

Q1  
2017

# 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. and its subsidiaries, (collectively, "our", "we" or "us") for the three months ended March 31, 2017 and 2016 and should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes as at and for the three months ended March 31, 2017 and 2016 (the "Interim Financial Statements") and our audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2016 and 2015 (the "Annual Financial Statements"). This MD&A is based on information available as at May 9, 2017.

The term "first quarter" or similar terms are used throughout this document and refer to the three months ended March 31, 2017. The term "same quarter of 2016" or similar terms are used throughout this document and refer to the three months ended March 31, 2016. The term "reported periods" or similar terms are used throughout this document and refer to both the three months ended March 31, 2017 and 2016, in this respective order.

This MD&A contains measures which are not prescribed by International Financial Reporting Standards and, therefore, may not be comparable with the calculations of similar measures presented by other companies ("non-GAAP measures"). 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, 2016 ("AIF"), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.chinookenergyinc.com](http://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.

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 upstream oil and natural gas company whose main business activities include exploration, development and production of natural gas liquids and natural gas. We are focused on realizing per share growth from our large contiguous Montney liquids-rich natural gas position at our Birley/Umbach property in northeast British Columbia ("BC").

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.

## Subject Asset Conveyance, Disposition and Craft Share Distribution

On June 10, 2016, we conveyed the majority of our Alberta oil and natural gas assets, excluding our Montney assets, and the associated decommissioning obligations in addition to \$0.9 million cash (collectively, the "Subject Assets") to Tournament Exploration Ltd., which subsequently changed its name to Craft Oil Ltd. and then Craft Oil Inc. ("Craft"), a private Calgary-based petroleum and natural gas production company, for 70% of its issued and outstanding common shares pursuant to an asset purchase and sale agreement dated and effective May 1, 2016.

In October 2016, Craft sold its legacy properties in addition to certain properties included in the Subject Assets. On December 12, 2016, we completed the distribution of all of the Craft Oil Ltd. shares held by us to our shareholders as at the close of business pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Craft Share Distribution"). Following the Craft Share Distribution, our control over Craft's operations ceased. As a result, for any period(s) subsequent to December 12, 2016, the accounts of Craft are not reflected in our financial and operating results. Generally, the first quarter changes in operating results and their corresponding financial measures, in comparison to the same quarter of 2016, result from the Subject Assets as either sold in October 2016 or as included in the Craft Share Distribution.

# Financial and Operating Highlights

Three months ended March 31	2017	2016
<b>OPERATIONS</b>		
<b>Production</b> <sup>(1)</sup>		
Crude oil (bbl/d)	29	817
Natural gas liquids (boe/d)	482	733
Natural gas (mcf/d)	18,022	25,215
Average daily production (boe/d)	3,514	5,753
<b>Sales Prices</b>		
Average oil price (\$/bbl)	\$ 60.32	\$ 35.41
Average natural gas liquids price (\$/boe)	\$ 51.39	\$ 27.65
Average natural gas price (\$/mcf)	\$ 2.71	\$ 1.43
<b>Netback</b> <sup>(2)</sup>		
Average commodity pricing (\$/boe)	\$ 21.42	\$ 14.82
Realized gains on derivative contracts (\$/boe)	\$ 1.38	\$ -
Royalties (\$/boe)	\$ 0.20	\$ (0.99)
Net production expenses (\$/boe) <sup>(2)</sup>	\$ (11.27)	\$ (15.12)
Operating Netback (\$/boe) <sup>(2)</sup>	\$ 11.73	\$ (1.29)
<b>Wells Drilled (net)</b>		
Total natural gas wells drilled (net)	-	-
<b>FINANCIAL</b> (\$ thousands, except per share amounts)		
Petroleum & natural gas revenues, net of royalties	\$ 6,838	\$ 7,244
Adjusted funds (outflow) from operations <sup>(2)</sup>	\$ 2,036	\$ (2,890)
Per share - basic & diluted (\$/share)	\$ 0.01	\$ (0.01)
Net income (loss)	\$ 10,422	\$ (12,775)
Per share - basic and diluted (\$/share)	\$ 0.05	\$ (0.06)
Capital expenditures	\$ 8,823	\$ 3,026
Net surplus <sup>(2)</sup>	\$ (25,622)	\$ (20,180)
Total assets	\$ 148,665	\$ 299,623
<b>Common Shares</b> (thousands)		
Weighted average during period		
- basic	216,443	215,349
- diluted	216,900	215,349
Outstanding at period end	216,443	215,350

(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.

# Operations

## Petroleum and Natural Gas Production Volumes

Three months ended March 31	2017	2016
Crude oil (bbl/d)	29	817
Natural gas liquids (boe/d)	482	733
Natural gas (mcf/d)	18,022	25,215
Total (boe/d)	3,514	5,753

### Total Production Volumes

Late in the first quarter, we brought on-stream three (2.64 net) additional wells at Birley/Umbach. These wells were drilled in December 2016 and then completed and tested prior to being brought on-stream late in mid-March. The a-71-F (0.75 net), d-95-F (0.99 net) and c-95-F (0.90 net) wells averaged gross test gas rates of 7,319 mcf/d, 6,756 mcf/d and 8,202 mcf/d during the last 24 hours of testing with free condensate to gas ratios of 8 bbl/mmcf, 11 bbl/mmcf and 25 bbl/mmcf, respectively. Currently, we have production from nine wells (7.63 net) in this area. Although our three Birley/Umbach wells came on-stream late in the first quarter, our March 2017 production volumes of 2,350 boe/d from our Birley/Umbach area approximated those volumes realized during the same month in 2016. Also, our first quarter production volumes included a full quarter of production from another three (2.75 net) Birley/Umbach wells brought on-stream in mid-February 2016 on the commissioning of our facility expansion. Combined, we are reporting an increase in our Birley/Umbach area production volumes for the first quarter in comparison to the same quarter of 2016. Our total current production is approximately 5,050 boe/d.

Through to the date of this MD&A, at our Birley/Umbach area, we have drilled another three (2.67 net) of a four (3.67 net) well drilling program. All three wells were drilled on our D-93-F pad with various downhole locations. The fourth well (1.0 net) will be drilled in May on the same pad. Completions and equipping are expected to occur after spring break-up. All four of these Birley/Umbach wells are scheduled to be on-stream during the fourth quarter of 2017 bringing our exit production to our guidance of 6,300 - 6,500 boe/d.

As a result of commodity price improvements and a new natural gas handling agreement we were able to reactivate wells in our Martin Creek and Black Conroy fields during the third quarter of 2016 as well as reactivate our Boundary Lake North field during the first quarter. Combined we produced an additional 800 boe/d from these three fields during the first quarter compared to the same quarter of 2016.

Despite increased volumes at our Birley/Umbach area and other fields' well reactivations, production volumes for the first quarter decreased by 2,239 boe/d compared to the same quarter of 2016. This decrease in volumes was because of the Subject Assets that, last year, were either sold or included in the Craft Share Distribution. In addition, last year we sold our Enchant and Gold Creek properties, with associated combined production of 89 boe/d, for net proceeds of \$8.2 million. In the first quarter, we also sold our East Gold Creek property with associated production of 100 boe/d for net proceeds of \$10.6 million.

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

Natural gas and its associated liquids production for the first quarter decreased compared to the same quarter of 2016 because of the absence of the Subject Assets. Partially offsetting this decrease was the production from our Birley/Umbach area development program and the reactivation of wells in Martin Creek, Black Conroy and Boundary Lake North, BC.

### *Crude Oil Production Volumes*

Our crude oil production volumes for the first quarter decreased compared to the same quarter of 2016. During 2016, we transformed into a pure Montney play company focused on liquids-rich natural gas in our Birley/Umbach area upon completion of the Craft Share Distribution. Consequently, our crude oil production has decreased during the first quarter compared to the same quarter of 2016.

## Petroleum and Natural Gas Revenues and Realized Pricing

Three months ended March 31	2017		2016	
(\$ thousands, except per unit amounts)				
Oil sales	\$	156	\$	2,633
\$/bbl		60.32		35.41
Natural gas liquids sales	\$	2,228	\$	1,846
\$/boe		51.39		27.65
Natural gas sales	\$	4,391	\$	3,282
\$/mcf		2.71		1.43
Petroleum & natural gas revenue	\$	6,775	\$	7,761
\$/boe		21.42		14.82

Our petroleum and natural gas revenues decreased for the first quarter compared to the same quarter of 2016. This decrease was due to lower production volumes despite significantly higher benchmark pricing. The lower production volumes were because of the absence of the Subject Assets. This decrease was partially offset by the reactivation of previously shut-in wells and added production from our Birley/Umbach area 2015 and 2016 drilling programs. The increase in our realized commodity pricing for the first quarter was due to higher benchmark pricing. Our increased realized commodity price was partially offset by the effect of a higher ratio of natural gas relative to total production volumes that occurred through our transition to a pure Montney play. This is because natural gas, on a heating equivalent basis, receives a lower price.

### Benchmark Prices

Three months ended March 31	2017		2016	
Natural gas liquids				
Canadian light sweet <sup>(1)</sup> (\$/bbl)	\$	64.74	\$	41.22
Natural gas				
AECO gas <sup>(2)</sup> (\$/mcf)	\$	2.69	\$	1.83
BC Westcoast Station 2 <sup>(3)</sup> (\$/mcf)	\$	2.46	\$	1.41

(1) Central market point for Canadian Crude oil

(2) Central market point for Canadian natural gas

(3) Market point for BC natural gas

### 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. During the first quarter, consistent with the increase in the Canadian light sweet oil benchmark, our realized NGL price of \$51.39/boe significantly increased compared to \$27.65/boe for the same quarter of 2016.

The ratio of our adjusted NGL price relative to Canadian light sweet oil was 79% for the first quarter compared to 68% for the same quarter of 2016. The higher first quarter ratio was caused by the price of propane increasing at a greater rate than the increase in the Canadian light sweet benchmark. This increased ratio was also due to the weighted average production volumes contributed from our Birley/Umbach area relative to our total production volumes. During 2016, we transformed into a pure Montney play focused on liquids-rich natural gas in our Birley/Umbach area upon completion of the Craft Share Distribution.

### Natural Gas Pricing

Our realized natural gas price of \$2.71/mcf during the first quarter significantly increased compared to \$1.43/mcf for the same quarter of 2016. This increase was consistent with higher AECO and Station 2 benchmark pricing. Our first quarter realized natural gas price also reflects a \$0.25/GJ premium relative to the Station 2 benchmark price from selling approximately 27% of our natural gas production at an average Alliance Chicago price of \$2.39/GJ.

## Royalties

Three months ended March 31	2017	2016
(\$ thousands, except where noted)		
Royalty (recovery) expense	\$ (63)	\$ 517
Per sales (\$/boe)	\$ (0.20)	\$ 0.99
Percent of revenues (%)	(1)	7

For the first quarter, our royalties decreased on an overall basis, per boe and as a percentage of revenue, compared to the same quarter of 2016. These decreases primarily resulted from lower production volumes as caused by the Subject Assets which are located throughout Alberta with higher royalty rates associated with crude oil volumes. Royalties in Alberta are no longer significant to our operations. Also, we recently were granted \$1.0 million of BC royalty credits. We recognized \$0.2 million of this credit through a decrease to our first quarter royalties. We also have \$1.9 million in remaining BC royalty credits. Our five Birley/Umbach wells that have qualified for the credit program bear a minimum crown royalty rate of 3% prior to applying additional credits. During 2017 we are forecasting nominal crown royalties as a result of these credits combined with being a BC Montney focused play. Overriding and freehold royalties will continue to be payable. We further anticipate receiving additional credits during 2017 from these credit programs resulting from our three most recently drilled and completed Birley/Umbach wells that were brought on-stream in mid-March with possible further grants should our 2017 four well drilling campaign be successful.

## Financial Commodity Price Contracts

To help mitigate commodity price risk, we enter into financial commodity price contracts which assist us in better managing our future adjusted funds from operations. This provides more certainty within determined commodities price ranges as to what we will receive on a portion of our crude oil and/or natural gas sales volumes. While these financial 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 strategies.

Our unsettled swap commodity price contracts are reported at their approximated fair values on the date of the Interim Financial Statements. These estimated fair values are 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 commodity price contracts. Realized gains or losses from these financial commodity price contracts are recognized in net income (loss) over their term.

For the reported periods, we reported the following realized and unrealized gains from our commodity price contracts:

Three months ended March 31	2017	2016
(\$ thousands)		
Realized gain on commodity price contract	\$ (436)	-
Unrealized gain on commodity price contracts	(1,287)	-
Total	\$ (1,723)	-

During the first quarter we realized gains on our 7,500 GJ/d AECO price contract as this benchmark was lower than our received price of \$3.205/GJ. If we had included these settlements in our natural gas revenues, we would have reported adjusted natural gas sales prices for the first quarter of \$2.98/mcf compared to our reported price of \$2.71/mcf. Our 4,000 GJ/d AECO price contract began on April 1, 2017.

Our unrealized gain for the first quarter includes the decrease in the forward AECO price relative to the \$3.205/GJ received fixed contracted price. As at March 31, 2017, our commodity price contracts had a combined estimated current asset fair value of \$1.1 million with the following terms:

Indexed Price	Notional Volumes	Company's Received Price	Remaining Contractual Term
AECO	7,500 GJ/d	\$3.205/GJ	April 1, 2017 to December 31, 2017
AECO	4,000 GJ/d	\$2.50/GJ	April 1, 2017 to October 31, 2017

With the combined notional volumes from the above two outstanding commodity price contracts, we will receive a weighted average price of \$3.04/GJ on approximately 42% of our forecasted 2017 natural gas production volumes.

At March 31, 2017, because we had no outstanding debt and were in a net surplus position of \$25.6 million, we were not required to maintain a minimum level of commodity price contracts covering at least 30% of our forecasted twelve month combined production volumes.

## Production and Operating Expense

Three months ended March 31	2017	2016
(\$ thousands, except where noted)		
Production & operating	\$ 3,824	\$ 8,778
Less:		
Processing & gathering revenues	(260)	(860)
Net production & operating expense <sup>(1)</sup>	\$ 3,564	\$ 7,918
Per sales net production & operating expenses (\$/boe) <sup>(1)</sup>	\$ 11.27	\$ 15.12
Per sales production & operating expenses (\$/boe)	\$ 12.09	\$ 16.77

(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.

Production and operating expense for the first quarter decreased in total and on a per boe basis from the same quarter of 2016. These decreases were due to the Subject Assets, which on a boe basis had relatively higher operating costs. Although we increased our volumes at Birley/Umbach and this added to our total operating costs, the synergies achieved through the impact of increased volumes relative to our fixed operating costs had the effect of further decreasing our operating costs on a per boe basis.

During the first quarter, we also realized benefits related to a gas handling agreement which we executed late during the third quarter of 2016 and which impacts the majority of our BC natural gas production. It has significantly improved go-forward drilling economics, bringing base production back online and providing gas handling capacity for growth volumes as well as reducing operating costs by approximately \$2.70/boe. Early in the first quarter of 2017, these improved economics allowed us to reactivate our Boundary Lake North property with 400 boe/d of associated production volumes. We further expect our on-going operations to incur production costs under \$10/boe once production volumes from our 2017 four well drilling campaign is brought on-stream.

The first quarter processing and gathering revenue decreased compared to the same quarter of 2016. This decrease was because of the processing and gathering assets included within the Subject Assets that, last year, were either sold or included in the Craft Share Distribution.

## Operating Netback

The following table outlines the calculation of our operating netback<sup>(1)</sup>:

Three months ended March 31	2017		2016
Per sales (\$/boe)			
Realized sales price	\$ 21.42	\$	14.82
Realized gain on commodity price contract	1.38		-
Add (less):			
Royalties	0.20		(0.99)
Net production expense <sup>(1)</sup>	(11.27)		(15.12)
<b>Operating netback <sup>(1)</sup></b>	<b>\$ 11.73</b>	<b>\$</b>	<b>(1.29)</b>

(1) 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.

Our operating netback significantly increased for the first quarter compared to the same quarter of 2016. This increase resulted from higher commodity pricing combined with a realized gain on a commodity price contract. Our transition to a pure Montney play resulted in a lower net production expense and BC Government grants decreased our royalties. These changes have been previously discussed.

## General & Administrative ("G&A") Expense

Three months ended March 31	2017		2016
(\$ thousands, except per unit amounts)			
G&A expense	\$ 1,612	\$	1,890
Per sales (\$/boe)	\$ 5.10	\$	3.61

We have focused on improving our G&A cost structure through cost cutting initiatives and we continue to assess our G&A expenses and make reductions where feasible. As a result of lower staffing costs due to reductions in headcount, reduced compensation for officers, reduced employee benefits, reduced information system costs and less reliance on consultants, our overall first quarter G&A expense decreased compared to the same quarter of 2016. As a result of these efforts, G&A before recoveries decreased \$1.0 million. However, partially offsetting this decrease were lower G&A recoveries. With both lower compensation and operating costs combined with a shift to more focussed operated properties, our capitalized G&A, operating and other associated G&A recoveries decreased by \$0.7 million. During the first quarter, \$0.6 million of our overall G&A resulted from head office rent charges pursuant to a lease which expires June 30, 2019. Assuming current rental market conditions remain the same or similar, we anticipate paying lower rent commencing in 2019 upon our lease expiration, assuming existing office space requirements.

Despite a decrease in our overall G&A expense, G&A on a boe basis increased during the first quarter as a result of no production volumes from the Subject Assets as caused by both last year's disposition and the Craft Share Distribution. We anticipate that our G&A expense will be approximately \$4.00/boe for the full 2017 year.

## Severance Costs

Three months ended March 31	2017		2016
(\$ thousands)			
Severance costs	\$ 373	\$	-

Severance costs incurred in the first quarter related to staffing reductions resulting from both a continuing assessment of our staffing requirements and the simplification of our current operations resulting from our transition into a pure Montney play.

## Exploration and Evaluation Expense

Three months ended March 31	2017	2016
(\$ thousands)		
Exploration & evaluation expenditures	\$ 92	\$ 496

Exploration and evaluation expense reported during the first quarter was due to exploratory lease rental costs. This expense decreased during the first quarter compared to the same quarter of 2016 because of the Subject Assets that, last year, were either sold or included in the Craft Share Distribution.

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

Three months ended March 31	2017	2016
(\$ thousands, except per unit amounts)		
Depletion, depreciation & amortization	\$ 2,933	\$ 7,146
Depletion per sales (\$/boe)	\$ 7.85	\$ 11.84

DD&A expense decreased on an overall and boe basis during the first quarter compared to the same quarter of 2016. These decreases resulted from a lower depletion rate and, on an overall basis, both lower production volumes and amortization. The decrease in our depletion rate for the first quarter was due to the higher depletion rate associated with the Subject Assets that, last year, were either sold or included in the Craft Share Distribution. The decreased depletion rate was also caused by an increase in the December 31, 2016 measure of our on-going operations' proved plus probable reserves. Amortization expense during the first quarter decreased \$0.5 million compared to the same quarter of 2016. This decrease was caused by undeveloped lands included in the Subject Assets in addition to other dispositions.

## (Gain) Loss on Dispositions of Properties

Three months ended March 31	2017	2016
(\$ thousands)		
(Gain) loss on dispositions of properties	\$ (10,926)	\$ 855

During the first quarter we completed the sale of certain non-core assets located in the Knopcik/Pipestone and East Gold Creek areas of northwestern Alberta for net consideration of \$18.0 million before closing adjustments. These dispositions resulted in Assets and Liabilities Held for Sale at December 31, 2016. The comparative quarter's loss was from the sale of properties in the Enchant area of southcentral Alberta for proceeds of \$0.3 million.

## Share-Based Compensation

Three months ended March 31	2017	2016
(\$ thousands)		
Share-based compensation	\$ 251	\$ 680

There were no share-based awards granted during 2016 or the first quarter of 2017 and when combined with cancelled and forfeited awards caused by staffing reductions, there were fewer outstanding unamortized share-based awards during the first quarter compared to the same quarter of 2016. This resulted in lower share-based compensation.

## Foreign Exchange Losses & Other

Three months ended March 31	2017	2016
(\$ thousands)		
Foreign exchange losses & other	\$ 155	\$ 390

During the reported periods, we incurred a fee for a take or pay processing agreement in respect of which we did not deliver the required liquids because economic conditions in addition to our prior year strategic alternatives review caused the delay of the necessary infrastructure development. We have partially mitigated our continued exposure to this agreement's costs at least through to the first quarter of 2018. We continue to evaluate other cost mitigation options.

## Financing Expenses

Three months ended March 31	2017	2016
(\$ thousands)		
Interest & financing (income) charges	\$ (84)	\$ 13
Accretion of decommissioning obligation	169	552
Total	\$ 85	\$ 565

We reported interest & financing income of \$0.1 million during the first quarter compared to \$nil during the same quarter of 2016. During the comparative quarter, interest from our cash on hand was more than offset by the standby fees from a \$50 million credit facility. This facility was voluntarily reduced to \$nil as a result of the transfer of the Subject Assets to Craft. During the first quarter, we negotiated an \$8 million demand credit facility.

The accretion charge during the first quarter decreased compared to the same quarter of 2016. This decrease resulted from last year's \$69.7 million reduction in decommissioning obligations mostly caused by the Subject Assets that were either sold or included in the Craft Share Distribution.

## Net & Comprehensive Income (Loss)

Three months ended March 31	2017	2016
(\$ thousands, except where noted)		
Weighted average shares outstanding - basic (thousands)	216,443	215,349
Dilutive impact of share based awards (thousands)	457	-
Weighted average shares outstanding - diluted (thousands)	216,900	215,349
Net & comprehensive income (loss)	\$ 10,422	\$ (12,775)
Per share - basic & diluted (\$/share)	\$ 0.05	\$ (0.06)

We are reporting an increase in net income during the first quarter compared to a net loss for the same quarter of 2016. This increase reflects higher commodity prices, a lower cost structure associated with our transition to a pure Montney play in addition to a \$10.9 million gain on the disposition of non-core properties and a \$1.7 million gain on commodity price contracts.

## Capital Resources, Capital Expenditures and Liquidity

Since the beginning of the economic downturn during 2014 we have focused on capital preservation and optionality while continuing to focus our operation through non-core asset dispositions. During 2016, we completed the transition to a pure Montney play focused on the development of liquids-rich natural gas production from our Birley/Umbach area. In disposing of or distributing non-core properties we have freed up operating funds to focus on this core area. We also completed two separate transactions during the first quarter of 2017 to dispose of non-core assets for a combined \$18.0 million before closing adjustments with associated production volumes of 100 boe/d. With our net surplus of \$25.6 million at March 31, 2017, we have the necessary financing to fund the remainder of our 2017 capital program.

During the first quarter of 2017, we executed an \$8.0 million demand credit facility with a Canadian chartered bank. Borrowings under this credit facility are currently limited to \$2 million until we receive confirmation that the three Birley/Umbach wells completed and brought on-stream during the first quarter at Birley/Umbach are producing to the lender's satisfaction. Although we do not anticipate drawing on this facility during 2017, fund availability from this facility provides us with further financial flexibility.

For the first quarter, we financed completion and equipping expenditures in addition to an increase in non-cash working capital from adjusted funds from operations and property dispositions.

## Adjusted Funds (Outflow) from Operations

Three months ended March 31	2017	2016
(\$ thousands, except where noted)		
Cash outflow from operating activities	\$ (1,445)	\$ (4,335)
Add back (deduct):		
Change in operating non-cash working capital	2,923	(2,216)
Decommissioning obligation expenditures	93	3,165
Exploration & evaluation expenses	92	496
Severance costs	373	-
Adjusted funds (outflow) from operations <sup>(1)</sup>	\$ 2,036	\$ (2,890)
Per share - basic & diluted	\$ 0.01	\$ (0.01)

(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 first quarter's adjusted funds from operations of \$2.0 million increased compared to an adjusted funds outflow of \$2.9 million in the same quarter of 2016. This increase resulted from higher commodity benchmark prices and a lower cash-based cost structure for our Montney focused operations. The first quarter decrease in our cash-based costs is also because of the Subject Assets with its higher associated cost structure that, last year, were either sold or included in the Craft Share Distribution. We also had a \$0.4 million realized gain from a commodity price contract.

Our first quarter adjusted funds from operations is the third consecutive quarter we have reported positive adjusted funds flow which corresponds to when we started our transition to a pure Montney play. The current reported quarter's adjusted funds from operations is also the highest measure we have reported since the third quarter of 2015.

## Credit Facilities

(\$ thousands)	March 31 2017	December 31 2016
Long-term debt	\$ -	\$ -
Add:		
Accounts payable, accrued liabilities & other	9,549	11,218
Less:		
Cash and restricted cash	(22,930)	(16,129)
Accounts receivable	(7,800)	(6,658)
Prepays & deposits	(4,441)	(3,569)
Net surplus <sup>(1)</sup>	\$ (25,622)	\$ (15,138)

(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 \$25.6 million at March 31, 2017 compared to \$15.1 million at December 31, 2016. This increase of \$10.5 million was caused by disposition proceeds of \$17.8 million and adjusted funds from operations net of capital, decommissioning, exploration and evaluation expenditures and severance costs.

During the first quarter, our previous reserve-based credit facility (the "Previous Credit Facility"), was terminated and we executed an \$8.0 million demand credit facility (the "Demand Credit Facility") with the same Canadian chartered bank. There were no outstanding draws at March 31, 2017 under the Demand Credit Facility (undrawn on the Previous Credit Facility - December 31, 2015). Borrowings under this credit facility are currently limited to \$2 million until we receive confirmation that the three Birley/Umbach wells completed and brought on-stream during the first quarter are producing to the lender's satisfaction. At any time, the lender can request repayment of all outstanding drawn amounts resulting in any future borrowings being classified as a currently liability. The Demand Credit Facility's availability is subject to annual reviews with the first review scheduled for June 1, 2017. Changes in the availability of the Demand Credit Facility are possible, from one review to the next, with draws in excess of availability becoming immediately payable. Borrowings will incur interest at the prime rate plus an applicable margin and are collateralized by floating charges and security interests over all of our present and future properties and other assets. The Demand Credit Facility has a financial covenant requiring that the adjusted

working capital be 1:1 at each reporting period. For purposes of this covenant, adjusted working capital is defined as working capital excluding both current commodity price contracts and debt. In addition, the Demand Credit Facility includes operating and financial restrictions on us that include restrictions on paying dividends or repurchasing or making other distributions with respect to our securities.

As at the end of any fiscal quarter, if we have net debt or outstanding debt draws, within 60 days of the end of any such quarter, the terms of the Demand Credit Facility also require that we must enter into commodity price contracts covering no less than 30% of our forecasted twelve month combined production volumes.

## Capital Expenditures

Our capital expenditures were as follows:

<b>Three months ended March 31</b>	<b>2017</b>	<b>2016</b>
(\$ thousands)		
Land & lease	\$ -	\$ 29
Drilling & completions	7,176	-
Facilities & equipment	1,415	2,678
Field expenditures	8,591	2,707
Capitalized G&A	232	319
Total	\$ 8,823	\$ 3,026
Proceeds from dispositions	\$ 17,838	\$ 299

During the first quarter we completed, equipped and tied-in three (2.64 net) horizontal Montney wells at Birley/Umbach which, including the fourth quarter of 2016 drilling costs, totalled an average of \$3.7 million per well, a 30% decrease from the previous six (5.0 net) wells which averaged \$5.3 million per well. These decreases resulted from applying the knowledge and experience we have gained on previous drilling programs in this area. Completion and equipping costs were consistent with our revised budget.

Through to the date of this MD&A, at our Birley/Umbach area, we have drilled another three (2.67 net) of a four (3.67 net) well horizontal drilling campaign. All three wells were drilled on our D-93-F pad but with various downhole locations. The fourth well (1.0 net) is anticipated to be drilled in May. Completions and equipping are expected to occur immediately after spring break-up. All four Birley/Umbach wells are scheduled to be on-stream during the fourth quarter of 2017 bringing our exit production to our guidance of 6,300 - 6,500 boe/d. Our 2017 capital program also includes the expansion of our Birley/Umbach facility to 50 mmcf/d.

## Rationalization of Non-Core Properties

We consider our Birley/Umbach properties to be our core properties and all other properties to be non-core. As a result we may, from time to time, dispose of non-core properties so that we can focus on the development of Montney liquids-rich natural gas at Birley/Umbach. During the first quarter, we completed the sale of certain non-core assets located at Knopcik/Pipestone and East Gold Creek areas of northwestern Alberta for combined net proceeds of \$18.0 million before closing adjustments. These properties were mostly comprised of undeveloped lands but included land prospective for Montney oil and liquids-rich natural gas with estimated production of 100 boe/d (65% natural gas).

## Decommissioning Obligations

At March 31, 2017 and December 31, 2016, we had decommissioning obligations of \$29.1 million. During the first quarter the increase in our decommissioning obligations resulting from accretion charges was offset by our expenditures.

As at March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, a risk-free interest rate of 2.34% 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 our share capital, share options and share awards outstanding are as follows:

	<b>March 31 2017</b>	December 31 2016
Common shares outstanding	<b>216,442,834</b>	216,442,834
Share options	<b>5,935,700</b>	6,471,200
Restricted awards	<b>336,423</b>	349,241
Performance awards	<b>360,255</b>	381,790
Weighted average common shares		
- basic	<b>216,442,834</b>	215,860,123
- diluted	<b>216,900,053</b>	215,860,123

As at May 8, 2017, we had 216,557,785 common shares, 11,623,200 share options, 519,955 restricted awards and 311,264 performance awards outstanding.

## Off Balance Sheet Arrangements

We did not enter into any off balance sheet arrangements during the first quarter.

## Outlook

We continue to execute on our previously announced \$40 million capital program for 2017 and remain excited about the growth this program will provide. As we implement this capital program we will continue to closely monitor our balance sheet and commodity prices. As in previous years, we will remain prudent in how we deploy our capital in order to defend our strong balance sheet.

We have made great strides over the past 12 months to improve our cost structure, including completing the Craft Share Distribution and executing a new gas handling agreement in BC. On a per boe basis, our net production expense in the fourth quarter of 2017 is expected to drop by almost 30% to approximately \$8.00/boe from \$11.27/boe in the first quarter of 2017. G&A is also projected to drop from \$5.10/boe during the first quarter of 2017 to below \$2.90/boe in the fourth quarter of 2017. As we begin to increase our production at Birley, our cost structure and profitability significantly improves.

We are maintaining our previously announced production guidance for 2017 as follows:

(\$ millions, except boe/d)	<b>2017 Guidance <sup>(1)</sup></b>
Average production (boe/d)	4,200 - 4,300
Exit production (boe/d)	6,300 - 6,500
Capital expenditures	\$ 40
Net surplus as at December 31, 2017	\$ 2

(1) 2017 guidance assumptions: AECO natural gas price \$2.64/mmbtu, Station 2 natural gas price \$2.11/mmbtu and Chicago Alliance natural gas price \$2.92/mmbtu

# Quarterly Information from Operations

Summarized information by quarter for the two years ended March 31, 2017, appears below:

	Mar. 31 2017	Dec. 31 2016	Sept. 30 2016	Jun. 30 2016	Mar. 31 2016	Dec. 31 2015	Sept. 30 2015	Jun. 30 2015
<b>Production Volumes</b>								
Crude oil (bbl/d)	29	451	1,036	769	817	922	1,065	1,284
Natural gas liquids (boe/d)	482	613	599	604	733	364	395	604
Natural gas (mcf/d)	18,022	21,548	28,972	22,776	25,215	15,851	20,641	25,290
Average daily production (boe/d)	3,514	4,655	6,464	5,169	5,753	3,928	4,900	6,103
<b>Sales Prices</b>								
Average oil price (\$/bbl)	\$ 60.32	\$ 71.98	\$ 57.31	\$ 50.59	\$ 35.41	\$ 47.93	\$ 51.34	\$ 62.90
Average natural gas liquids price (\$/boe)	\$ 51.39	\$ 40.70	\$ 10.67	\$ 25.78	\$ 27.65	\$ 30.59	\$ 31.68	\$ 41.06
Average natural gas price (\$/mcf)	\$ 2.71	\$ 3.31	\$ 2.22	\$ 1.35	\$ 1.43	\$ 2.09	\$ 2.56	\$ 2.50
<b>Operating Netback<sup>(1)</sup></b>								
Average commodity pricing (\$/boe)	\$ 21.42	\$ 27.67	\$ 20.14	\$ 16.50	\$ 14.82	\$ 22.51	\$ 24.48	\$ 27.67
Realized gains (losses) on derivative contracts (\$/boe)	\$ 1.38	\$ (0.35)	\$ 1.84	\$ 0.15	\$ -	\$ 1.26	\$ 0.87	\$ 0.79
Royalties (\$/boe)	\$ 0.20	\$ (2.84)	\$ (0.77)	\$ (0.44)	\$ (0.99)	\$ 2.39	\$ (1.13)	\$ (0.78)
Net production expenses (\$/boe) <sup>(1)</sup>	\$ (11.27)	\$ (11.88)	\$ (12.61)	\$ (14.75)	\$ (15.12)	\$ (14.17)	\$ (12.49)	\$ (18.44)
Operating Netback (\$/boe) <sup>(1)</sup>	\$ 11.73	\$ 12.59	\$ 8.60	\$ 1.45	\$ (1.29)	\$ 11.99	\$ 11.72	\$ 9.25
<b>Wells Drilled (net)</b>								
Total natural gas wells drilled (net)	-	2.64	-	-	-	-	-	-
<b>FINANCIAL (\$ thousands, except per share amounts)</b>								
Petroleum & natural gas revenues, net of royalties	\$ 6,838	\$ 10,631	\$ 11,518	\$ 7,550	\$ 7,244	\$ 9,000	\$ 10,527	\$ 14,934
Adjusted funds (outflow) from operations <sup>(1)</sup>	\$ 2,036	\$ 1,713	\$ 1,894	\$ (1,721)	\$ (2,890)	\$ 1,865	\$ 3,299	\$ 2,995
Per share - basic & diluted (\$/share)	\$ 0.01	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ 0.02	\$ 0.01
Net (loss) income <sup>(2)</sup>	\$ 10,422	\$ 6,427	\$ (35,905)	\$ (12,520)	\$ (12,775)	\$ (5,303)	\$ (80,669)	\$ (5,822)
Per share - basic & diluted (\$/share)	\$ 0.05	\$ 0.03	\$ (0.17)	\$ (0.06)	\$ (0.06)	\$ (0.02)	\$ (0.37)	\$ (0.03)
Capital expenditures	\$ 8,823	\$ 4,177	\$ 661	\$ 1,347	\$ 3,026	\$ 9,998	\$ 7,313	\$ 4,921
Net surplus <sup>(1)</sup>	\$ (25,622)	\$ (15,138)	\$ (7,217)	\$ (6,207)	\$ (20,180)	\$ (29,614)	\$ (41,181)	\$ (46,705)
Total assets	\$ 148,665	\$ 139,975	\$ 274,674	\$ 366,586	\$ 299,623	\$ 321,564	\$ 333,036	\$ 414,280
<b>Common Shares (thousands)</b>								
Weighted average during period - basic	216,443	216,443	216,287	215,350	215,349	215,337	215,274	215,089
Weighted average during period - diluted	216,900	216,621	216,287	215,350	215,349	215,337	215,274	215,089
Outstanding at period end	216,443	216,443	216,443	215,350	215,350	215,349	215,328	215,236

(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 (\$10.9 million), \$52.0 million and \$75.0 million in net impairment (reversal) charges against properties for the three months ended December 31, 2016, September 30, 2016 and September 30, 2015, respectively.

## Factors That Have Caused Variations over the Quarters

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

Generally, the first quarter changes in operating results and their corresponding financial measures, in comparison to prior quarters, result from the Subject Assets as either sold in October 2016 or as included in the Craft Share Distribution. The first quarter operating and financial results are the first full quarter we have reported as a pure Montney play company. The effect of the Subject Assets resulting from the October 2016 disposition and Craft Share Distribution resulted in lower reported volumes during the fourth quarter of 2016. For quarters prior thereto, generally, our shut-in of properties in response to lower commodity prices has resulted in a lower trend of natural gas and natural gas liquids production volumes. This trend was offset during the first quarter of 2016 when we brought on-stream an additional three (2.75 net) wells from a previous year's drilling program at Birley/Umbach on the commissioning of our new compression facility. Our crude oil production volumes generally trended down due to ongoing pipeline service restrictions and reduced system capacity. The acquisition of Craft and its associated volumes increased our production during the third quarter of 2016. Further increasing our third quarter of 2016 production volumes were higher commodity pricing combined with a more favorable gas handling contract that allowed the reactivation of previously shut-in wells.

Our realized commodity prices and petroleum and natural gas revenue, net of royalties have mostly trended with the Canadian Light Sweet and AECO benchmarks which decreased throughout 2015 with the Canadian Light Sweet benchmark not beginning to recover until the second quarter of 2016 while the AECO benchmark recovered in third quarter of 2016. Changes in our petroleum and natural

gas revenues, net of royalties and adjusted funds from operations have generally trended with benchmark commodity prices and volumes. Our net surplus has generally trended down as our capital expenditures exceeded our adjusted funds from operations. It further decreased in the second quarter of 2016 when we acquired debt in connection with the Craft acquisition until December 12, 2016, when we completed the Craft Share Distribution. It increased again in the first quarter as a result of proceeds received from non-core asset distributions. Our capital preservation efforts resulted in no drilling activity until the fourth quarter of 2016 when we drilled three (2.64 net) wells at Birley/Umbach, which were completed in the first quarter. Our dispositions of non-core assets combined with adjusted 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 AIF 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 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.

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 ("ICOFR") to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. No material changes in our ICOFR were identified during the period beginning on January 1, 2017 and ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect our ICOFR.

We have designed our ICOFR 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.

# Other Information

## Non-GAAP Measures

The following non-GAAP measures 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.

- Adjusted funds (outflow) from operations is calculated from cash flow from operations adjusted for changes in non-cash operating working capital, exploration and evaluation expenses, decommissioning obligation expenditures and severance/transaction costs. We believe that adjusted funds (outflow) from operations is a key measure to assess our ability to finance capital expenditures and when debt is drawn, to finance debt repayments. Adjusted funds (outflow) from operations is not intended to represent cash flow from operating activities, net income (loss) 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. Adjustments to cash flow from operations are for changes in non-cash operating working capital which are expected to reverse and for those costs that are not directly caused by lifting production volumes.
- Net debt (surplus) is calculated as bank debt adjusted for current assets less current liabilities as they appear on the balance sheets, both of which exclude mark-to-market commodity price contracts and assets and liabilities held for sale and current liabilities excludes any current portion of debt and decommissioning obligation. We use net debt (surplus) to assist us in understanding our liquidity at specific points in time. We exclude the current portion of decommissioning obligation as it is not a financial instrument. Mark-to-market commodity contracts and assets and liabilities held for sale are excluded as they are unrealized.
- Operating netback is calculated as a period's sales of petroleum and natural gas, net of realized gains or losses on commodity price contracts, royalties and net production expenses, divided by the period's sales volumes. We use this non-GAAP measure to assist us in understanding our production profitability relative to current and fixed commodity prices and it provides an analytical tool to benchmark changes in field operational performance against prior periods. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as net income determined in accordance with IFRS as a measure of performance.
- Net production and operating expense is calculated as production and operating expense less processing and gathering revenues. We use net production and operating expense to determine the current periods' 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: that we will drill the fourth well of our four well drilling program at our Birley/Umbach area in May and that all four wells are scheduled to be on-stream during the fourth quarter of 2017, our 2017 year end production guidance, expectations regarding crown royalties and the receipt of additional credits in 2017, our expectation that the new gas handling agreement will significantly improve our go-forward drilling economics and reduce our operating costs, future G&A cost reductions and the realization thereof, our expected future production costs, plans and operations including our intention to concentrate on our Montney assets, the amount and composition of our 2017 capital program and how we intend to fund the program, that we expect to remain undrawn on our demand revolving credit facility through 2017, the expected decrease in our net production expense and G&A in the fourth quarter of 2017 and our expectation that as we begin to increase production at Birley our cost structure and profitability will improve significantly, future exploration and development activities and the timing thereof and how we intend to manage our company as well as our guidance regarding average and ending production for 2017, capital expenditures for

2017 and net surplus at December 31, 2017 set forth under the heading "Outlook". In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to the forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things: 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 in 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 cost assumptions, that the budgeted 2017 capital program, which is subject to the discretion of our Board of Directors, will not be amended in the future, and the continued availability of adequate 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, 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 2017 capital program based on its discretion; environmental risks, competition from other producers, inability to retain drilling rigs and other services, unanticipated increases in 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](http://www.sedar.com)) and at our website ([www.chinookenergyinc.com](http://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.

## **Future Oriented Financial Information**

This MD&A, in particular the information in respect of our anticipated capital expenditures in 2017, net production expense per boe, G&A per boe and our guidance in respect of our net surplus at December 31, 2017, 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.

## Selected Definitions and Abbreviations

### Oil and Natural Gas Liquids

bbbl	barrels
bbbl/d	barrels per day
NGLs	natural gas liquids

### Natural Gas

mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmbtu	million British Thermal units
GJ	gigajoule
GJs	gigajoules
GJs/d	gigajoules per day

### Other

boe	barrel of oil equivalent on the basis of 6 mcf/1 boe for natural gas and 1 bbl/1 boe for crude oil and natural gas liquids (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
boe/d	barrel of oil equivalent per day
mboe	1,000 barrels of oil equivalent
Canadian Light Sweet	Central market point for Canadian crude oil
BC Westcoast Station 2	Market point for BC natural gas
AECO	Central market point for Canadian natural gas

## Barrels of Oil Equivalent

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

## Initial Production Rates

Any reference in this MD&A to initial, early and/or test or production/performance rates (including IP30, IP60 and IP90) are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating our aggregate production. The initial production or test rates may be estimated based on other third party estimates or limited data available at this time. In all cases in this news release initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons. Well-flow test result data should be considered to be preliminary until a pressure transient analysis and/or well-test interpretation has been carried out.