Q2 2016

Management's Discussion and Analysis

Chinook Energy Inc. | 1000, 517 – 10th Avenue S.W. Calgary, Alberta T2R 0A8 TSX:CKE

The following Management's Discussion and Analysis ("MD&A") reports on the financial condition and the results of operations of Chinook Energy Inc. ("CEI") and its subsidiaries, both wholly and partially owned, (collectively, "our", "we" or "us") for the three and six months ended June 30, 2016 and 2015 and should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes as at and for the three and six months ended June 30, 2016 and 2015 (the "Interim Financial Statements") and our audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2015 and 2014 (the "Annual Financial Statements"). This MD&A is based on information available as at August 10, 2016.

The term "second quarter" or "year to date" or similar terms are used throughout this document and refer to the three or six months ended June 30, 2016, respectively. The term "current reporting periods" or similar terms are used throughout this document and refer to both the three and six months ended June 30, 2016, in this respective order. The term "same period(s) of 2015" or similar terms are used throughout this document and refer to either the three or (and) six months ended June 30, 2016 and 2015, depending on the 2016 period(s) under discussion.

This MD&A contains measures which are not prescribed by IFRS ("non-GAAP") and, therefore, may not be comparable with the calculations of similar measures presented by other companies. Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements". Readers should read the advisories under the headings "Non-GAAP Measures" and "Forward-Looking Statements" included at the end of this MD&A.

Additional Information

Additional information on our company, including our Annual Information Form for the year ended December 31, 2015 ("AIF"), can be found on SEDAR at www.sedar.com or at www.chinookenergyinc.com.

Basis of Presentation

The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. They include the accounts of our direct subsidiaries, all of which are wholly owned with the exception of Tournament Exploration Ltd. ("Tournament"). Our accounts and operating results include those of Tournament since June 10, 2016, the date we acquired 70% of the common shares in this company (see "Strategic Transaction" and "Acquisition of Tournament" for further details). We adjust for the minority interest share in the financial accounts of Tournament initially on acquisition through the non-controlling interest on the consolidated statements of financial position and then subsequently through the same account on the consolidated statements of operations and comprehensive income (loss). In this MD&A we do not adjust for the non-controlling interest in Tournament's production volumes.

All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except per unit amounts or as otherwise noted.

Introduction to Chinook

We are a Calgary-based public petroleum and natural gas production company focused on development and exploration opportunities in western Canada. Our operations combine multi-zone conventional production and resource plays in our Western Canadian Sedimentary Basin producing properties and undeveloped land predominantly located in northwestern Alberta and northeastern British Columbia (“BC”). We are currently focused on the development of Montney liquids rich natural gas on our Birley/Umbach, BC properties, and are well positioned to return focus to our Montney and Dunvegan light crude oil in Grande Prairie, Alberta. With improved commodity prices, these assets provide the opportunity for substantial growth and long-term profitable development.

We are incorporated under the laws of the Province of Alberta, Canada. Our common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol “CKE”. Our head office and principal address is Suite 1000, 517 – 10th Avenue S.W., Calgary, Alberta, Canada T2R 0A8.

Strategic Transaction

On June 10, 2016 (the “Closing Date”), we completed the divestiture of the majority of our Alberta oil and natural gas assets, excluding our Montney assets, and the associated decommissioning obligations to Tournament, a private Calgary-based petroleum and natural gas production company, for 70% of the issued and outstanding common shares in Tournament pursuant to an asset purchase and sale agreement dated and effective May 1, 2016 (the “PSA”). In connection with the PSA, we also made a payment of $0.9 million to Tournament (collectively, the "Subject Assets"). As we maintained control over the Subject Assets transferred to Tournament after this acquisition, we continued to measure the Subject Assets at their carrying amounts immediately after the acquisition. Since this was essentially a non-cash transaction and because Tournament’s common shares are not publically traded, we determined the fair value of 70% of Tournament’s common shares at $23.5 million through an evaluation of the fair value of Tournament’s net assets.

All of the common shares of Tournament we received are expected to be distributed to our shareholders and we anticipate holding a special meeting of our shareholders before the end of 2016, to approve the proposed share distribution. The date for determining the shareholders of record who will be entitled to the distribution will be confirmed at a later date. The share distribution will be subject to, among other things, shareholder approval at the meeting.

Our management and Board of Directors continuously reviews options available to maximize shareholder value. As part of this review, we determined that consolidating the Subject Assets within Tournament would allow two companies to focus on a concentrated grouping of properties and would result in us being well positioned for a review of strategic alternatives. After the distribution of the Tournament shares to our shareholders, we can focus on the emerging Montney assets at Birley/Umbach, British Columbia and at Gold Creek and Knopcik, Alberta. Through the proposed share distribution, our shareholders are expected to benefit from the direct ownership of Tournament shares and the continued participation in the growth and future value creation of our existing shares. Based on these and other factors, our Board of Directors unanimously approved the Tournament transaction and commencement of a formal review of strategic alternatives.

Financial and Operating Highlights

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
OPERATIONS				
Production [1]				
Crude oil (bbl/d)	**769**	1,284	**793**	1,384
Natural gas liquids (boe/d)	**604**	604	**669**	643
Natural gas (mcf/d)	**22,776**	25,290	**23,995**	29,128
Average daily production (boe/d)	**5,169**	6,103	**5,461**	6,881
Sales Prices				
Average oil price ($/bbl)	**$ 50.59**	$ 62.90	**$ 42.76**	$ 55.50
Average natural gas liquids price ($/boe)	**$ 25.78**	$ 41.06	**$ 26.81**	$ 38.64
Average natural gas price ($/mcf)	**$ 1.35**	$ 2.50	**$ 1.39**	$ 2.59
Netback [2]				
Average commodity pricing ($/boe)	**$ 16.50**	$ 27.67	**$ 15.61**	$ 25.72
Royalties ($/boe)	**$ (0.44)**	$ (0.78)	**$ (0.73)**	$ (1.49)
Net production expenses ($/boe) [2]	**$ (14.75)**	$ (18.36)	**$ (14.95)**	$ (17.63)
G&A expense ($/boe)	**$ (4.40)**	$ (3.70)	**$ (3.98)**	$ (3.87)
Netback ($/boe) [2]	**$ (3.09)**	$ 4.83	**$ (4.05)**	$ 2.73
Wells Drilled (net)				
Total natural gas wells drilled (net)	**-**	-	**-**	2.75
FINANCIAL ($ thousands, except per share amounts)				
Petroleum & natural gas revenues, net of royalties	**$ 7,550**	$ 14,934	**$ 14,794**	$ 30,174
(Outflow) funds from operations [2]	**$ (1,721)**	$ 2,995	**$ (4,611)**	$ 4,218
Per share - basic & diluted ($/share)	**$ (0.01)**	$ 0.01	**$ (0.02)**	$ 0.02
Net (loss) income	**$ (12,520)**	$ (5,822)	**$ (25,295)**	$ 2,366
Per share - basic and diluted ($/share)	**$ (0.06)**	$ (0.03)	**$ (0.12)**	$ 0.01
Capital expenditures	**$ 1,347**	$ 4,921	**$ 4,373**	$ 27,014
Net surplus [2]	**$ (6,207)**	$ (46,705)	**$ (6,207)**	$ (46,705)
Total assets	**$ 366,586**	$ 414,280	**$ 366,586**	$ 414,280
Common Shares (thousands)				
Weighted average during period				
- basic	**215,350**	215,089	**215,350**	215,087
- diluted	**215,350**	215,089	**215,350**	215,121
Outstanding at period end	**215,350**	215,236	**215,350**	215,236

(1) Throughout this MD&A our production is presented in either barrels of oil ("bbl"), thousands of cubic feet ("mcf") or barrels of oil equivalent ("boe"); production per day is presented as bbl/d, mcf/d, and boe/d, respectively; commodity prices or revenues and expense per sales are presented as $/bbl, $/mcf, and $/boe, respectively. Production volumes and sales volumes are equal and are used interchangeably throughout this MD&A.

(2) Non-GAAP measures which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

Acquisition of Tournament

On the Closing Date, we completed the acquisition of 70% of Tournament's issued and outstanding common shares, pursuant to the PSA dated and effective May 1, 2016. In consideration for 70% of the issued and outstanding common shares, we transferred the Subject Assets to Tournament.

Concurrent with our contribution of the Subject Assets to Tournament, WOGH Limited Partnership ("WOGH") contributed producing and undeveloped properties in similar areas net of associated decommissioning obligations and cash to acquire 10% of Tournament's issued and outstanding common shares pursuant to the PSA. WOGH is a partnership principally owned by Alberta Investment Management Corporation, a related party to us. As the issuance of Tournament's common shares to us and WOGH was evaluated on the fair value of contributed net assets of each transacting party relative to the total fair value, we estimated the fair value of Tournament's net assets to already include those concurrently contributed by WOGH.

Fair Value of Tournament's Net Assets

Since Tournament is a private company and the fair value of this company's common shares was not available from transparent market transactions, we evaluated the fair value of its net assets as at the Closing Date as follows:

Development & production assets: this fair value was approximated using an internally prepared reserve evaluation. This evaluation uses future net revenues anticipated to be produced from Tournament's proved plus probable reserves, using a discount rate range, depending on the category of reserves, from 10% to 20%. The measure of future net revenues includes an estimate of decommissioning costs for proved undeveloped and probable well additions.

Exploration & evaluation assets: this fair value was approximated using recent market sales transactions of similar undeveloped lands in the immediate surrounding areas.

Decommissioning obligations: this fair value was determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of proved developed wells and infrastructure and then present valued using a market discount rate.

Debt: was fair valued at the outstanding principal amount.

Other financial instruments: the carrying values of other financial instruments approximate their fair values.

Non-controlling interest: the above fair value measures were used to calculate the Closing Date fair value of the 30% non-controlling interest in Tournament reported in the account non-controlling interest as included on the consolidated statements of financial position.

Consideration

As we maintained control over the Subject Assets transferred to Tournament after this acquisition, we will continue to measure the Subject Assets at their carrying amounts immediately after the acquisition. This resulted in the Subject Assets' carrying value at the Closing Date being used to determine the 30% non-controlling interest. An evaluation of the fair value of the D&P assets' component of the Subject Assets revealed that the fair value less costs to sell was less than the value-in-use. As a result, we adjusted for the non-controlling interest portion of this loss through an adjustment to equity of $3.5 million.

Business Combination

A summary of the preliminary business combination is as follows:

	June 10, 2016
Estimated fair value of net assets acquired:	
Working capital	$ 2,081
Development and production assets	51,200
Exploration and evaluation assets	2,090
Bank debt	(17,793)
Provisions	(3,977)
Non-controlling interest	(10,080)
	23,521
Estimated consideration:	
Non-controlling interest in the carrying value of the Subject Assets	27,054
Equity loss	(3,533)
	$ 23,521

Petroleum and Natural Gas Production Volumes

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Crude oil (bbl/d)	**769**	1,284	**793**	1,384
Natural gas liquids (boe/d)	**604**	604	**669**	643
Natural gas (mcf/d)	**22,776**	25,290	**23,995**	29,128
Total (boe/d)	**5,169**	6,103	**5,461**	6,881

Total Production Volumes

During mid-February 2016, we brought on-stream an additional three (2.75 net) wells at our Birley/Umbach area on the commissioning of our facility expansion. Currently we have production from five wells (4.25 net) in this area and have the capacity to add the volumes from a sixth well (0.75 net). Our production volumes during the current reporting periods from our Birley/Umbach properties were 1,841 boe/d and 1,743 boe/d. Our production volumes at Birley/Umbach were constrained by a third party plant restriction and temporary shut-ins due to depressed Station 2 pricing. In addition, since June 10, 2016, Tournament's properties, excluding the Subject Assets, added an additional 2,000 boe/d of production.

Despite increased volumes at our Birley/Umbach area, the acquired Tournament production and other well reactivations, production volumes for the current reporting periods decreased by 934 boe/d and 1,420 boe/d compared to the same periods of 2015. We responded to continued depressed Station 2 pricing and lower AECO pricing in the second quarter by temporarily shutting-in production volumes which were not tied to firm processing or transportation commitments. Third party plant shut-ins at Whitecourt and Sexsmith 4-8 also lowered our non-operated production volumes. Approximately 2,550 boe/d of production was shut-in at the end of the second quarter.

Also contributing to the decreases in the current reporting periods' production volumes, compared to the same periods of 2015, was natural declines and last year's disposition of the predominantly crude oil Rainbow property in northeastern Alberta with associated production of 183 boe/d. During the current reporting periods, we also sold portions of our crude oil Enchant property in southcentral Alberta and Gold Creek properties in northwestern Alberta with combined associated production of 90 boe/d at the time of their sales.

Natural Gas and Natural Gas Liquids Production ("NGL") Volumes

Natural gas production for the current reporting periods decreased compared to the same periods of 2015. These decreases resulted from last year's shut-ins of relatively high operating cost properties in addition to recent voluntary shut-ins in reaction to low natural gas pricing. These recent shut-ins included our Birley, Martin Creek and Black Conroy areas in northeastern BC. Also contributing to this decrease were natural production declines. Partially offsetting these decreases was higher natural gas production and its associated liquids from our recent Birley/Umbach area development program.

Crude Oil Production Volumes

Our crude oil production volumes for the current reporting periods decreased by 515 bbl/d and 591 bbl/d compared to the same periods of 2015. These decreases were a consequence of the production associated with pipeline service restrictions in the Grande Prairie area and natural production declines. We also had crude oil production associated with the disposed Rainbow and Enchant properties.

Petroleum and Natural Gas Revenues and Realized Pricing

	Three months ended June 30		Six months ended June 30	
($ thousands, except per unit amounts)	**2016**	2015	**2016**	2015
Oil sales	**$ 3,538**	$ 7,348	**$ 6,171**	$ 13,901
$/bbl	**50.59**	62.90	**42.76**	55.50
Natural gas liquids sales	**$ 1,417**	$ 2,257	**$ 3,263**	$ 4,495
$/boe	**25.78**	41.06	**26.81**	38.64
Natural gas sales	**$ 2,803**	$ 5,762	**$ 6,085**	$ 13,639
$/mcf	**1.35**	2.50	**1.39**	2.59
Petroleum & natural gas revenue	**$ 7,758**	$ 15,367	**$ 15,519**	$ 32,035
$/boe	**16.50**	27.67	**15.61**	25.72

Our petroleum and natural gas revenues of $7.8 million and $15.5 million during the current reporting periods significantly decreased compared to the same periods of 2015. These decreases were caused by both lower realized commodity pricing and decreases in sales volumes. The decreases in our realized commodity pricing were mostly due to lower benchmarks pricing which substantially began their decline during the fourth quarter of 2014. These decreased benchmark prices resulted in lower realized pricing of approximately 40% during the current reporting periods. Our ratio of petroleum relative to total sales volumes of 27% during the current reporting periods remained relatively unchanged compared to the comparative periods of 2015. This resulted from the focus on our Birley/Umbach property, which has liquid rich natural gas. However, overall there were decreases in the comparatively higher priced crude oil sales volumes. These decreases contributed to lower realized weighted average commodity prices.

Benchmark Prices

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Crude oil Canadian light sweet [1] ($/bbl)	**$ 55.01**	$ 68.88	**$ 48.11**	$ 61.08
Natural gas liquids WTI [2] ($US/bbl)	**$ 45.59**	$ 57.94	**$ 39.52**	$ 53.29
Natural gas AECO gas [3] ($/mcf)	**$ 1.42**	$ 2.69	**$ 1.62**	$ 2.74

(1) Central market point for Canadian crude oil
(2) West Texas Intermediate – Central market point for US crude oil
(3) Central market point for Canadian natural gas

Crude Oil Pricing

Our conventional crude oil production is sold at prices based on the Canadian light sweet benchmark postings adjusted for quality. This benchmark price decreased during the current reporting periods, as did our average realized crude oil prices, compared to the same periods of 2015.

NGL Pricing

Our NGL price is a blend of prices received for a range of liquids from ethane through to condensates that are produced in association with natural gas. There are various benchmarks for natural gas liquids, depending on the type sold; however, we benchmark our liquids in reference to Canadian light sweet or WTI. During the current reporting periods, and consistent with the decrease in the Canadian light sweet oil benchmark, our realized NGL price of $25.78/boe and $26.81/boe decreased compared to $41.06/boe and $38.64/boe

for the same periods of 2015. The ratio of our NGL price relative to Canadian light sweet oil was approximately 47% and 56% for the current reporting periods compared to 60% and 63% for comparative periods of 2015. These decreases were caused by the recognition of an NGL inventory adjustment that decreased our current reported NGL revenues. Excluding this adjustment, the ratio in the current reporting periods of NGL realized pricing to Canadian light sweet oil compares to the comparative periods of 2015.

Natural Gas Pricing

Our realized natural gas price of $1.35/mcf and $1.39/mcf for the current reporting periods decreased from $2.50/mcf and $2.59/mcf for the same periods of 2015. These decreases were due to both an increase in the ratio of our production from BC in addition to lower benchmark pricing. This downward price pressure included Station 2 pricing which decreased starting in March and continued through most of the second quarter. Also, during the second quarter AECO pricing decreased as a result of reduced intra-Alberta demand caused by reduced natural gas consumption for oil sands production resulting from the May wildfires in Fort McMurray, Alberta. Subsequently, pricing began to recover by the end of the second quarter.

On June 1, 2016, we started flowing 5,000 mcf/d firm capacity that sold at Alliance Chicago pricing. Of our BC production, one-third was sold at Alliance Chicago pricing of $1.54 mcf which was a $0.11 premium relative to the Station 2 pricing that we received on the remainder of our BC production.

Royalties

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Royalties	**$ 208**	$ 433	**$ 725**	$ 1,861
Per sales ($/boe)	**$ 0.44**	$ 0.78	**$ 0.73**	$ 1.49
Percent of revenues (%)	**2.7**	2.8	**4.7**	5.8

For the current reporting periods, our royalties decreased on an overall basis, per boe and as a percentage of revenue, compared to the same periods of 2015. The overall decreases in royalties resulted from both lower commodity pricing and sales volumes. The lower commodity pricing caused a decrease in royalty rates where such rates are based on a sliding pricing scale. Our focus on the development of our Montney play in the Birley/Umbach area increased the proportion of our production from BC which has relatively lower associated royalty rates in comparison to our overall rates. Finally, we realized an increase from last year's gas cost allowance.

Commodity Price Risk Management Contracts

To help mitigate commodity price risk, we enter into financial derivative contracts which assist us in better managing our future funds from operations. This provides more certainty as to what we will receive on a portion of our crude oil and/or natural gas sales volumes. While risk management contracts may have opportunity costs when commodity benchmarks exceed the contracted prices, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. We continuously review the need to utilize such financing techniques.

Our unsettled swap commodity price derivative contracts are reported at their approximated fair value on the date of the Interim Financial Statements. This estimated fair value is partially determined through the difference in the referenced market forward price of the respective commodity over the remaining periods of the contracts as compared to our received price multiplied by the remaining notional volumes. Volatility in the commodity price and any decrease in the remaining notional volumes will result in changes in the fair value of our derivative contracts from one period to the next. The change in the fair values between reporting periods are recognized in net income (loss) as unrealized gains or losses on derivative contracts. Realized gains or losses on the derivative contracts are recognized in net income (loss) on the unwinding of the financial derivative contract term.

Shortly after the Tournament business acquisition on June 10, 2016, and in compliance with Tournament's credit agreement (see "Credit Facilities"), we entered into the following price risk management contracts:

Financial AECO Natural Gas Contract			
Portion of Contractual Term	**Average Notional Volumes (GJ/d) [(1)]**	**Company's Received Price**	**Indexed Price**
July 1, 2016 to December 31, 2016	12,053	$2.56/GJ	AECO 7A
January 1, 2017 to December 31, 2017	10,616	$2.56/GJ	AECO 7A
January 1, 2018 to December 31, 2018	8,305	$2.56/GJ	AECO 7A
January 1, 2019 to December 31, 2019	6,518	$2.56/GJ	AECO 7A
January 1, 2020 to June 30, 2020	5,412	$2.56/GJ	AECO 7A

Financial WTI Crude Oil Contract			
Portion of Contractual Term	**Average Notional Volumes (bbl/d) [(1)]**	**Company's Received Price**	**Indexed Price**
July 1, 2016 to December 31, 2016	690	USD $51.20/bbl	WTI
January 1, 2017 to December 31, 2017	577	USD $51.20/bbl	WTI
January 1, 2018 to December 31, 2018	462	USD $51.20/bbl	WTI
January 1, 2019 to December 31, 2019	383	USD $51.20/bbl	WTI
January 1, 2020 to May 31, 2020	323	USD $51.20/bbl	WTI

(1) Average notional volumes represents the weighted average volume per day of the contractual monthly notional volumes over the portion of the contractual term under discussion. The notional volumes per day generally decrease over the term of the contracts. Our commodity price risk management contracts are settled monthly.

At June 30, 2016, the natural gas and crude oil derivative contracts had a combined fair value liability of $3.6 million. We had no derivative contracts outstanding at December 31, 2015. Realized gains on the crude oil contract and unrealized losses from the crude oil and natural gas contracts for the current reporting periods and the same periods of 2015 were as follows:

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Realized gains on derivative contracts	**$ (68)**	$ (441)	**$ (68)**	$ (741)
Unrealized losses on derivative contracts	**3,576**	398	**3,576**	684
Total	**$ 3,508**	$ (43)	**$ 3,508**	$ (57)

Production and Operating Expense

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Production & operating	**$ 7,534**	$ 11,026	**$ 16,312**	$ 23,856
Less:				
Processing & gathering revenues	**(597)**	(786)	**(1,457)**	(1,856)
Net production & operating expense [(1)]	**$ 6,937**	$ 10,240	**$ 14,855**	$ 22,000
Per sales net production & operating expenses ($/boe) [(1)]	**$ 14.75**	$ 18.36	**$ 14.95**	$ 17.63
Per sales production & operating expenses ($/boe)	**$ 16.02**	$ 19.85	**$ 16.41**	$ 19.15

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

The current reporting periods' production and operating expenses of $7.5 million and $16.3 million decreased compared to the same periods of 2015. These decreases partially resulted from the disposition of properties during 2015, most notably Rainbow. Also contributing to these decreases was last year's voluntary shut-in of relatively higher operating cost/lower netback wells. These wells are mostly located on our Hoffard, Boundary Lake North and Rigel properties as well as the Pouce Coupe properties which were included in the Subject Assets and the non-Montney Gold Creek properties which were sold in the second quarter. Further decreases in these costs were due to the associated production from the voluntary temporary shut-in of natural gas production in response to decreased commodity prices in BC. We also realized cost saving initiatives implemented in 2015 principally through optimization of field staff and lower costs for hauling, chemicals, repairs and maintenance without compromising our commitment to health and safety. During the

comparative year to date, we also incurred one-time field staff cost increases. Since June 10, 2016, operating costs for the consolidated Tournament volumes were estimated at $16.84/boe.

On a per boe basis, for the same reasons as just discussed, operating costs in the current reporting periods decreased compared to the same periods of 2015. The Rainbow property disposition had higher average operating costs per boe. Through this disposition, we lowered our per boe average operating costs. In addition, we increased our volumes at Birley/Umbach and although this added to our total operating costs, the synergies achieved through these incremental volumes had the effect of decreasing our operating costs in this area.

Subsequent to the end of the second quarter, we executed a gas handling agreement impacting the majority of our BC natural gas production. It will significantly improve go-forward drilling economics, bring base production back online and provide gas handling capacity for growth volumes as well as reduce operating costs by approximately $2.70/boe on Chinook properties not held by Tournament.

On a go forward basis, we expect our operating costs, excluding the consolidated volumes from Tournament, to average $12.50/boe to $13.50/boe.

The current reporting periods processing and gathering revenue decreased compared to the same periods of 2015. These decreases were the result of lower third party volumes that flowed through our processing facilities and distribution lines. These lower revenues correspond to areas where we had shut-in volumes during 2015 in response to decreased commodity pricing. The associated processing and distribution costs as reported through operating costs correspondingly also decreased.

General & Administrative (“G&A”) Expense

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
G&A expense	**$ 2,067**	$ 2,053	**$ 3,957**	$ 4,814
Per sales ($/boe)	**$ 4.40**	$ 3.70	**$ 3.98**	$ 3.87

We have continued to focus on improving our G&A cost structure and as a result of cost cutting initiatives, we have reduced our G&A expense, on an overall basis, during the year to date compared to the same period of 2015. We continue to assess our G&A expenses and make reductions where we can. Our year to date decrease in G&A, compared to the same period of 2015, resulted from both lower staffing costs caused by reductions in headcount, reduced officers’ and directors’ compensation, reduced employee benefits and less reliance on consultants. Further decreases resulted from renegotiated telecommunications and insurance costs. Consistent with 2015, beginning mid-way through the second quarter, we implemented a planned temporary reduction in our work week.

During the second quarter, compared to the same quarter of 2015, our G&A cost increased as a result of $0.2 million of Tournament G&A costs since June 10, 2016, and an operating cost adjustment on our leased office space of $0.1 million. Although personnel are currently being transferred to Tournament on conveyances of the Subject Assets, we will not report this significant G&A cost reduction until such time that the Tournament shares are distributed to our shareholders.

On a boe basis, G&A increased for the current reporting periods as a result of decreases in production volumes compared to the same periods of 2015, despite having lower overall G&A cost for the year to date. We continue to evaluate our existing G&A cost structure and will implement future cost savings initiatives.

Netback

The following table outlines the calculation of our netback[1]:

	Three months ended June 30		Six months ended June 30	
Per sales ($/boe)	**2016**	2015	**2016**	2015
Realized sales price	**$ 16.50**	$ 27.67	**$ 15.61**	$ 25.72
Less:				
Royalties	**(0.44)**	(0.78)	**(0.73)**	(1.49)
Net production expense [1]	**(14.75)**	(18.36)	**(14.95)**	(17.63)
G&A expense	**(4.40)**	(3.70)	**(3.98)**	(3.87)
Netback [1]	**$ (3.09)**	$ 4.83	**$ (4.05)**	$ 2.73

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

The netback for the current reporting periods significantly decreased compared to the same quarter of 2015. These decreases were caused by lower commodity benchmark prices. As a result, our current reporting periods realized sales prices were only approximately 60% of the realized sales prices that we reported during the same periods of 2015.

For the current reporting periods, the decreases in the proportion of crude oil sales relative to our total volumes were caused by higher natural gas production, with an increase in associated liquids, from our recent development program at our Birley/Umbach area. Generally, crude oil sales have had a higher netback than on an equivalent volume of natural gas as determined from its heating value. This change in the proportion of crude oil sales partly caused decreases to our realized prices, which then resulted in an unfavorable netback. However, the lower commodity pricing was partially offset by a $3.25/boe and $3.33/boe decrease in combined expenses during the current reporting periods.

Transaction Costs

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Transaction costs	**$ 1,620**	$ -	**$ 1,620**	$ -

Expensed transaction costs incurred on the Tournament transaction are estimated at $1.6 million and include legal and other professional fees in addition to CEI's severance costs. We expect to decrease our salary costs once the Tournament shares have been distributed to our shareholders. Transaction costs incurred by Tournament prior to June 10, 2016, were estimated at $0.6 million and included in Tournament's accrued liabilities.

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Exploration & evaluation expenditures	**$ 321**	$ 424	**$ 817**	$ 917

Exploration and evaluation expense reported during the current and the comparative periods were due to salaries, pre-licensing evaluation and exploratory lease rental costs.

Depletion, Depreciation and Amortization (“DD&A”) Expense

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Depletion, depreciation & amortization	**$ 6,642**	$ 8,982	**$ 13,788**	$ 19,490
Depletion per sales ($/boe)	**$ 12.13**	$ 14.42	**$ 11.98**	$ 14.21

DD&A expense decreased on an overall basis during the current reporting periods compared to the same periods of 2015. On an overall basis, these decreases resulted from both a lower depletion rate and production volumes. The decreases in our depletion rate were due to the impact of lowering the 2016 carrying value of our development and production assets (“D&P Assets”) to their recoverable value through recognizing last year’s impairment charge of $75.0 million.

Gains on Disposition of Properties

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Gains on disposition of properties	**$ (6,714)**	$ (2,390)	**$ (5,859)**	$ (21,793)

During the year to date, we completed the sale of certain petroleum and natural gas properties located in the Gold Creek area of northeastern Alberta and the Enchant area of southcentral Alberta for proceeds of $7.9 million. The comparative period’s gain was from the sale of the Karr properties in northwestern Alberta as well as three swap transactions. Aggregate proceeds associated with the comparative period’s gain were $42.9 million.

Share-Based Compensation

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Share-based compensation	**$ 672**	$ 623	**$ 1,352**	$ 1,049

Late in the second quarter of 2015, we granted additional restricted and performance awards. This higher number of granted awards resulted in an increase in the current reporting periods’ reported amortization of the fair value assigned to these awards compared to the same periods of 2015. We also amortized the fair value of share options granted throughout 2015. Combined, last year’s restricted and performance awards and option grants increased the current reporting periods’ share-based compensation compared to the same periods of 2015.

Bad Debt Expense

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Bad debt expense	**$ 379**	$ 57	**$ 458**	$ 554

In an effort to manage our credit risk we continuously monitor and assess the collectability of our purchaser and joint arrangement partners’ receivables in addition to our other receivable positions. For the current reported periods, we identified receivables due from joint arrangement partners that had either filed for creditor protection or have since become insolvent. As a result, for the current reported periods we provided for $0.4 million and $0.5 million of joint partner receivables that were deemed uncollectible.

Foreign Exchange Losses (Gains) & Other

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Foreign exchange losses (gains) & other	**$ 212**	$ 172	**$ 602**	$ (290)

During the current reporting periods we incurred a fee for a take or pay processing agreement where we did not deliver liquids because the current economic conditions have caused us to delay our Montney development plans. We have partially mitigated our continued exposure to this agreement's costs at least through to the third quarter but with the potential for this cost mitigation to continue for a longer term. We are also evaluating other cost mitigation options.

The year-to-date also includes a $0.1 million foreign exchange loss against our US dollar cash position resulting from the strengthening of the Canadian dollar. This compares to the $0.3 million foreign exchange gain we reported during the same period of 2015.

Financing Expenses

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Interest & financing charges (income)	**$ 99**	$ 16	**$ 112**	$ (115)
Accretion of decommissioning obligation	**578**	622	**1,130**	1,239
Total	**$ 677**	$ 638	**$ 1,242**	$ 1,124

Interest & financing charges increased $0.1 million and $0.2 million during the current reporting periods compared to the same periods of 2015. These increases were caused by less interest income resulting from a decrease in our cash position, in addition to interest expense on the Tournament acquired debt (see "Credit Facilities").

The current reporting periods' accretion charges modestly decreased compared to the same periods of 2015. These decreases resulted from applying a lower discount rate when accounting for the passage of time related to the decommissioning obligation. We updated for a lower risk-free discount rate as first applied to the December 31, 2015 carrying value of this obligation.

Income Tax

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Deferred income tax expense	**$ 7,100**	$ -	**$ 7,100**	$ -

Given that CEI maintained control of the Subject Assets transferred to Tournament, a deferred income tax liability arose as a result of moving the Subject Assets, excluding cash, at their carrying values to Tournament. We determined that this liability was an indirect tax consequence arising from CEI's consideration to Tournament. As a result, using an effective tax rate of 27%, we are reporting a $7.1 million deferred income tax expense for the current reporting periods.

As a result of the PSA, we acquired tax pools related to Tournament. At December 31, 2015, in addition to the tax pools we reported within our December 31, 2015 MD&A, Tournament had the following adjusted tax pools prior to its change of control tax return:

($ thousands)	**December 31 2015**
Canadian oil & gas property expense	**$ 3,902**
Canadian development expense	**36,643**
Canadian exploration expense	**13,106**
Undepreciated captial costs	**20,111**
Share issue costs	**88**
Scientific research	**3,187**
Total	**$ 77,037**

At June 30, 2016, these tax assets have not been reported as an asset on the statements of financial position of the Interim Financial Statements.

Non-Controlling Interest

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Net loss attributable to non-controlling interest	**$ (3,351)**	$ -	**$ (3,351)**	$ -

The net loss of Tournament since June 10, 2016, resulted in a non-controlling interest recovery of $3.4 million during the current reporting periods.

Net and Comprehensive Loss

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Weighted average shares outstanding - basic (thousands)	**215,350**	215,089	**215,350**	215,087
Dilutive impact of share based awards (thousands)	**-**	-	**-**	34
Weighted average shares outstanding - diluted (thousands)	**215,350**	215,089	**215,350**	215,121
Net & comprehensive (loss) income	**$ (12,520)**	$ (5,822)	**$ (25,295)**	$ 2,366
Per share - basic & diluted ($/share)	**$ (0.06)**	$ (0.03)	**$ (0.12)**	$ 0.01

We are reporting net losses from operations for the current reporting periods compared to a net loss and net income in the comparative periods of 2015. Contributing to the current reporting periods' net losses were decreases of approximately one-half of the petroleum and natural gas revenues when compared to the same periods of 2015. These decreases were due to the effect of significantly lower realized commodity prices and sales volumes. The current reporting periods also include a net loss from the Tournament operations since June 10, 2016, including both a $3.6 million loss on the marked-to-market price risk management contracts and a $7.1 million deferred income tax expense but as partially offset by a $3.4 million non-controlling interest recovery. During the comparative year-to-date, we also reported a non-cash gain of $21.8 million which contributed to that period's net income.

Capital Resources, Capital Expenditures and Liquidity

Commodity pricing has continued to decrease since mid-2014 and the result of this continued price erosion is that we are reporting funds outflow from operations for the current reporting periods. We continue to monitor the funds outflow from certain operations in an effort to mitigate further erosion. Despite the current price environment some of our properties are cash flow positive; however, many are not. These outflows from operations need to be considered in relation to firm capacity pipeline commitments in addition to the incremental costs of the suspension and the carrying cost of such operations. Where such costs actually preserve future value relative to continued production in this low commodity price environment, we will shut-in those properties. We will also continue with our CEI disposition program of non-core assets. This should assist in mitigating the extent of CEI fund outflows from these properties given the current commodity pricing environment.

Given our strong positive cash position, (CEI had a net surplus of $20.8 million at June 30, 2016), we elected to voluntarily reduce the amount available under our CEI credit facility from $50.0 million to $nil, thereby temporary eliminating the requirement to pay standby fees on a borrowing base not forecasted to be needed and to allow for our lender to release security against the Subject Assets. The Subject Assets are now secured by the Tournament credit facility agreement. We are negotiating to re-determine the borrowing base under CEI's credit facility in due course once our lender has had an opportunity to re-determine the borrowing base to be established from the value of both our Alberta and BC Montney proved developed properties.

At June 30, 2016, we had a consolidated net surplus of $6.2 million. This significant decrease from December 31, 2015 and March 31, 2016 is because we acquired debt of $17.8 million as a result of the Tournament acquisition and incurred cash outflows combined with capital, decommissioning and exploration and evaluation expenditures. Tournament had $18.2 million of its $100.0 million borrowing base drawn at June 30, 2016, resulting in $81.8 million of borrowing base available to fund Tournament's future capital programs.

Tournament's management is currently receiving the Subject Assets and is in the process of developing capital programs during the second half of 2016.

As the assets of both CEI and Tournament are now secured by separate credit facility agreements, the transfer of assets between our companies is not permitted unless specifically allowed by the PSA or with the express consent of each credit facility's lender.

(Outflow) Funds from Operations

	Three months ended June 30		Six months ended June 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Cash flow from operating activities	**$ (1,630)**	$ 3,359	**$ (5,965)**	$ 3,507
Add back (deduct):				
Change in operating non-cash working capital	**(2,543)**	(1,375)	**(4,759)**	(1,246)
Decommissioning obligation expenditures & other	**511**	587	**3,676**	1,040
Exploration & evaluation expenses	**321**	424	**817**	917
Transaction costs	**1,620**	-	**1,620**	-
(Outflow) funds from operations [1]	**$ (1,721)**	$ 2,995	**$ (4,611)**	$ 4,218
Per share - basic & diluted	**$ (0.01)**	$ 0.01	**$ (0.02)**	$ 0.02

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

During the current reporting periods, we are reporting outflows from operations of $1.7 million and $4.6 million, a decrease compared to funds from operations of $3.0 million and $4.2 million in the same periods of 2015. Contributing to these outflows was approximately one-half of the petroleum and natural gas revenues when compared to the same periods of 2015. These decreases were due to the effect of significantly lower realized commodity prices and to a lesser extent sales volumes.

Credit Facilities

	June 30 2016	December 31 2015
($ thousands)		
Long-term debt	**$ 13,890**	$ -
Add:		
Current portion of long-term debt	**4,310**	-
Accounts payable, accrued liabilities & other	**17,840**	21,607
Less:		
Cash and restricted cash	**(28,446)**	(37,947)
Accounts receivable	**(10,102)**	(11,173)
Prepaids & deposits	**(3,699)**	(2,101)
Net surplus [1]	**$ (6,207)**	$ (29,614)

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

We had a net surplus of $6.2 million at June 30, 2016 compared to $29.6 million at December 31, 2015 (unconsolidated CEI had a net surplus of $20.8 million at June 30, 2016). This decrease of $23.4 million was due in part to the Tournament acquired debt of $17.8 million, with a subsequent draw of $0.4 million, an outflow from operations of $4.6 million, which excludes a $0.1 million foreign exchange loss on a US dollar cash position and $0.5 million allowance for doubtful accounts receivable, and $1.0 million of capital, decommissioning, exploration and evaluation expenditures, net of disposition proceeds.

CEI Credit Facility

During the current reporting periods, we voluntarily reduced the CEI borrowing base of our undrawn, reserve-based credit facility (the "CEI Credit Facility"), with a Canadian bank, from $50.0 million to $nil, as a result of the transfer of the Subject Asset's associated proved developed producing reserves to Tournament. There were no outstanding draws at the time of this voluntary reduction in the borrowing base (undrawn with a borrowing base of $50.0 million - December 31, 2015). We are currently in negotiations with our lender

to determine the re-evaluated borrowing base. The CEI Credit Facility does not include any financial covenants and is collateralized by floating charges and security interests over all present and future properties and other assets of CEI.

We increased our outstanding letters during the second quarter from $0.3 million to $1.2 million. This increase of $0.9 million secured firm pipeline capacity that sells at Chicago Alliance pricing. As a result of the voluntary reduction in the borrowing base to $nil, we were required to secure our outstanding letters of credit through depositing an equivalent amount in cash with our lender. This cash is not accessible until such time that the letters of credit expire, the beneficiaries agree to release their guarantees or there is a sufficient increase in the borrowing base of the CEI Credit Facility to provide adequate security against these guarantees. As at June 30, 2016, each letter of credit expires within one year.

Tournament Credit Facility

On June 10, 2016, as a result of the Tournament acquisition, we acquired $17.8 million of outstanding debt under a credit facility agreement (the "Tournament Credit Facility") Tournament had with an international lender. Shortly after June 10, 2016, Tournament drew another $0.4 million to finance its operations bringing the total borrowings to $18.2 million at June 30, 2016. The Tournament Credit Facility is collateralized by floating charges and security interests over all present and future properties and other assets of Tournament. Borrowings from the Tournament Credit Facility will incur interest at a variable per annum rate equal to 8.00% plus the Canadian Deposit Offered Rate and then 1% on all draws. Borrowings to a maximum of $100.0 million (the "Term Facility Amount") under the Tournament Credit Facility are available in two tranches as follows:

Tranche A: This tranche is $18.2 million of the Term Facility Amount. It was fully drawn at June 30, 2016.

Tranche B: The remaining $81.8 million of the Term Facility Amount is available under Tranche B beginning on the date that Tranche A has been fully drawn but no later than June 10, 2018. Borrowings under this tranche may be used for lender approved acquisition and development activities, closing costs, Tournament Credit Facility fees, expenses and fees of the lender and other uses as approved by the lender. There were no drawings under this tranche at June 30, 2016.

Drawings on Tranche A are to be repaid according to a quarterly minimum repayment schedule. At June 30, 2016, the minimum repayment amount over the next year is $4.3 million. In addition, the lender is entitled to all Tournament's net operating cash flows until all borrowings are repaid. These Tournament net operating cash flows, as defined by the Tournament Credit Facility, are first used to meet the quarterly minimum repayment schedule. Cash flows in excess of this minimum repayment schedule are then applied to the remaining outstanding long-term debt. The Tournament Credit Facility matures on June 10, 2019, at which time all outstanding borrowings are due.

The Tournament Credit Facility covenants require that the ratio of Tournament's working capital, defined as the ratio of Tournament's current assets to current liabilities but excluding marked-to-market derivative assets and/or liabilities and the current portion of long-term debt, is no less than 1.0:1.0 at each quarter end. Tournament was in compliance with this ratio at June 30, 2016.

The Tournament Credit Facility also requires that Tournament enter into commodity price risk contracts for a minimum notional volume of crude oil and natural gas based on forecasted proved developed producing volumes. Shortly after June 10, 2016, Tournament entered crude oil and natural gas derivative contracts to satisfy this requirement, which represented all of the outstanding risk management contracts outstanding at June 30, 2016. Furthermore, as a condition of the Tournament Credit Facility, Tournament may only enter into derivative contracts with lender approved counterparties.

Capital Expenditures

Our capital expenditures were as follows:

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2016**	2015	**2016**	2015
Land & lease	**$ 118**	$ 17	**$ 147**	$ 129
Drilling & completions	**-**	993	**-**	12,664
Facilities & equipment	**932**	3,599	**3,610**	13,604
Field expenditures	**1,050**	4,609	**3,757**	26,397
Capitalized G&A	**297**	258	**616**	557
Furniture & equipment	**-**	54	**-**	60
Total	**$ 1,347**	$ 4,921	**$ 4,373**	$ 27,014
Proceeds from dispositions	**$ 7,613**	$ 1,200	**$ 7,912**	$ 42,935

During the second quarter the majority of our capital expenditures related to a non-operated facility efficiency improvement program.

Rationalization of Properties

We may from time to time, dispose of properties so that we can focus on the development of Montney liquids rich natural gas on our Birley/Umbach BC properties and in the near future our Montney light crude oil in Grande Prairie, Alberta. As a result, during the year to date we completed the sale of petroleum and natural gas properties located in the Enchant areas of southcentral Alberta and Gold Creek area of northeastern Alberta, for net proceeds of $7.9 million.

Provisions

Our provisions balance primarily relates to the future abandonment and reclamation of our properties. At June 30, 2016, we had provisions of $112.2 million, which was an increase from $98.7 million at December 31, 2015. This increase resulted from a $4.0 million fair value estimate of decommissioning obligations acquired from Tournament immediately followed by a $15.1 million change in estimate in these same acquired decommissioning obligations by decreasing the discount rates from those used for fair value to risk-free. This increase was also caused by $1.1 million of accretion charges. Partially offsetting the increase was the sale of approximately $3.0 million of decommissioning obligations related to our Enchant area disposition in southcentral Alberta and Gold Creek area disposition in northwestern Alberta as well as decommissioning obligation expenditures of $3.3 million and $0.4 million of expenditures related to other provisions.

At June 30, 2016, the provision associated with assets owned by Tournament, including those transferred to it as part of the PSA was $80.0 million.

As at June 30, 2016 and December 31, 2015, the estimated obligation includes assumptions in respect of actual costs to abandon wells and facilities or reclaim the property, the time frame in which such costs will be incurred, as well as annual inflation of 2.0%, in order to calculate the future obligation. At June 30, 2016 and December 31, 2015, a risk-free interest rate of 2.2% was used in order to calculate the present value of the obligation.

Outstanding Share Data

Authorized:

- Unlimited number of common shares
- Unlimited number of first preferred shares

Details of share capital and share awards outstanding are as follows:

	June 30 2016	December 31 2015
Common shares outstanding	**215,350,269**	215,349,412
Share options	**8,925,035**	9,465,617
Restricted awards	**1,070,464**	1,084,226
Performance awards	**999,356**	1,006,996
Weighted average common shares - basic and diluted	**215,349,857**	215,196,938

As at August 9, 2016, we had 216,435,737 common shares, 8,441,696 share options, 410,813 restricted awards and 423,103 performance awards outstanding.

Off Balance Sheet Arrangements

We did not enter into any off balance sheet arrangements during the current reporting periods.

Outlook

As previously announced on August 2, 2016, we have initiated a review of strategic alternatives, which may include, among other things, a review of acquisition opportunities to expand our core Montney asset base, or establish a new core area of operations. We will also entertain merger, sale, joint venture or other opportunities that will result in a well-capitalized entity that can best develop our emerging Montney assets at Birley/Umbach, British Columbia and at Gold Creek and Knopcik, Alberta.

Quarterly Information from Operations

Summarized information by quarter for the two years ended June 30, 2016, appears below:

	Jun. 30 2016	Mar. 31 2016	Dec. 31 2015	Sept. 30 2015	Jun. 30 2015	Mar. 31 2015	Dec. 31 2014	Sep. 30 2014
Production Volumes								
Crude oil (bbl/d)	**769**	817	922	1,065	1,284	1,485	1,981	1,823
Natural gas liquids (boe/d)	**604**	733	364	395	604	682	778	678
Natural gas (mcf/d)	**22,776**	25,215	15,851	20,641	25,290	33,007	34,879	29,028
Average daily production (boe/d)	**5,169**	5,753	3,928	4,900	6,103	7,668	8,572	7,339
Sales Prices								
Average oil price ($/bbl)	**$ 50.59**	$ 35.41	$ 47.93	$ 51.34	$ 62.90	$ 49.03	$ 70.84	$ 93.10
Average natural gas liquids price ($/boe)	**$ 25.78**	$ 27.65	$ 30.59	$ 31.68	$ 41.06	$ 36.47	$ 48.05	$ 64.71
Average natural gas price ($/mcf)	**$ 1.35**	$ 1.43	$ 2.09	$ 2.56	$ 2.50	$ 2.65	$ 3.57	$ 4.11
Netback [1]								
Average commodity pricing ($/boe)	**$ 16.50**	$ 14.82	$ 22.51	$ 24.48	$ 27.67	$ 24.15	$ 35.26	$ 45.37
Royalties ($/boe)	**$ (0.44)**	$ (0.99)	$ 2.39	$ (1.13)	$ (0.78)	$ (2.07)	$ (4.74)	$ (6.90)
Net production expenses ($/boe) [1]	**$ (14.75)**	$ (15.12)	$ (14.17)	$ (12.49)	$ (18.36)	$ (17.04)	$ (18.89)	$ (17.44)
G&A expense ($/boe)	**$ (4.40)**	$ (3.61)	$ (8.31)	$ (4.39)	$ (3.70)	$ (4.00)	$ (4.26)	$ (4.32)
Netback ($/boe) [1]	**$ (3.09)**	$ (4.90)	$ 2.42	$ 6.47	$ 4.83	$ 1.04	$ 7.37	$ 16.71
Wells Drilled (net)								
Oil	**-**	-	-	-	-	-	1.62	1.26
Gas	**-**	-	-	-	-	2.75	0.83	0.75
Disposal/injection	**-**	-	-	-	-	-	-	0.37
Total wells drilled (net)	**-**	-	-	-	-	2.75	2.45	2.38
FINANCIAL *($ thousands, except per share amounts)*								
Petroleum & natural gas revenues, net of royalties	**$ 7,550**	$ 7,244	$ 9,000	$ 10,527	$ 14,934	$ 15,240	$ 24,065	$ 25,972
(Outflow) funds from operations [1]	**$ (1,721)**	$ (2,890)	$ 1,516	$ 3,299	$ 2,995	$ 1,220	$ 6,069	$ 9,693
Per share - basic & diluted ($/share)	**$ (0.01)**	$ (0.01)	$ 0.01	$ 0.02	$ 0.01	$ 0.01	$ 0.03	$ 0.05
Net (loss) income from continuing operations [2]	**$ (12,520)**	$ (12,775)	$ (5,303)	$ (80,669)	$ (5,822)	$ 8,189	$ (58,311)	$ 3,696
Per share - basic & diluted ($/share)	**$ (0.06)**	$ (0.06)	$ (0.02)	$ (0.37)	$ (0.03)	$ 0.04	$ (0.27)	$ 0.02
Net (loss) income [2][3]	**$ (12,520)**	$ (12,775)	$ (5,303)	$ (80,669)	$ (5,822)	$ 8,189	$ (60,348)	$ 11,472
Per share - basic & diluted ($/share)	**$ (0.06)**	$ (0.06)	$ (0.02)	$ (0.37)	$ (0.03)	$ 0.04	$ (0.28)	$ 0.05
Capital expenditures	**$ 1,347**	$ 3,026	$ 9,998	$ 7,313	$ 4,921	$ 22,093	$ 23,821	$ 14,301
Net surplus [1]	**$ (6,207)**	$ (20,180)	$ (29,614)	$ (41,181)	$ (46,705)	$ (48,596)	$ (28,788)	$ (35,870)
Total assets	**$ 366,586**	$ 299,623	$ 321,564	$ 333,036	$ 414,280	$ 431,085	$ 434,318	$ 472,241
Common Shares (thousands)								
Weighted average during period - basic	**215,350**	215,349	215,337	215,274	215,089	215,083	215,081	214,895
Weighted average during period - diluted	**215,350**	215,349	215,337	215,274	215,089	215,112	215,081	216,773
Outstanding at period end	**215,350**	215,350	215,349	215,328	215,236	215,083	215,082	215,079

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A.

(2) Includes $63.5 million and $75.0 million in impairment charges against properties for the three months ended December 31, 2014 and September 30, 2015, respectively.

(3) Quarters prior to and including December 31, 2014 include net income or loss from a discontinued operation.

Factors That Have Caused Variations over the Quarters

The factors described below only apply to the quarterly information presented above.

Generally, our non-core property disposition program has resulted in a lower trend of natural gas and natural gas liquids production volumes. This trend was offset during the fourth quarter of 2014 when we began to realize continuous production from our drilling program and property acquisitions at Birley/Umbach. Offsetting this lower overall trend of natural gas and natural gas liquid volumes was crude oil production which has generally trended upwards resulting from the reinvestment of our non-core disposition proceeds into core area properties. However, during the first quarter of 2015, production volumes decreased reflecting the impact of significant dispositions in our Gilby and Karr areas and have since fallen in subsequent quarters due ongoing pipeline service restrictions and reduced system capacity

Our realized commodity prices and natural gas revenue, net of royalties have mostly trended with the Canadian Light Sweet and AECO benchmarks which generally increased until mid-2014 when they began to decrease with significantly lower benchmark pricing observed since the fourth quarter of 2014. Changes in our petroleum and natural gas revenues, net of royalties and funds from operations have generally trended with benchmark commodity prices and volumes. Our net debt changed to a net surplus in the third quarter of 2014 with the repayment of our entire outstanding debt balance from the proceeds of a discontinued operation. The aforementioned Karr property disposition increased our net surplus during the first quarter of 2015 after which our net surplus began to decrease as our capital expenditures exceeded our funds from operations and it decreased further in the second quarter of 2016 when we acquired debt from the Tournament acquisition. Our efforts at capital preservation have resulted in no drilling activity since the first quarter of 2015. Our dispositions of non-core assets combined with funds from operations relative to capital expenditures, have allowed us to avoid having to raise proceeds through the issuance of our common shares.

Please refer to other sections of this MD&A for detailed discussions on variations during the comparative quarters and to our previously issued interim and annual management's discussion and analysis for changes in prior quarters.

Risk Factors

Investors should carefully consider the risk factors set out in our Annual Information Form for the year ended December 31, 2015 and consider all other information contained herein and in our other public filings before making an investment decision. The risks set out in our AIF are not an exhaustive list, nor should they be taken as a complete summary or description of all the risks associated with our business and the oil and natural gas business generally. If any of the these risks or other risks occur, our business, prospects, financial condition, results of operations and cash flows could be adversely affected in a material way.

Management of Tournament operates the assets within Tournament, a corporation in which CEI owns 70% of the issued and outstanding common shares. The management and Board of Directors of CEI have a very limited ability to exercise influence over Tournament's operations and their associated costs, which could adversely affect our consolidated financial performance. Our equity interest, and return thereon, in Tournament depends upon a number of factors that are outside of our control, including, but not limited to, Tournament's management expertise, Tournament's financial resources, the timing and amount of capital expenditures made by Tournament and its risk management practices.

Additional information on risks, assumptions and uncertainties are found under the heading "Forward-Looking Statements".

Disclosure Controls and Procedures

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to us is made known to our CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Internal Controls over Financial Reporting

Our CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls associated to the Tournament acquisition could materially affect, or are reasonably likely to materially affect our internal controls over financial reporting. We have reviewed the design of Tournament's internal controls over financial reporting from June 10, 2016 and ended June 30, 2016, and determined that design provides reasonable assurance regarding the reliability of their financial reporting.

We have designed our internal controls over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

It should be noted that a control system, including our disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Non-GAAP Measures

The following non-GAAP measures described below do not have any standardized meanings as prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies.

- (Outflow) funds from operations is calculated from cash flow from operations adjusted for changes in non-cash working capital related to operations, exploration and evaluation expenses related to operations, decommissioning obligation expenditures related to operations and transaction costs related to the PSA. This term does not have any standardized meaning as prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies. Management believes that funds from operations is a key measure to assess our ability to finance capital expenditures and when debt is drawn, debt repayments. (Outflow) funds from operations is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS and should not be construed as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of our financial performance.

- Net debt (surplus) is calculated as bank debt adjusted for working capital excluding mark-to-market derivative contracts, current portion of decommissioning obligation and assets and liabilities held for sale. Working capital excluding mark-to-market derivative contracts, current portion of decommissioning obligation and assets and liabilities held for sale is calculated as current assets less current liabilities as they appear on the balance sheets, excluding derivative contracts, assets and liabilities held for sale and the current portion of both debt and decommissioning obligations. Management uses net debt (surplus) to assist us in understanding our liquidity at specific points in time.

- Netback is calculated as a period's sales of petroleum and natural gas, net of royalties less net production and operating expenses and G&A expense, divided by the period's sales volumes. We use this non-GAAP measure to assist us in understanding our profitability relative to current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods.

- Net production and operating expense is calculated as production and operating expense less processing and gathering revenues. Management uses net production and operating expense to determine the current period's cash cost of operating expenses and net production and operating expense per boe is used to measure operating efficiency on a comparative basis.

Forward-Looking Statements

In the interest of providing our shareholders and readers with information regarding our company, including management's assessment of our future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, this MD&A contains, without limitation, forward-looking statements pertaining to: our intention to distribute all of the Tournament shares to our shareholders and the method of completing the same; the anticipated benefits to us from completing the transaction with Tournament and the distribution of Tournament shares to our shareholders; post Tournament transaction strategy, plans and operations including our intention to concentrate on our Montney assets subsequent to the transaction with Tournament; that we will implement future cost savings initiatives, that our salary costs will decrease once the Tournament shares have been distributed to our shareholders; our intention to carry out a strategic review and the assessment of future plans regarding the strategic review; expectations regarding future reductions in operating and G&A costs, future Chinook operating costs, excluding consolidated volumes from Tournament, future exploration and development activities and the timing thereof and how we intend to manage our company during 2016, that we expect to remain focussed on cost reductions, prudent capital management and continued rationalization of our non-core assets during the balance of 2016.

With respect to the forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things: the distribution of the Tournament shares to our shareholders will be completed on the terms disclosed herein; opportunities that may result from the strategic review; that we will continue to conduct our operations in a manner consistent with that expressed herein, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, future currency, exchange and interest rates, our ability to obtain equipment in a timely manner to carry out exploration and development activities, the ability of the operator of the projects of which we have an interest in to operate in the field in a safe, efficient and effective manner, the impact of increasing competition, field production rates and decline rates, anticipated production volumes, our ability to replace and expand production and reserves through exploration and development activities, certain commodity price and cost assumptions, the results of negotiations and the plans of our partners in certain of our areas; that the budgeted amounts and expenditures set forth herein, which are subject to the discretion of our Board of Directors, will not be amended in the future and the continued availability of adequate cash, debt and cash flow to fund our planned expenditures. Although we believe that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this MD&A, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that predictions, forecasts, projections and other forward-looking statements will not occur, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, that the distribution of the Tournament shares to our shareholders will be completed on the terms disclosed herein; the strategic review may not be completed in the manner currently contemplated (or at all) or that such review may or result in any opportunities for our company; risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices and currency fluctuations, our Board of Directors may amend the 2016 capital program based on its discretion; environmental risks, competition from other producers, inability to retain drilling rigs and other services, unanticipated increased or unforeseen capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, delays in projects and/or operations resulting from surface conditions, wells not performing as expected, delays resulting from or inability to obtain the required regulatory approvals and inability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the forgoing list of factors is not exhaustive. Additional information on these and other factors that could affect our operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) and at our website (www.chinookenergyinc.com). Furthermore, the forward-looking statements contained in this MD&A are made as at the date of this MD&A and we do not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Barrels of Oil Equivalent

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

Future Oriented Financial Information

This MD&A may contain Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by our management to provide an outlook of our activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed under the heading "Forward-Looking Statements" and assumptions with respect to production rates and commodity prices. The actual results of our operations and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. Our management believes that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.