was previously in place: Under this plan, formerly referred to as a unit option plan, the Trust, as the predecessor reporting issuer to Eagle, had issued options to directors, officers and employees of the Company. These options are accounted for using the fair-value method which estimates the value of the options using the Black-Scholes option pricing model. A forfeiture rate is estimated on the valuation. Consistent with their treatment prior to the conversion of the Trust into a corporate structure, they are treated similar to a cash settled stock-based compensation arrangement, with the associated liability being fair-valued at the end of each reporting period and the corresponding change to fair value being recognized in the income statement. Effective June 9, 2016, all holders of options outstanding under this plan agreed to a voluntary cancellation of options and the plan was terminated.

(iii) Existing restricted unit rights agreements: Under these cash settled agreements, the Trust had issued restricted unit rights ("**RURs**") to directors, officers and employees of the Company. The RURs are accounted for using the fair-value method which estimates their value using the Black-Scholes model. The RURs are a cash settled compensation arrangement and, consistent with their treatment prior to the conversion of the Trust into a corporate structure, the associated liability is fair-valued at the end of each reporting period and the corresponding change to fair value is recognized in the income statement. When a cash payment is made, the liability is reduced with a resulting reduction in cash provided by operating activities. The Company does not intend to issue further RURs under this plan.

Taxation

Prior to the Arrangement (refer to note 1 "Reporting Entity / Structure of Eagle Energy Inc."), business was conducted through a trust structure with the Trust having indirect Canadian and U.S. subsidiaries. The Trust was considered a SIFT Trust as described in the annual audited consolidated financial statements for the year ended December 31, 2015. Pursuant to the Arrangement, Eagle converted into a corporate structure with all Canadian oil and gas assets held in Eagle. Eagle will be taxed in the same manner as other Canadian oil and gas corporations, including being subject to Canadian federal income tax to the extent that taxable income cannot be reduced by claiming permitted deductions (such as wages and other employment expenses, interest payments, various Canadian resource expenditures and certain capital expenditures).

Also pursuant to the Arrangement, Eagle Hydrocarbons Inc., the U.S. operating subsidiary, became an indirect subsidiary of Eagle. There is no change to the taxation of the U.S. indirect subsidiary from how it was described in the annual audited consolidated financial statements for the year December 31, 2015.

As a corporate structure, payments, if any, made by Eagle to shareholders will be in the form of dividends instead of distributions to unitholders of a trust.

Accounting for Acquisitions of Interests in Joint Operations

Amendments to IFRS 11 *Joint Arrangements* clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply all of the principles of business combinations accounting in IFRS 3 *Business Combinations* in the event of an increase or decrease in ownership share in an existing joint operation or an investment in a new joint operation.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments have been issued to address an inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and those in International Accounting Standard (IAS) 28 *Investments in Associates and Joint Ventures* regarding the sale or contribution of assets between an investor and its associate or joint venture. The amendment clarified that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business.

Disclosure Initiative

Amendments have been issued to IAS 1 *Presentation of Financial Statements* to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation which have not had a material impact on the Company's disclosure.

Accounting Pronouncements not yet Adopted

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers.* It replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is assessing the impact of this standard.

Financial Instruments: Recognition and Measurement

In July 2014, IFRS 9 *Financial Instruments* was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or about January 1, 2018, with earlier application permitted. The Company is assessing the impact of this standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* which replaces the existing leasing standard (IAS 17 *Leases*) and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The adoption of this standard could impact the Company as it enters into leases which would currently be classified as operating leases. The Company is assessing the impact of this standard.

3. Critical Accounting Estimates and Judgments

Other than the critical accounting estimates and judgments below, which have been removed or adopted as a result of the conversion of the Trust into a corporate structure, the critical accounting estimates and judgments followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year. Further information about Eagle's critical accounting estimates and judgments can be found in the notes to Eagle's annual audited consolidated financial statements and MD&A for the year ended December 31, 2015.

Classification of Trust Units as Equity

This no longer applies after January 27, 2016.

Share- Based Compensation

The amount of compensation expense accrued for share-based compensation arrangements is subject to Management's best estimate. For both the RSUs and PSUs, (refer to note 8 "Share-based Payments"), there is uncertainty as to what the share price will be when the RSUs and PSUs are ultimately settled. Since the performance conditions attached to the PSUs are not specifically measureable, the PSUs that have been issued are not considered granted in accordance with the definition of grant in IFRS 2. As a result, the fair value of the PSUs are determined at each reporting period based on the closing trading price for the shares of Eagle on the TSX

multiplied by an estimated payout multiplier for the number of units expected to vest. As a result of revaluing the PSUs each reporting period, fluctuations in compensation expense may occur due to the re-measurement of the value of the shares as well as changes in estimating the outcome of the performance conditions (i.e. the performance multiplier). The fair value is based on several assumptions and therefore is subject to measurement uncertainty.

4. Financial Risk Management and Financial Instruments

Eagle's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- liquidity risk;
- credit risk; and
- market risk.

For a discussion of liquidity risk, refer to note 1 "Reporting Entity / Structure of Eagle Energy Inc." within the section titled "Liquidity". This note presents information about changes in Eagle's exposure to credit and market risk since the year ended December 31, 2015.

Market Risk

Summary of Unrealized Risk Management Positions

As at June 30, 2016, Eagle has entered into the following financial contracts to mitigate the effects of fluctuating prices on a portion of its production:

	Volume	*Measure*	*Beginning*	*Term*	*Floor $US*	*Ceiling $US*	*Current fair value $CA 000's*	*Non-current fair value $CA 000's*
Oil Fixed Price								
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	65.00	65.00	1,785	-
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	53.32	53.32	400	-
Gas Fixed Price								
CGPR ALT daily spot (ii)	1,500	GJs/day	Jan-16	Dec-16	$CA 2.83	$CA 2.83	90	-
Commodity - Unrealized risk management asset							**2,275**	-
Oil Fixed Price								
NYMEX (i)	300	bbls/d	Mar-16	Jul-16	36.00	36.00	(151)	-
NYMEX (i)	200	bbls/d	Mar-16	Jul-16	37.25	37.25	(90)	-
NYMEX (i)	400	bbls/d	Aug-16	Dec-16	40.05	40.05	(803)	-
NYMEX (i)	300	bbls/d	Aug-16	Dec-16	40.27	40.27	(589)	-
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	45.10	45.10	(321)	(961)
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	44.75	44.75	(336)	(1,008)
Differential								
Oil Edmonton SW (iii)	1,000	bbls/d	Dec-15	Dec-16	3.65	3.65	(40)	-
Commodity - Unrealized risk management liability							**(2,330)**	**(1,969)**
Commodity - Unrealized risk management position - net							**(55)**	**(1,969)**

(i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).
(ii) Represents a fixed price financial swap transaction with a set forward sale price (Alberta Daily Spot Price Averages).
(iii) Represents a fixed price differential between Edmonton SW Blended oil and WTI.

Summary of Unrealized Risk Management Positions

As at December 31, 2015, Eagle had entered into the following financial contracts to mitigate the effects of fluctuating prices on a portion of its production:

	Volume	Measure	Beginning	Term	Floor $US	Ceiling $US	Current fair value $CA 000's	Non-current fair value $CA 000's
Oil Fixed Price								
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	65.00	65.00	5,940	-
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	53.32	53.32	2,995	-
Gas Fixed Price								
CGPR ALT daily spot (ii)	1,500	GJs/day	Jan-16	Dec-16	$CA 2.83	$CA 2.83	223	-
Differential								
Oil Edmonton SW (iii)	1,000	bbls/d	Dec-15	Dec-16	3.65	3.65	4	-
Unrealized risk management asset							**9,162**	**-**

(i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).
(ii) Represents a fixed price financial swap transaction with a set forward sale price (Alberta Daily Spot Price Averages).
(iii) Represents a fixed price differential between Edmonton SW Blended oil and WTI.

Earnings Impact of Realized and Unrealized Risk Management Loss (Gain)

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
$000's	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)
Net effect - risk management	**(1,133)**	**8,166**	**7,033**	(5,626)	7,984	2,358

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
$000's	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)
Net effect - risk management	**(4,460)**	**10,900**	**6,440**	(12,922)	12,167	(755)

Determination of Fair Values

The net fair value of Eagle's unrealized risk management positions at June 30, 2016, is a liability of $2.0 million (December 31, 2015 - $9.2 million asset). The carrying value of Eagle's risk management position has been calculated using both quoted prices in active markets and observable market-corroborated data consistent with a Level 2 valuation.

The fair values of cash, trade and other receivables, trade and other payables and dividends payable approximate their carrying amount due to the short-term maturity of those instruments.

Debt is a financial liability with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest rate method. The carrying value of Eagle's debt is equal to the fair value and the determination of the fair value of the debt is consistent with a Level 2 valuation.

5. Subsidiaries and Consolidated Entities

The following table summarizes the structure of Eagle as at June 30, 2016. All subsidiaries of Eagle are directly or indirectly wholly-owned by Eagle.

Subsidiary	Country of Formation	Nature of Business
Eagle Energy Holdings Inc.	Canada	Alberta Corporation
Eagle Hydrocarbons Inc.	United States	Delaware Corporation
Eagle Energy Trust	Canada	Alberta Trust

The results of the above subsidiaries have been included in the consolidated financial statements of Eagle Energy Inc. in accordance with IFRS 10 - *Consolidation*. All of the entities have December 31 year ends.

6. Business Combination

Pursuant to the Arrangement (refer to note 1 “Reporting Entity / Structure of Eagle Energy Inc.”), Eagle acquired all of the issued and outstanding common shares of Maple Leaf on the basis of 0.0947 of a common share of Eagle being issued for each outstanding common share of Maple Leaf, which resulted in 7,141,815 common shares of Eagle being issued. Based on the January 27, 2016 closing price of $0.73 per share, the total value of the common shares issued to acquire Maple Leaf was $5,214,000. At the time of closing, Maple Leaf had no debt and no working capital deficiency. In addition, Eagle issued 446,444 common shares (valued at $325,904 based on the January 27, 2016 closing price of $0.73 per share) to terminate the Maple Leaf management agreement. This amount was recorded in administrative expenses.

From the period January 27, 2016 through to June 30, 2016, the Maple Leaf assets acquired have contributed revenues of $1.1 million and operating income of $0.9 million. Had the acquisition closed on January 1, 2016, estimated contributed revenues would have been $1.2 million and estimated contributed operating income would have been $1.0 million to June 30, 2016.

Net assets acquired ($000’s)	
Oil and gas assets	5,144
Decommissioning liability	(73)
Working capital	143
Net asset value	5,214
Share capital	5,214
Consideration paid	5,214

7. Segmented Information

Eagle’s reportable segments are determined based on Eagle’s operations and geographic locations as follows:

- Canadian operations - includes oil and gas exploration, development and the sale of hydrocarbons and related activities in Canada.
- United States operations - includes oil and gas exploration, development and the sale of hydrocarbons and related activities in the continental United States.
- Corporate - Eagle has a corporate head office in Calgary, Alberta and a corporate office in Houston, Texas. Costs incurred in the corporate segment relate to hedging and other expenses incurred in overall financing and management of Eagle.

Details of Eagle's reportable segments for the three months ended June 30, 2016 are as follows:

	Three Months Ended June 30, 2016			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Capital expenditures	**55**	**1,541**	**-**	**1,596**
Working interest sales and royalty income	6,341	10,444	-	16,785
Royalties	(732)	(2,904)	-	(3,636)
Revenue net of royalties	5,609	7,540	-	13,149
Operating expenses	2,596	2,875	-	5,471
Transportation and marketing expenses	438	19	-	457
Field Netback	2,575	4,646	-	7,221
Administrative expenses - cash portion	-	-	2,494	2,494
Cash settled award payments	-	-	18	18
Risk management gain - realized	-	-	(1,133)	(1,133)
Finance expense - cash portion	-	-	657	657
Income tax recovery	-	-	36	36
Realized foreign exchange loss	-	-	1	1
Funds flow from operations	**2,575**	**4,646**	**(2,073)**	**5,148**

Reconciliation of funds flow from operations to earnings (loss) for each reportable segment is as follows:

	Three Months Ended June 30, 2016			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Funds flow from operations	**2,575**	**4,646**	**(2,073)**	**5,148**
Administrative expense - non-cash portion	-	-	-	-
Share-based compensation - non-cash portion	-	-	107	107
Risk management loss - unrealized	-	-	8,166	8,166
Depreciation, depletion and amortization	1,638	3,973	-	5,611
Foreign exchange loss on intercompany loan	-	-	289	289
Finance expense - non-cash portion	-	-	263	263
Earnings (loss)	**937**	**673**	**(10,898)**	**(9,288)**

Details of Eagle's reportable segments for the six months ended June 30, 2016 are as follows:

	Six Months Ended June 30, 2016			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Capital expenditures	**103**	**3,731**	**-**	**3,834**
Working interest sales and royalty income	11,020	17,418	-	28,438
Royalties	(1,306)	(4,884)	-	(6,190)
Revenue net of royalties	9,714	12,534	-	22,248
Operating expenses	5,083	6,044	-	11,127
Transportation and marketing expenses	1,032	34	-	1,066
Field Netback	3,599	6,456	-	10,055
Administrative expenses - cash portion	-	-	5,815	5,815
Cash settled award payments	-	-	43	43
Risk management gain - realized	-	-	(4,460)	(4,460)
Finance expense - cash portion	-	-	1,303	1,303
Income tax recovery	-	-	36	36
Realized foreign exchange loss	-	-	3	3
Funds flow from operations	**3,599**	**6,456**	**(2,740)**	**7,315**

Reconciliation of funds flow from operations to earnings (loss) for each reportable segment is as follows:

	Six Months Ended June 30, 2016			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Funds flow from operations	**3,599**	**6,456**	**(2,740)**	**7,315**
Administrative expense - non-cash portion	-	-	325	325
Share-based compensation - non-cash portion	-	-	(73)	(73)
Risk management loss - unrealized	-	-	10,900	10,900
Depreciation, depletion and amortization	3,220	7,808	-	11,028
Foreign exchange loss on intercompany loan	-	-	5,625	5,625
Finance expense - non-cash portion	-	-	511	511
Earnings (loss)	**379**	**(1,352)**	**(20,028)**	**(21,001)**

Total assets of Eagle's reportable segments at June 30, 2016 were as follows:

	At June 30, 2016			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Total Assets	**109,945**	**82,824**	**2,275**	**195,044**

Total assets of Eagle's reportable segments at December 31, 2015 were as follows:

	At December 31, 2015			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Total Assets	**110,657**	**88,753**	**9,162**	**208,572**

Details of Eagle's reportable segments at June 30, 2015 are as follows:

	Three Months Ended June 30, 2015			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Capital expenditures	**(982)**	**7,366**	**4**	**6,388**
Working interest sales and royalty income	4,956	11,369	-	16,325
Royalties	(254)	(3,187)	-	(3,441)
Revenue net of royalties	4,702	8,182	-	12,884
Operating expenses	1,922	2,740	-	4,662
Transportation and marketing expenses	478	31	-	509
Field Netback	2,302	5,411	-	7,713
Administrative expenses	-	-	2,344	2,344
Cash settled award payments	-	-	56	56
Risk management gain - realized	-	-	(5,626)	(5,627)
Finance expense (cash portion)	-	-	452	453
Income tax recovery	-	-	(44)	(44)
Realized foreign exchange loss	-	-	(1)	(1)
Funds flow from operations	**2,302**	**5,411**	**2,819**	**10,532**

Reconciliation of funds flow from operations to earnings (loss) for each reportable segment is as follows:

	Three Months Ended June 30, 2015			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Funds flow from operations	2,302	5,411	2,819	10,532
Share-based compensation - non-cash portion	-	-	934	934
Risk management loss - unrealized	-	-	7,984	7,984
Depreciation, depletion and amortization	1,169	4,864	-	6,033
Foreign exchange gain on intercompany loan	-	-	1,890	1,890
Finance expense (non-cash portion)	-	-	232	232
Earnings (loss)	**1,133**	**547**	**(8,221)**	**(6,541)**

	Six Months Ended June 30, 2015			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Capital expenditures	**(133)**	**9,576**	**5**	**9,448**
Working interest sales and royalty income	9,231	20,971	-	30,202
Royalties	(1,123)	(5,989)	-	(7,112)
Revenue net of royalties	8,108	14,982	-	23,090
Operating expenses	4,004	6,596	-	10,600
Transportation and marketing expenses	971	62	-	1,033
Field Netback	3,133	8,324	-	11,457
Administrative expenses	-	-	4,804	4,804
Cash settled award payments	-	-	114	114
Risk management gain - realized	-	-	(12,922)	(12,922)
Finance expense (cash portion)	-	-	1,023	1,023
Income tax recovery			(44)	(44)
Realized foreign exchange loss	-	-	223	223
Funds flow from operations	**3,133**	**8,324**	**6,802**	**18,259**

Reconciliation of funds flow from operations to earnings (loss) for each reportable segment is as follows:

	Six Months Ended June 30, 2015			
$000's	**Canada**	**United States**	**Corporate**	**Total**
Funds flow from operations	**3,133**	**8,324**	**6,802**	**18,259**
Share-based compensation - non-cash portion	-	-	754	754
Risk management loss - unrealized	-	-	12,167	12,167
Depreciation, depletion and amortization	2,453	9,750	-	12,203
Foreign exchange gain on intercompany loan	-	-	(6,234)	(6,234)
Finance expense (non-cash portion)	-	-	433	433
Earnings (loss)	**680**	**(1,426)**	**(318)**	**(1,064)**

8. Share-based Payments

The Company implemented a new long-term equity compensation incentive plan (the "**2016 Equity Incentive Plan**") following the closing of the Arrangement. Under the 2016 Equity Incentive Plan, RSUs and PSUs have been awarded. In addition, following the closing of the Arrangement, a share option plan that was previously in place (the "**2010 Option Plan**") was adjusted to entitle holders of options to purchase shares of Eagle on identical terms and conditions. Lastly, cash-settled RUR agreements which were previously in place were adjusted to reference shares, but otherwise entitle holders to identical rights, terms and conditions. Effective June 9, 2016, all holders of options outstanding under the 2010 Option Plan agreed to a voluntary cancellation of options and the 2010 Option Plan was terminated.

All holders of cash settled Unit Rights ("**URs**") that were previously granted to United States-based officers, employees and certain consultants of Eagle Hydrocarbons Inc. agreed to a voluntary cancellation of the URs effective February 23, 2016 and the UR Plan was terminated on March 31, 2016.

The following table reconciles share-based compensation expense (recovery):

$000's	Note	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
RSUs and PSUs	8(a)	106	-	154	-
Share Options	8(b)	-	803	(183)	831
RURs	8(c)	19	114	38	120
URs		-	74	(38)	(83)
Total share-based compensation expense (recovery)		**125**	991	**(29)**	868

The following table reconciles the share-based payments liability:

$000's	Note	**June 30, 2016**	December 31, 2015
Share Options	8(a)	-	183
RURs	8(b)	-	6
URs	8(c)	-	38
Total share-based payments liability		**-**	**227**

The following table shows the continuity of contributed surplus:

	June 30, 2016	December 31, 2015
Balance, beginning of period	-	-
Share-based compensation	154	-
RSU / PSU settlement	-	-
Balance, end of period	**154**	-

Note 8(a)

2016 Equity Incentive Plan

Following the Arrangement, Eagle implemented a new equity compensation plan, the 2016 Equity Incentive Plan, dated effective January 27, 2016. It was approved by the shareholders at Eagle's special shareholders' meeting held on January 25, 2016.

The aggregate number of shares that may be reserved for granting awards at any time under (i) the 2016 Equity Incentive Plan, and (ii) all of Eagle's other security-based compensation arrangements involving the issuance of shares from treasury, must not exceed 10% of the total issued and outstanding shares.

Awards in the form of RSUs, Options, Share Appreciation Rights and Deferred Share Units may be granted to the employees, officers, consultants and directors of Eagle and its affiliates (except that Deferred Share Units cannot be granted to consultants). The Board may fix vesting criteria based on time and/or on performance criteria that relate to the performance of Eagle (in the latter case, those awards are referred to as PSUs). PSUs have been granted with a performance multiplier. This multiplier, ranging from zero to two, will be applied at vesting and is dependent on the performance of Eagle relative to pre-defined corporate performance measures set by the Board of Directors for the associated period. Due to the PSU performance conditions not being specifically measureable, the PSUs that are issued are not considered granted in accordance with the definition of grant in IFRS 2. RSUs and PSUs represent a right to receive, on the vesting date, one share or a payment of cash equal to the Fair Market Value of one share (or a combination thereof). The Fair Market Value of the vested RSUs and PSUs will be determined as of the vesting date and will be settled in shares or cash (or a combination thereof) after deduction of any applicable withholding taxes. "Fair Market Value" is determined using the volume weighted average trading price for the shares of Eagle on the TSX for the five days on which the shares traded preceding the date of reference. Participants receive dividend-equivalent rights on their RSUs and PSUs. If an award can be settled in shares, the Board may elect to settle the award using either authorized and unissued shares or outstanding shares acquired on the open market through the

facilities of an independent broker (or a combination thereof). It is the intention of the Board to settle these awards with equity; thus these awards are treated as equity-settled awards.

As of June 30, 2016, there were 902,515 RSUs and 383,478 PSUs outstanding as described below.

Vesting is determined by the Board. The RSUs and PSUs that have been granted will vest as follows:

(i) As to one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2016;

(ii) As to one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2017; and

(iii) As to the remaining one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2018.

With respect to the RSUs, the fair value of the RSUs is determined at the date of grant and is the volume weighted average trading price for the shares of Eagle on the TSX for the five days that the shares traded preceding the grant date (with the Black-Scholes option pricing model yielding a similar fair value). The resulting compensation expense is amortized over the three year vesting period (with the offsetting entry to contributed surplus) using graded vesting and an estimated forfeiture rate of 5%. Upon settlement, amounts are transferred from contributed surplus to share capital. The estimated weighted average fair value for RSUs at the measurement date (the grant date) is $0.63 per RSU granted for the six months ended June 30, 2016.

The following schedule shows the continuity of equity settled RSUs issued:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
Balance, beginning of period	-	-	-
Issued	861,350	-	-
Dividend equivalent rights	43,931	-	-
Forfeited	(2,766)	-	-
Balance, end of period	902,515	-	-
Number of RSUs vested	-	-	-

With respect to the PSUs, since the performance conditions attached to the PSUs are not specifically measureable, the PSUs that have been issued are not considered granted in accordance with the definition of grant in IFRS 2. As a result, the fair value of the PSUs are determined at each reporting period and at the date of settlement based on either the closing trading price for the shares of Eagle on the TSX multipled by an estimated payout multiplier of one for the number of units expected to vest (in the case of valuation at each reporting period, and with the Black-Scholes option pricing model yielding a similar fair value) or based on the actual Fair Market Value and actual payout multiplier applied to the number of units vested. As a result of revaluing the PSUs each reporting period, fluctuations in compensation expense may occur due to the re-measurement of the value of the shares as well as changes in estimating the outcome of the performance conditions (i.e. the performance multiplier). The resulting compensation expense at each reporting period is amortized over the remaining portion of the three year vesting period (with the offsetting entry to contributed surplus) using graded vesting and an estimated forfeiture rate of 5%. Upon settlement, amounts are transferred from contributed surplus to share capital. The estimated weighted average fair value for PSUs at the measurement date (June 30, 2016) is $0.71 per PSU granted for the six months ended June 30, 2016.

The following schedule shows the continuity of equity settled PSUs issued:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
Balance, beginning of period	-	-	-
Issued	365,150	-	-
Dividend equivalent rights	18,635	-	-
Forfeited	(307)	-	-
Balance, end of period	383,478	-	-
Number of PSUs vested	-	-	-

Note 8(b)

2010 Option Plan

Pursuant to the Arrangement, the unit option plan of the Trust that was adopted in 2010 became a stock option plan of Eagle Energy Inc., with such amendments thereto as was necessary to reflect the status of Eagle Energy Inc. as an Alberta corporation. In addition, each option previously granted under this plan was adjusted, without constituting a novation or disposition of such option, to provide that each such option entitled, without any further action on the part of an optionholder, the optionholder to purchase an equivalent number of shares in lieu of units. Effective June 9, 2016, all holders of options outstanding under the 2010 Option Plan agreed to a voluntary cancellation of their options and the 2010 Option Plan was terminated.

The number and weighted average exercise prices of options are as follows:

	Six Months Ended June 30, 2016		Year Ended December 31, 2015		Six Months Ended June 30, 2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	3,159,418	5.54	3,431,750	5.94	3,431,750	5.94
Forfeited	(3,159,418)	5.48	(272,332)	6.28	(190,000)	2.57
Exercised	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Outstanding at end of period	**-**	**-**	3,159,418	5.54	3,241,750	5.73
Exercisable at end of period	**-**	**-**	2,601,427	5.62	2,241,761	5.70

The fair value of the options was estimated at nil at March 31, 2016 using the Black-Scholes valuation model and the same inputs as December 31, 2015 (other than using the March 31, 2016 closing share price). Therefore, no further balance sheet entry was required during the second quarter of 2016 to reflect the voluntary cancellation. The fair value of the options for the comparative periods of December 31, 2015 and June 30, 2015 was $0.07 and $0.66 per option, respectively.

Note 8(c)

Cash settled RURs

Following the Arrangement, an amendment was made to the RURs agreement which entitled the holders of the RURs to identical rights, terms and conditions, including entitling the holder to receive cash payments equal to the dividends payable on one share as well as capital appreciation of shares.

For the six months ended June 30, 2016, $43,516 has been paid to the RUR holders (year ended December 31, 2015 - $227,685, six months ended June 30, 2015 – $113,835).

The following schedule shows the continuity of cash settled RURs issued:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
Balance, beginning of period	632,500	632,500	632,500
Issued	-	-	-
Forfeited	-	-	-
Balance, end of period	632,500	632,500	632,500
Number of RURs vested	632,500	632,500	632,500

The June 30, 2016 fair value of the RURs was estimated using the Black-Scholes valuation model and using the same inputs as December 31, 2015 (other than a 5-day volume weighted average share price assumption of $0.71 per share as compared to $1.13 per share at December 31, 2015). Based on these assumptions, the fair value at the June 30, 2016 balance sheet was nil per RUR (December 31, 2015 - $0.01 per RUR, June 30, 2015 - $0.19 per RUR).

Note 8(d)

UR Plan

In 2011, the Trust adopted a cash-settled unit rights incentive plan for the U.S.-based directors, officers, employees and eligible consultants of the Trust's U.S. operating subsidiary. Each UR entitled the holder to receive cash payments equal to the distributions paid on one unit as well as capital appreciation (increases in the fair market value) of the units less a capital deficiency (decreases in the fair market value) of the units. Distributions did not give rise to a payout amount as long as there was a capital deficiency. The URs were terminated on February 23, 2016 and the UR Plan was terminated on March 31, 2016. For the six months ended June 30, 2016, $nil has been paid to the UR holders (year ended December 31, 2015 - $nil, six months ended June 30, 2015 - $nil).

The following schedule shows the continuity of cash settled URs:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
Balance, beginning of period	653,500	937,000	937,000
Issued	-	-	-
Forfeited	(653,500)	(283,500)	(283,500)
Balance, end of period	-	653,500	653,500
Number of URs vested	-	524,505	387,172

Since the URs were terminated following the Arrangement, the June 30, 2016 fair value of the URs was nil per UR (December 31, 2015 - $0.06 per UR, June 30, 2015 - $0.48 per UR).

9. Foreign Exchange

Eagle has recognized the following in the earnings or loss on account of foreign currency fluctuations:

$000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Net loss arising on settlement of foreign currency transactions arising out of operating activities	1	(1)	3	223
Foreign exchange loss (gain) on intercompany loan	289	1,890	5,625	(6,234)
Foreign exchange loss (gain) net	**290**	1,889	**5,628**	(6,011)

Eagle has recognized the following in shareholders' equity due to the translation of its U.S. subsidiary, which has a U.S. dollar functional currency, to the presentation currency of Eagle, being the Canadian dollar, for financial statement presentation:

$000's	**June 30, 2016**	December 31, 2015
Beginning balance	35,615	29,494
Foreign currency translation gain (loss)	(185)	6,121
Ending balance	**35,430**	35,615

10. Finance Expense

$ 000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Interest expense on debt	602	354	1,158	842
Standby and bank fees	55	99	145	181
Accretion of decommissioning provision	116	60	247	129
Amortization of deferred financing costs	147	170	263	304
Finance expense	**920**	**683**	**1,813**	**1,456**

11. Taxation

Reconciliation of Effective Tax Rate

The income tax provision differs from the amount that would have been expected if the reported (loss) earnings had been subject only to the statutory Canadian income tax rate of 27% (2015 - 26%) as follows:

$ 000's	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Loss before taxes	(9,252)	(6,585)	(20,965)	(1,108)
Expected tax rate (%)	27	26	27	26
Expected income tax provision	(2,498)	(1,712)	(5,660)	(288)
Decrease (Increase) resulting from:				
Non-deductible items – permanent differences				
Administrative expenses of Eagle	-	8	-	146
Share-based compensation	34	213	(8)	196
Foreign exchange loss (gain), net	493	1,483	5,128	(3,217)
Foreign tax rate differentials	(748)	(495)	(1,185)	(909)
Change in statutory rate	-	(27)	-	(27)
Changes in temporary differences for which no amounts are recognized	2,727	1,066	1,636	5,215
Items deductible at the subsidiary level				
Interest on internal debt of subsidiary	-	(563)	-	(1,170)
Other	28	(17)	125	10
Total income tax expense (recovery)[(i)]	**36**	**(44)**	**36**	**(44)**

(i) Current tax expense relates to U.S. franchise tax.

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following items:

$000's	**June 30, 2016**	December 31, 2015
Deferred tax assets - capital assets:		
United States	9,906	8,330
Canada	15,381	16,210
	25,287	25,040
Deferred tax assets - non-capital losses:		
United States	42,990	42,447
Canada	17,110	16,298
	60,100	58,745
Deferred tax asset	85,387	83,785
Unrecognized deferred tax asset	(85,387)	(83,785)
Net deferred tax asset	-	-

The U.S. and Canadian tax losses can be utilized for 20 years and start to expire in 2030 and 2035 respectively. Deferred tax assets have not been recognized in respect of these tax losses as there is not sufficient certainty regarding the future utilization.

12. Loss per Share

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Loss attributable to shareholders – basic and diluted ($000's)	(9,288)	(6,541)	(21,001)	(1,064)
Weighted average number of shares outstanding – basic and diluted (000's)	**40,200**	35,000	**41,326**	35,016
Loss per share				
Basic and diluted	**(0.23)**	**(0.19)**	**(0.51)**	**(0.03)**

13. Exploration and Evaluation Assets

$000's	**June 30, 2016**	December 31, 2015
Beginning balance	1,033	-
Additions	5	1,033
Transferred to oil and gas properties	-	-
Expense	-	-
Foreign exchange adjustment	(69)	-
Ending balance	**969**	1,033

14. Oil and Gas Properties

$000's	Developed oiland gas assets	Production facilities and equipment	Impairment	Total
Cost				
At December 31, 2015	473,496	11,046	-	484,542
Additions	7,102	72	-	7,174
Acquisition, net - refer to note 6	5,144	-	-	5,144
Effects of foreign exchange	(21,395)	(659)	-	(22,054)
At June 30, 2016	**464,347**	10,459	**-**	**474,806**
Accumulated depreciation, depletion and amortization				
At December 31, 2015	(145,212)	(6,518)	(145,953)	(297,683)
Depreciation, depletion and amortization	(18,174)	(635)	8,117	(10,692)
Effects of foreign exchange	9,290	426	6,570	16,286
At June 30, 2016	**(154,096)**	**(6,727)**	**(131,266)**	**(292,089)**
Net book value				
At December 31, 2015	328,284	4,528	(145,953)	186,859
Net change for the period	(18,033)	(796)	14,687	(4,142)
At June 30, 2016	**310,251**	**3,732**	**(131,266)**	**182,717**

Eagle does not capitalize general and administrative costs. Future development costs related to proved plus probable reserves of $44.6 million (December 31, 2015 - $40.3 million) were included in the depletion calculation.

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired or require a reversal of previously recorded impairments. At June 30, 2016, the Company assessed it's properties at a CGU level and determined that given the increase in oil price and the reduced net book value of the oil and gas properties, no impairment indicators were present and therefore an impairment test was not performed.

15. Debt

Eagle has a Credit Agreement with a syndicate of Canadian bank lenders that is subject to semi-annual redeterminations of the borrowing base level. It is used for general corporate purposes, including working capital, capital expenditures and future acquisitions. Amounts drawn under the Credit Agreement are available in either U.S. or Canadian dollars and may be used for activities in either the U.S. or Canada.

At June 30, 2016, there were no covenant violations under or in connection with the Credit Agreement.

On May 31, 2016, Eagle finalized its semi-annual borrowing base redetermination which resulted in: (i) amendments being made to its Credit Agreement; (ii) a borrowing base level being set at $CA 70 million and; (iii) a maturity date of May 27, 2017 remaining unchanged. Security granted under the Credit Agreement remained unchanged and is by way of a first priority security interest on substantially all of the property and assets of Eagle Energy Inc. and Eagle Hydrocarbons Inc. (each a borrower under the Credit Agreement). A summary of the significant amendments made to the Credit Agreement effective May 31, 2016 is set forth below and a redacted version of the entire Credit Agreement can be found under Eagle's issuer profile on SEDAR at www.sedar.com.

Prior to the May 31, 2016 redetermination, the most recent semi-annual borrowing base redetermination had closed October 7, 2015 and had resulted in a borrowing base level being set at $US 80 million. In the period between these two redeterminations, sustained weakness in global commodity prices resulted in downward pressure on the commodity price decks used by lenders when determining borrowing base levels.

The next semi-annual borrowing base redetermination is scheduled to be finalized no later than November 30, 2016 and will be conducted based on the lenders' price forecasts then in effect. Current and forward crude oil prices have

recovered from their lows in early February 2016 (which also corresponded to the time when lenders perform year end borrowing base reviews) and Eagle anticipates that a rebound in oil price levels will be incorporated into lenders' borrowing base redeterminations affording Eagle increased liquidity and flexibility. In the event, however, that a borrowing base redetermination results in a reduction of the borrowing base below the aggregate amounts outstanding under the Credit Agreement (such that a "borrowing base deficiency" exists) the Credit Agreement instructs that Eagle shall, after receipt of written notice from the lenders regarding such deficiency, take any of the following actions and notify the lenders of its election of the following actions within ten (10) days after receipt of the deficiency notice from the lenders: (1) Repay the borrowing base deficiency within 10 days; (2) pledge additional acceptable collateral such that the borrowing base deficiency is cured within 30 days; (3) deliver an election in writing to the lender to agree to repay the borrowing base deficiency within (30) days. A failure by Eagle to take such actions to remedy any borrowing base deficiency within the time periods specified above would constitute an event of default.

Summary of Significant Amendments to Covenants, Terms and Conditions of Credit Facility

Under the Credit Agreement, Eagle is required to satisfy certain customary affirmative and negative covenants, including financial covenants. The following is a summary of the significant amendments made to the Credit Agreement's covenants, terms and conditions effective May 31, 2016.

- The borrowing base was amended to $CA 70 million (previously $US 80 million).
- The covenant that restricts Eagle from paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing or would result from such dividend, or if the cash dividend payments made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined by the Credit Agreement, and which was $20.6 million at June 30, 2016) for the trailing four quarters, remained unchanged.
- A new covenant was added that restricts Eagle from paying dividends in an amount that exceeds $0.005 (half a cent) per share per month, beginning with the dividend declared in July 2016 (which is payable in August 2016) and ending with any dividend that may be declared in June 2017 (which would be payable in July 2017).
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a maximum debt to four quarter trailing EBITDAX ratio of 3.00 to 1.00, was amended to proactively manage the effect that the precipitous drop in oil prices will have on this trailing covenant calculation. Beginning with the fiscal quarter ending June 30, 2016, and for five quarters through to and including the fiscal quarter ending June 30, 2017, the maximum ratios are amended as follows: for the fiscal quarter ending June 30, 2016 - 4.00 to 1.00; for the fiscal quarter ending September 30, 2016 - 5.00 to 1.00; for each fiscal quarter ending December 31, 2016 through to the fiscal quarter ending June 30, 2017 – 6.00 to 1.00; and for each fiscal quarter ending after June 30, 2017, 3.00 to 1.00. The definition of EBITDAX remains unchanged from that disclosed in Eagle's 2015 annual financial statements.
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a minimum current ratio of not less than 1.00 to 1.00 remained unchanged. The current ratio excludes the current portion of the long term debt.
- The covenant requiring Eagle to maintain, as at the end of each fiscal quarter, a minimum four quarter trailing interest expense coverage ratio of 3.00 to 1.00 was deleted.
- The maturity date of the Credit Agreement remained unchanged at May 27, 2017. This date represents the date (the "commitment termination date") through which the syndicate of Canadian bank lenders are obligated under the terms and conditions set forth in the Credit Agreement to make advances to Eagle up to the authorized borrowing base amount in effect from time to time. The Credit Agreement continues to be subject to semi-annual (November and May) redeterminations of the borrowing base by the lenders. In the event that, prior to May 27, 2017: (i) Eagle and its syndicate of Canadian bank lenders have not amended the Credit Agreement to reflect a later maturity date, or; (ii) Eagle does not repay amounts outstanding under the existing Credit Agreement by refinancing with a new credit agreement (which may or may not include some of the existing syndicate of Canadian bank lenders), the Credit Agreement instructs that Eagle shall repay all outstanding principal and accrued interest amounts on May 27, 2017. Since Eagle currently estimates the present value of its proved developed producing reserves (the reserves category primarily used by lenders when determining borrowing base levels) discounted at 10% and using mid-July 2016 forward pricing assumptions to be in excess of its current $CA 70 million borrowing base by approximately 50%, it is likely that either a refinancing or an amendment to extend the maturity date will occur prior to May 27, 2017. However, there can be no assurance that such refinancing will be successful.

At June 30, 2016, details of Eagle's credit facility are as follows:

$000's	$CA
Authorized (revolving)	70,000
Less:	
Amounts drawn	66,855
Available	3,145

At December 31, 2015, details of Eagle's credit facility are as follows:

$000's	$US	$CA
Authorized (revolving)	80,000	110,720
Less:		
Amounts drawn	47,412	65,618
Available	32,588	45,102

The exchange rate in effect at December 31, 2015 was $US 1.00 equal to $CA 1.38. The amount drawn on the credit facility at December 31, 2015 was denominated in Canadian funds.

16. Decommissioning Liability

$000's	**Six Months Ended June 30,2016**	Year Ended December 31, 2015
Beginning balance	26,998	10,347
Acquisition	73	3,187
Additions	28	251
Change in estimate due to acquired properties	180	9,011
Other changes in estimates	3,147	3,274
Accretion (unwinding of discount)	247	399
Effects of exchange rate	(245)	529
Ending balance	30,428	26,998

The decommissioning provision reflects the present value of internal estimates of future decommissioning costs of Eagle's net ownership position in oil and gas wells and related facilities at the relevant balance sheet date determined using local pricing conditions and requirements. The liability would be incurred over the life of the assets, with the majority after the year 2050. The timing of payments related to the decommissioning provision is uncertain and is dependent on various items which are not always within Management's control.

The decommissioning provision was estimated using existing technology, at current prices (adjusted for a 2.0% annual inflation rate), and discounted using a risk-free discount rate at June 30, 2016, of 1.06% for the Salt Flat properties (December 31, 2015 – 1.39%), 1.72% for the Hardeman properties (December 31, 2015 – 2.15%) 1.72 % for the Dixonville properties (December 31, 2015 – 2.15%), 1.06% for the Twining properties (December 31, 2015 – 1.39%) and 1.72% for the NW Alberta properties that were acquired January 27, 2016 pursuant to the Arrangement.

17. Share Capital

Shares Outstanding

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Number of shares (000's)	**Amount ($000's)**	Number of shares (000's)	Amount ($000's)
Beginning balance	34,863	315,379	35,017	317,150
Issuance of shares pursuant to the Business Combination (Note 6)	7,588	5,539	-	-
Issuance of shares pursuant to the DRIP	-	-	36	67
Cancellation of shares pursuant to the NCIB	-	-	(190)	(1,833)
Share issuance costs	-	(906)	-	(5)
Ending balance	**42,451**	**320,012**	34,863	315,379

On January 27, 2016, as part of the Arrangement, Eagle issued 7.6 million shares valued at $0.73 per share for a total value of $5.5 million (see note 6 "Business Combination"). Costs associated with issuing shares pursuant to the Arrangement were approximately $906,000.

From January 21, 2015 to January 20, 2016, Eagle had a normal course issuer bid ("**NCIB**") in place. Under the NCIB, Eagle could purchase for cancellation up to 2,852,829 of its units, representing ten percent of its public float as of January 16, 2015. For the 2016 period ended January 20, 2016, no purchases were made under the NCIB. The NCIB was not renewed upon its expiry in January 2016.

For the six months ended June 30, 2016, Eagle incurred $nil (December 31, 2015 - $37,099) of unit issuance costs in conjunction with the Distribution Reinvestment Plan ("DRIP").

18. Commitments

Operating Lease Commitment – Head Office Lease in Calgary, Alberta

On January 1, 2013, Eagle entered into a lease for office space in Calgary which originally had an approximate 61 month term from January 8, 2013 to February 7, 2018. In May 2016 Eagle entered into an amendment to its lease agreement which extends the lease term to February 28, 2023 and decreases the annual basic rental charge. The new lease is effective August 1, 2016. Total minimum lease payments during the term of the lease approximate $3.1 million and include a leasehold improvement allowance up to $0.2 million, with 80 months and approximately $3.0 million remaining at June 30, 2016.

Operating Lease Commitment - Sublease in Calgary, Alberta

On August 20, 2015, concurrent with the closing of an acquisition, Eagle assumed an office lease obligation. The term of the lease is from March 1, 2011 to February 28, 2017. Total minimum lease payments during the term of the lease approximate $1.4 million, with 8 months and approximately $0.16 million remaining at June 30, 2016.

Operating Lease Commitment – Office Lease in Houston, Texas

Eagle entered into a lease in Houston on April 1, 2011, which originally had an approximate 30 month term from April 7, 2011 through September 30, 2013. On November 21, 2012, the lease was extended for an additional 63 month period from October 1, 2013 to December 31, 2017 and the premise space was expanded to incorporate additional square footage. Total minimum lease payments during the term of the lease include a leasehold improvement allowance of $US 0.1 million and approximate $US 0.9 million, with 18 months and approximately $US 0.4 million remaining at June 30, 2016. In $CA the remaining future minimum lease payments approximate $0.6 million translated at the exchange rate in effect at the balance sheet date of $US 1 equal to $CA 1.29.

Corporate Information

Board of Directors

David M. Fitzpatrick
Chairman of the Board

Bruce K. Gibson (1)
Director

Warren D. Steckley (2)(3)
Director

Richard W. Clark
Director and Chief Executive Officer

(1) Audit Committee Chair
(2) Reserves & Governance Committee Chair
(3) Compensation Committee Chair

TSX:EGL

Officers

Richard W. Clark
Chief Executive Officer

J. Wayne Wisniewski
President and Chief Operating Officer

Kelly A. Tomyn
Chief Financial Officer

M. Scott Lovett
Executive Vice President, Business Development

Jo-Anne M. Bund
General Counsel and Corporate Secretary

Auditors

PricewaterhouseCoopers LLP

Trustee and Transfer Agent

Computershare Trust Company of Canada

Engineering Consultants

Netherland Sewell & Associates, Inc.
McDaniel & Associates Consultants Ltd.

Bankers

Bank of Nova Scotia
Canadian Imperial Bank of Commerce
National Bank of Canada

Legal Counsel

Bennett Jones LLP

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