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**First Quarter 2016 Financial Report**



**EAGLE ENERGY™**  

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**INC.**



# Management's Discussion and Analysis

May 5, 2016

This Management's Discussion and Analysis ("**MD&A**") of financial condition and results of operations for Eagle Energy Inc. ("**Eagle**"), dated May 5, 2016, should be read in conjunction with Eagle's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2016 ("**Interim Financial Statements**") and Eagle's audited consolidated financial statements and accompanying notes and related MD&A for the year ended December 31, 2015 and Eagle's Annual Information Form dated March 17, 2016 ("**AIF**"), which are available online at [www.sedar.com](http://www.sedar.com) and on Eagle's website at [www.eagleenergy.com](http://www.eagleenergy.com).

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

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

The foreign exchange rate at March 31, 2016 was \$US 1.00 equal to \$CA 1.30 (December 31, 2015 - \$US 1.00 equal to \$CA 1.38), and the average foreign exchange rate for the three months ended March 31, 2016 was \$US 1.00 equal to \$CA 1.37 (for the three months ended March 31, 2015 - \$US 1.00 equal to \$CA 1.24).

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

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

## Overview of Eagle

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

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

## Highlights for the Three Months ended March 31, 2016

- First quarter average sales volumes of 3,854 barrels of oil equivalent per day (“boe/d”).
- Closed the acquisition of Maple Leaf on January 27, 2016, acquiring additional oil and gas interests in Alberta and simplifying Eagle’s structure by converting into a corporate entity.
- Successfully drilled the first well of its two well drilling program in Salt Flat, with costs coming in considerably under budget. The second well was drilled in April 2016. Both wells are expected to be on-stream late in the second quarter.
- Reduced operating costs by 27% on a per-boe basis when compared to a year ago.

## 2016 Outlook

*This outlook section is intended to provide shareholders with information about Eagle’s expectations for production and capital expenditures for 2016. Readers are cautioned that the information may not be appropriate for any other purpose. This information constitutes forward-looking information. Readers should note the assumptions, risks and discussions under “Note about Forward-Looking Statements” at the end of this MD&A.*

Eagle’s 2016 capital budget, production and operating cost guidance is revised from what Eagle previously announced on February 11, 2016 as follows:

	2016 Revised Guidance	2016 Previous Guidance	Notes
Capital Budget	\$5.0 mm	\$5.0 mm	1
Production	3,400 to 3,800 boe/d	3,200 to 3,600 boe/d	2
Operating Costs per month	\$2.0 to \$2.4 mm	\$2.2 to \$2.6 mm	

### Notes:

- (1) The 2016 capital budget of \$CA 5.0 million consists of \$US 3.0 million for Eagle’s operations in the United States and \$0.8 million for Eagle’s operations in Canada. At an assumed \$US 45.00 per barrel WTI oil price, Eagle’s 2016 capital budget of \$5.0 million and dividend of \$0.01 per common share of Eagle per month (\$0.12 per share annualized) results in a corporate payout ratio of 100%.
- (2) 2016 production is forecast to consist of 87% oil, 10% natural gas and 3% natural gas liquids (“NGLs”). The revised production guidance includes both working interest and royalty interest production.

## Eagle’s Expected Funds Flow from Operations and Corporate Payout Ratio

As a result of the change in the above guidance, Eagle’s expected funds flow from operations and corporate payout ratio are calculated as follows:

	Amount	Notes
Funds Flow from Operations	\$10.0 mm	(1)
Basic Payout Ratio	54%	(2)
Plus: Capital Expenditures	46%	
Equals: Corporate Payout Ratio	100%	(3)

### Notes:

- (1) 2016 funds flow from operations is expected to be approximately \$CA 10.0 million based on the following assumptions:
  - average production of 3,600 boe/d (the mid-point of the guidance range);
  - pricing at \$US 45.00 per barrel WTI oil, \$US 2.45 per Mcf NYMEX gas, \$CA 1.50 per Mcf AECO and \$US 15.75 per barrel of NGL (NGL price is calculated as 35% of the WTI price);
  - differential to WTI is \$US 3.10 discount per barrel in Salt Flat, \$US 3.50 discount per barrel in Hardeman, \$CA 16.17 discount per barrel in Dixonville and \$CA 12.67 discount per barrel in Twining;
  - average operating costs of \$CA 2.2 million per month (\$US 0.8 million per month for Eagle’s operations in the United States and \$CA 1.1 million per month for Eagle’s operations in Canada), the mid-point of the guidance range;
  - foreign exchange rate of \$US 1.00 equal to \$CA 1.26 (previously \$CA 1.33); and
  - field netback (excluding hedges) of \$12.88 per boe.

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

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

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

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

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

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

Sensitivity to Commodity Price	2016 Average WTI (Production 3,600 boe/d)		
	\$US 40 (FX 1.29)	\$US 45 (FX 1.26)	\$US 50 (FX 1.23)
Funds Flow from Operations (\$CA)	\$9.7	\$10.0	\$10.2
Corporate Payout Ratio	105%	100%	99%
Debt to Trailing Cash Flow	6.7x	6.4x	6.3x

Sensitivity to Production	2016 Average Production (boe/d) (WTI \$US 45, F/X 1.26)		
	3,400	3,600	3,800
Funds Flow from Operations (\$CA)	\$9.1	\$10.0	\$10.9
Corporate Payout Ratio	111%	100%	93%
Debt to Trailing Cash Flow	7.1x	6.4x	5.9x

**Assumptions:**

- (1) Annualized dividends are assumed to be \$0.12 per share per year.
- (2) Operating costs are assumed to be \$2.2 million per month (mid-point of guidance range).
- (3) Differential to WTI held constant.
- (4) Foreign exchange rate is assumed to be \$US 1.00 equal to \$CA 1.26 unless otherwise indicated in the table.

## Acquisition

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

Under the transaction, Eagle issued 7,141,815 shares at \$0.73 per share for total consideration of \$5,213,525. An additional 446,444 shares with a value of \$325,904 were issued as consideration for the termination of the Maple Leaf management agreement and this amount has been expensed in general and administrative costs as part of the deal transaction costs.

Acquisition highlights are:

- 0.94 million boe of proved reserves and 1.09 million boe of proved plus probable reserves (as of January 1, 2016, calculated by Eagle's internal qualified reserves evaluator).
- Current production of approximately 240 boe/d from royalty interests (30% oil and NGLs), and 200 boe/d from working interests (30% oil and NGLs) in assets in west central Alberta.
- No incremental debt, capital expenditures or overhead is needed to manage the production and associated cash flow added as a result of the acquisition of Maple Leaf.

## Sensitivities

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

	Quarterly impact on →	Funds flow from operations (\$000's)	Funds flow from operations / share <sup>(1)</sup>
Gas price <sup>(2)</sup>	+ USD \$0.10/Mcf Henry HUB	32	-
Oil price <sup>(2)</sup>	+ USD \$1.00/bbl WTI	364	0.01
Gas production	+1000 Mcf/d	88	-
Oil production	+100 bbls/d	74	-
Currency <sup>(2)</sup>	+CDN weaken by \$0.01	39	-
Interest rate	+1% prime	(163)	-

### Notes:

- (1) Per share figures are based on 40,200,162 weighted average basic shares outstanding for the three months ended March 31, 2016.  
(2) Price and currency sensitivities are calculated assuming an average yearly production rate equal to year to date average working interest and royalty sales volumes of 3,854 boe/d.

## Consolidated Results of Operations

### Production

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
Working interest	3,694	2,995	23
Royalty interest	160	-	-
Total	<b>3,854</b>	2,995	29

Working interest sales volumes for the first quarter of 2016 averaged 3,694 boe/d (88% oil, 3% NGLs, 9% natural gas). Royalty interest volumes for the quarter averaged 160 boe/d (19% oil, 17% NGLs, 64% natural gas).

**Average Daily Production by Product Type**

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Working Interest</b>			
Oil (bbl/d)	3,233	2,895	12
Natural gas (Mcf/d)	2,126	273	679
Natural gas liquids (bbl/d)	106	55	92
Oil equivalent sales volumes (boe/d @6:1)	<b>3,694</b>	2,995	23
<b>Royalty Interest</b>			
Oil (bbl/d)	30	-	-
Natural gas (Mcf/d)	614	-	-
Natural gas liquids (bbl/d)	28	-	-
Oil equivalent sales volumes (boe/d @6:1)	<b>160</b>	-	-
<b>Total</b>			
Oil (bbl/d)	3,263	2,895	13
Natural gas (Mcf/d)	2,740	273	904
Natural gas liquids (bbl/d)	134	55	144
Oil equivalent sales volumes (boe/d @6:1)	<b>3,854</b>	2,995	29

**Revenue**

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Working Interest Revenue<sup>(1)</sup></b>			
Oil	10,553	13,034	(19)
Natural gas	425	71	499
Natural gas liquids	165	85	94
Other	230	203	13
	<b>11,373</b>	13,393	(15)
<b>Royalty Interest Revenue</b>			
Oil	110	-	-
Natural gas	101	-	-
Natural gas liquids	69	-	-
Other	-	-	-
	<b>280</b>	-	-
<b>Total Gross Revenue<sup>(1)</sup></b>			
Oil	10,663	13,034	(18)
Natural gas	526	71	641
Natural gas liquids	234	85	175
Other	230	203	13
	<b>11,653</b>	13,393	(13)

**Notes:**

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

**Product Prices**

<b>Realized Prices</b>	<b>Three Months Ended March 31, 2016</b>	Three Months Ended March 31, 2015	<b>%</b>
Oil (\$/bbl)	35.91	50.03	(28)
Natural gas (\$/Mcf)	2.11	2.89	(27)
Natural gas liquids (\$/bbl)	19.17	17.30	11
Other (\$/bbl)	0.66	0.75	(13)
<b>Revenue (\$/boe)</b>	<b>33.23</b>	49.69	(33)

<b>Benchmark prices</b>	<b>Three Months Ended March 31, 2016</b>	Three Months Ended March 31, 2015	<b>%</b>
WTI crude oil (\$US/bbl)	33.45	48.63	(31)
Exchange rate (\$CA/\$US)	1.37	1.24	11
Edmonton Par crude oil (\$CA/bbl)	41.22	53.28	(23)
NYMEX Gas (\$US/Mcf)	1.99	2.81	(29)
AECO natural gas (\$CA/Mcf)	1.83	2.75	(33)

Eagle's quarterly total gross revenue is 92% derived from oil. Realized oil prices in Canadian dollars for the three months ended March 31, 2016 decreased by 28% when compared to the three months ended March 31, 2015. This decrease was less than the benchmark WTI decrease due to narrower negative price differentials.

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

For the Dixonville properties in Canada, the entire differential to WTI, including quality and transportation, is approximately a \$CA 16.17 discount per barrel, but fluctuates. For the Twining properties in Canada, the entire differential to WTI, including quality and transportation, is approximately a \$CA 12.67 discount per barrel, but fluctuates. On October 1, 2015, to mitigate the effect of fluctuating differentials on a portion of its production, Eagle entered into a fixed price financial swap on 1,000 barrels per day of oil fixing the price differential between Edmonton light sweet and WTI at \$US 3.65 per barrel for the period December 1, 2015 to December 31, 2016. The portion of the differential between Edmonton light sweet and realized field price was not fixed in this transaction. The differential was hedged at a narrower amount than the historical WTI to Edmonton light sweet differential.

The above prices do not include realized gains or losses from financial commodity contracts, which amounted to a realized gain of \$3.3 million (\$9.49/boe) for the three months ended March 31, 2016. See "Realized and Unrealized Risk Management Gain/Loss".

**Royalty Expense**

	<b>Three Months Ended March 31, 2016</b>	Three Months Ended March 31, 2015	%
<b>Working interest (\$000's)</b>	<b>2,489</b>	3,671	(32)
\$/boe	7.40	13.62	(46)
<b>Royalty interest<sup>(1)</sup> (\$000's)</b>	<b>65</b>	-	-
\$/boe	4.46	-	-
<b>Total (\$000's)</b>	<b>2,554</b>	3,671	(30)
\$/boe <sup>(2)</sup>	7.28	13.62	(47)
<b>Royalty rate on working interest sales:</b>	<b>22%</b>	27%	(20)

**Notes:**

(1) Freehold mineral tax.

(2) Total \$/boe amounts are calculated using working interest and royalty interest volumes of 3,854 boe/d.

The overall royalty rate of approximately 22% for the three months ended March 31, 2016 was lower than the prior year comparative periods due to the sliding scale nature of royalties paid on Canadian properties. Crown royalty rates in Alberta depend on four components: (i) production volumes, (ii) commodity prices, (iii) product density and (iv) Crown royalty percentage. Commodity prices have trended downward since December 31, 2014, causing a downward trend in Alberta Crown royalty rates.

For the three months ended March 31, 2016, royalties paid decreased by 30% when compared to the prior year. This decrease is attributable to lower realized commodity pricing resulting from the decline in the WTI benchmark price over the 2015 comparative period and the increased exposure to the Canadian royalty structure that adjusts more with movements in commodity price. Royalty rates for Eagle's U.S. properties do not generally fluctuate with underlying commodity prices.



**Operating Costs**

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Working interest (\$000's)</b>			
Operating costs	5,656	5,938	(5)
Transportation and marketing expenses	609	40	1,423
	<b>6,265</b>	5,978	5
<b>(\$/boe)</b>			
Operating costs	16.83	22.03	(24)
Transportation and marketing expenses	1.81	0.15	1,109
	<b>18.64</b>	22.18	(16)
<b>Royalty interest (\$000's)</b>			
Operating costs	-	-	-
Transportation and marketing expenses	-	-	-
	-	-	-
<b>(\$/boe)</b>			
Operating costs	-	-	-
Transportation and marketing expenses	-	-	-
	-	-	-
<b>Total operating expenses (\$000's)</b>			
Operating costs	5,656	5,938	(5)
Transportation and marketing expenses	609	40	1,423
	<b>6,265</b>	5,978	5
<b>(\$/boe)<sup>(1)</sup></b>			
Operating costs	16.13	22.03	(27)
Transportation and marketing expenses	1.74	0.15	1,058
	<b>17.86</b>	22.18	(19)

**Notes:**

(1) Total \$/boe amounts are calculated using working interest and royalty interest volumes of 3,854 boe/d.

Operating costs totaling \$5.7 million for the three months ended March 31, 2016 are comprised primarily of power (20%), oil transportation (9%), chemicals (9%), field salaries (9%) and water disposal fees (7%). For the three months ended March 31, 2015, operating costs of \$5.9 million were comprised primarily of power (17%), water disposal fees (8%), field salaries (7%) and non-recurring workovers (4%).

Per-barrel operating costs on a year-over-year basis decreased largely due to Eagle's cost reduction initiatives in the US during 2015, which resulted in operating costs being reduced for the US properties by 18% year-over-year. The addition of the Twining property in the third quarter of 2015 and the Maple Leaf properties in the first quarter of 2016 added to first quarter 2016 operating costs when compared to the first quarter of 2015. Dixonville operating costs decreased year-over-year with fewer workovers completed in the first quarter of 2016.

Quarter-over-quarter transportation and marketing expenses are higher due to the addition of oil trucking costs for Eagle's production from the Dixonville and Twining properties. The transportation costs for the US wells has decreased due to improved marketing charges that were negotiated for the US properties.

**Field Netback**

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	\$000's	\$/boe	\$000's	\$/boe
Revenue	11,653	33.23	13,393	49.69
Royalty expense	(2,554)	(7.28)	(3,671)	(13.62)
Operating expenses	(5,656)	(16.13)	(5,938)	(22.03)
Transportation and marketing expenses	(609)	(1.74)	(40)	(0.15)
<b>Field netback</b>	<b>2,834</b>	<b>8.08</b>	3,744	13.89
<b>Sales volumes (boe/d)</b>		<b>3,854</b>		2,995

During the quarter, Eagle averaged revenue of \$33.23 per boe and realized a field netback of \$8.08 per boe. When compared to the prior year, the decrease in field netback is primarily due to the decrease in commodity prices being partially offset by the results of Eagle's efforts to lower field operating expenses, as well as lower price-sensitive royalty expense for Canadian properties.

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

**Administrative Expenses**

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
	Administrative expenses (\$000's)	3,646	2,460
\$/boe	10.40	9.13	14

Total administrative expenses for the three months ended March 31, 2016 were \$3.7 million, approximately 32% of full year 2016 expected levels. Staff and related employment costs, one-time deal transaction costs related to the Arrangement (refer to the "Overview of Eagle" section of this MD&A) and office costs accounted for 55%, 17% and 13%, respectively, of administrative expenses for the three months ended March 31, 2016. Deal transaction costs include \$325,000 to terminate the Maple Leaf management agreement which was settled through the issuance of shares and was therefore a non-cash expenditure. For the three months ended March 31, 2015, staff and related employment costs accounted for 75% of administrative expenses.

**Realized and Unrealized Risk Management Gain/Loss**

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

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

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

\$000's	<b>Three Months Ended March 31, 2016</b>	Three Months Ended March 31, 2015	%
Realized gain (loss)	3,327	7,295	(54)
Unrealized gain (loss)	(2,734)	(4,183)	(35)
<b>Net gain (loss)</b>	<b>593</b>	<b>3,112</b>	<b>(81)</b>

On a quarter-over-quarter basis, the net value of the commodity price contracts has decreased. The net value of the contracts is dependent upon current and forward commodity pricing and, in the case of realized gains and losses, the price of the contract relative to the benchmark oil price at the time of settlement. Although Eagle currently has no intention of unwinding the contracts that are in place, it is required to calculate and record, using a mark-to-market valuation, the fair value of the remaining term of the contracts at the end of each reporting period, hence the change in value of the unrealized portion of the commodity contracts. Compared to the first quarter of 2015, the forward commodity pricing environment increased slightly, while the average hedge price decreased significantly causing the future value of the unrealized contracts to decrease on the balance sheet at March 31, 2016.

Eagle had 1,170 barrels of oil per day hedged at an average WTI price of \$US 55.86 for the first quarter of 2016. For the remainder of 2016, Eagle has 1,605 barrels of oil per day hedged at an average WTI price of \$US 51.44. For 2017, Eagle has hedges in places with a weighted average forward sale price of \$US 44.93 WTI per barrel on 750 barrels of oil per day. In addition, Eagle has a natural gas hedge on 1,500 GJs per day at a fixed price of \$CA 2.83 per GJ for the period January 1, 2016 to December 31, 2016.

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

### Finance Expense

\$000's	<b>Three Months Ended March 31, 2016</b>	Three Months Ended March 31, 2015	%
Finance expense (\$000's)	893	772	16
\$/boe	2.54	2.87	(11)

For the three months ended March 31, 2016, finance expense increased over the comparative prior period due to higher outstanding advances on the credit facility.

For the quarter, the effective interest rate on bank debt was 3.4% (4.2% for the comparable period in 2015). During the quarter, Eagle borrowed by way of banker's acceptance (funds drawn were denominated in Canadian dollars), which was lower than the prime rate option on its borrowings. The prior year's comparative quarter also utilized borrowings by way of banker's acceptance.

## Funds Flow from Operations

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

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	\$000's	\$/boe	\$000's	\$/boe
Field netback	2,834	8.08	3,744	13.89
Cash settled award payments	(25)	(0.07)	(57)	(0.21)
Administrative expenses - cash	(3,321)	(9.47)	(2,460)	(9.13)
Realized risk management gain (loss)	3,327	9.49	7,295	27.07
Finance expense	(646)	(1.84)	(571)	(2.12)
Income tax recovery	-	-	-	-
Realized foreign exchange gain (loss) <sup>(1)</sup>	(2)	(0.01)	(224)	(0.83)
<b>Funds flow from operations</b>	<b>2,167</b>	<b>6.18</b>	<b>7,727</b>	<b>28.67</b>

### Note:

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

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

## Share Based Compensation

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
	Share-based compensation expense (recovery)	(154)	

A non-cash share-based compensation recovery of \$154,000 was recorded during the first quarter of 2016.

Eagle's share-based compensation program consists of (i) a new long-term equity compensation incentive plan ("**2016 Equity Incentive Plan**"), which was implemented following the closing of the Arrangement, and under which Restricted Share Units ("**RSUs**") and Performance Share Units ("**PSUs**") have been awarded; (ii) a share option plan that was previously in place ("**2010 Option Plan**"), which has been adjusted to entitle holders of options to purchase shares of Eagle on identical terms and conditions; and (iii) cash-settled restricted unit rights ("**RUR**") agreements which were previously in place and have been adjusted to reference shares, but otherwise entitle holders to identical rights, terms and conditions.

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

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

During the first quarter, \$24,000 was paid out in cash for amounts related to vested RURs. The decrease in payments year over year is due to the reduction in Eagle's monthly cash dividend as RUR payments track with dividends.

## Depreciation, Depletion and Amortization

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
	Depreciation, depletion and amortization	5,417	

The depletion, depreciation, and amortization provision for the three months ended March 31, 2016 for all properties except the Maple Leaf properties was based on proved plus probable reserves, including the future development costs associated with those reserves, as outlined in the year-end 2015 reserves evaluation report prepared by

Eagle's independent reserves evaluators. The depletion calculation for the Maple Leaf properties was calculated using proved plus probable reserves as calculated by Eagle's internal qualified reserves evaluator.

For the Dixonville properties, a combination of a decrease in carrying value due to an impairment charge, along with a slight decrease in reserves, resulted in a lower per boe depletion rate when compared to the first quarter of 2015, from \$11.60 to \$7.61 per boe. The lower rate, combined with a slight decrease in production resulted in a decrease in total depletion for the Dixonville area of \$300,000.

The Twining area properties were acquired in the third quarter of 2015. The per boe depletion rate for these properties in the first quarter of 2016 was \$12.89.

For the Hardeman properties, a decrease in carrying value due to an impairment charge, along with a slight decrease in reserves primarily attributed to lower prices, resulted in a per boe depletion rate of \$US 15.78 in the first quarter of 2016 compared to \$US 18.45 in the first quarter of 2015.

For the Salt Flat properties, a decrease in carrying value due to a 2015 impairment, along with a slight decrease in reserves primarily attributed to lower prices, resulted in a per boe depletion rate of \$US 16.59 in the first quarter of 2016 compared to \$US 26.07 in the first quarter of 2015.

Due to the low price oil environment in 2015, impairments were taken on all of Eagle's properties, resulting in lower current carrying values, even after adding assets from the two business combinations. Reserves in the existing properties remained fairly consistent, with only slight decreases. Given the lower carrying value and relatively consistent reserves, total depletion in the first quarter of 2016 decreased to \$5.4 million compared to \$6.2 in the first quarter of 2015.

At March 31, 2016, Eagle assessed each of its CGUs and determined that there were not any indicators of impairment. An assessment will be done each quarter in 2016.

#### Foreign Exchange Loss (Gain) on Intercompany Loan

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

For the three months ended March 31, 2016, Eagle recorded a foreign exchange loss of \$5.3 million due to a decrease in the average foreign exchange rate from the previous quarter.

#### Capital Expenditures

Capital expenditures during the three month period ended March 31, 2016 were as follows:

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Exploration and evaluation <sup>(1)</sup>	5	-
Acquisition - Maple Leaf Royalties Corp.	5,144	-
Intangible drilling and completions	1,897	1,964
Well equipment and facilities	336	1,096
<b>Total</b>	<b>7,382</b>	<b>3,060</b>

**Note:**

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

## Summary of Quarterly Results

	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015	Q4/2014	Q3/2014	Q2/2014
(\$000's except for boe/d and per share amounts)								
Sales volumes – boe/d	3,854	3,783	3,607	3,034	2,995	1,929	2,859	3,341
Revenue, net of royalties	9,099	11,603	13,428	12,884	10,206	10,238	17,143	20,821
per boe	25.94	33.34	40.46	46.66	37.86	57.67	65.19	68.48
Operating costs	6,265	6,356	6,473	5,171	5,978	3,396	4,312	5,219
per boe	17.86	18.26	19.50	18.73	22.18	19.13	16.39	17.16
Field netback	2,834	5,246	6,956	7,713	3,744	6,841	12,832	16,144
per boe	8.08	15.08	20.96	27.94	13.89	38.54	48.80	53.10
Funds flow from operations	2,167	5,147	7,332	10,532	7,727	5,670	7,476	10,471
per boe	6.18	14.79	22.09	38.14	28.67	31.94	28.43	34.44
per share – basic	0.05	0.15	0.21	0.30	0.22	0.16	0.22	0.32
per share – diluted	0.05	0.15	0.21	0.30	0.22	0.15	0.16	0.28
Earnings (loss)	(11,713)	(23,198)	(51,784)	(6,541)	5,477	(35,192)	8,104	(23,158)
per share – basic	(0.29)	(0.67)	(1.48)	(0.19)	0.16	(1.01)	0.24	(0.70)
per share - diluted	(0.29)	(0.67)	(1.48)	(0.19)	0.16	(1.13)	0.18	(0.70)
Cash dividends declared	1,584	2,614	3,143	3,130	3,153	7,159	9,036	8,775
per issued share	0.04	0.07	0.09	0.09	0.09	0.21	0.26	0.26
Current assets	12,829	19,767	21,862	13,382	31,459	33,245	76,566	8,802
Current liabilities	5,472	9,397	8,033	7,754	8,642	10,720	13,587	32,878
Total assets	199,708	208,572	228,959	245,009	265,342	257,172	240,458	320,182
Total non-current liabilities	96,317	92,616	91,316	52,012	60,835	57,547	2,565	80,126
Shareholders' equity	97,919	106,559	129,611	185,243	195,865	188,905	224,306	207,178
Shares issued	42,452	34,863	34,893	34,961	35,023	35,017	34,821	33,739

Field netback and funds flow from operations are non-IFRS measures. See “Non-IFRS Financial Measures”.

For the three months ended March 31, 2016, sales volumes increased when compared to the previous quarter due to the Maple Leaf acquisition (refer to the “Acquisition” section of this MD&A).

Despite a quarter-over-quarter increase in production and lower per-barrel operating costs, funds flow from operations decreased in the first quarter of 2016 primarily due to lower realized commodity prices. During the quarter, Eagle also incurred additional costs in relation to the Maple Leaf acquisition and concurrent conversion into a corporation. Refer to the “Overview of Eagle” section of this MD&A.

Earnings (loss) on a quarterly basis often do not move directionally or by the same amounts as funds flow from operations. This is due to items of a non-cash nature that factor into the calculation of earnings (loss), and those that are required to be fair valued at each quarter end. First quarter 2016 funds flow from operations was 58% lower than the fourth quarter of 2015, yet the first quarter loss was 50% less than the fourth quarter of 2015 due mainly to a non-cash impairment of oil and gas properties that was taken in the fourth quarter of 2015.

## Segmented Operations

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

### United States

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Production</b>			
<b>Working interest</b>			
Oil (bbl/d)	1,826	1,765	3
Natural gas (Mcf/d)	245	231	6
Natural gas liquids (bbl/d)	40	55	(26)
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>1,907</b>	1,859	3
<b>Royalty interest</b>			
Oil (bbl/d)	-	-	-
Natural gas (Mcf/d)	-	-	-
Natural gas liquids (bbl/d)	-	-	-
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>-</b>	-	-
<b>Total</b>			
Oil (bbl/d)	1,826	1,765	3
Natural gas (Mcf/d)	245	231	6
Natural gas liquids (bbl/d)	40	55	(26)
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>1,907</b>	1,859	3

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Field Netback (\$000's)</b>			
Gross revenue	6,974	9,602	(27)
Royalty expense	(1,980)	(2,802)	(29)
Operating expenses	(3,169)	(3,856)	(18)
Transportation and marketing expenses	(15)	(31)	(51)
<b>Field netback</b>	<b>1,810</b>	2,913	(38)
<b>(\$/boe)</b>			
Gross revenue	40.19	57.39	(30)
Royalty expense	(11.41)	(16.75)	(32)
Operating expenses	(18.26)	(23.05)	(21)
Transportation and marketing expenses	(0.09)	(0.19)	(54)
<b>Field netback</b>	<b>10.43</b>	17.40	(40)

<b>Capital Activity</b>	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>	<b>%</b>
Capital expenditures (\$000's)	2,190	2,210	(1)
Wells drilled (rig-released)			
Gross	1	-	-
Net	1	-	-
Wells brought on-stream			
Gross	-	-	-
Net	-	-	-

Revenue for the quarter was primarily from two customers, Sunoco Logistics Partners L.P. ("**Sunoco**") and Plains Marketing L.P. ("**Plains**"), at \$4.7 million (67%) and \$1.3 million (18%), respectively. For the first quarter of 2015, \$7.0 million (73%) was received from Sunoco and \$2.0 million (21%) from Plains.

#### *Salt Flat Properties, Texas*

At Salt Flat, Eagle successfully drilled the first well of its two well program and performed two horizontal pump installations. Drilling costs were considerably under budget with the wells expected to come on-stream late in the second quarter.

#### *Hardeman Properties, Texas and Oklahoma*

At Hardeman, Eagle completed one well that had been drilled in the fourth quarter of 2015.

#### **Canada**

<b>Production</b>	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>	<b>%</b>
<b>Working interest</b>			
Oil (bbl/d)	1,408	1,129	25
Natural gas (Mcf/d)	1,882	42	4,380
Natural gas liquids (bbl/d)	65	-	-
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>1,786</b>	<b>1,136</b>	<b>57</b>
<b>Royalty interest</b>			
Oil (bbl/d)	30	-	-
Natural gas (Mcf/d)	614	-	-
Natural gas liquids (bbl/d)	28	-	-
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>160</b>	<b>-</b>	<b>-</b>
<b>Total</b>			
Oil (bbl/d)	1,438	1,129	27
Natural gas (Mcf/d)	2,495	42	5,841
Natural gas liquids (bbl/d)	93	-	-
<b>Oil equivalent sales volumes (boe/d @ 6:1)</b>	<b>1,947</b>	<b>1,136</b>	<b>71</b>



	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Field Netback (\$000's)</b>			
Gross revenue	4,679	3,791	23
Royalty expense	(574)	(869)	(34)
Operating expenses	(2,487)	(2,082)	19
Transportation and marketing expenses	(594)	(9)	6,501
<b>Field netback</b>	<b>1,024</b>	831	23
<b>(\$/boe)</b>			
Gross revenue	26.41	37.08	(29)
Royalty expense	(3.24)	(8.50)	(62)
Operating expenses	(14.04)	(20.36)	(31)
Transportation and marketing expenses	(3.35)	(0.08)	4,092
<b>Field netback</b>	<b>5.78</b>	8.14	(29)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
<b>Capital Activity</b>			
Capital expenditures (\$000's)	48	850	(94)
Wells drilled (rig-released)			
Gross	-	-	-
Net	-	-	-
Wells brought on-stream			
Gross	-	-	-
Net	-	-	-

Revenue for the quarter was primarily from Trafigura Canada General Partnership in the amount of \$4.0 million (85%). In the first quarter of 2015, 100% of the revenue was received from Spyglass Resources Corp.

#### *Dixonville Properties, Alberta*

During the quarter, capital expenditures were for regulatory pipeline surveillance.

#### *Twining Properties, Alberta*

There was no capital activity in the Twining area in the first quarter of 2016, with activity focused on operational maintenance and production improvements.

#### *Other Properties, Alberta*

On January 27, 2016, pursuant to the Maple Leaf acquisition, Eagle acquired various non operated royalty interest and working interest properties in Alberta, the production and revenue from which is included in Eagle's operations for the quarter from January 27, 2016 onward.

**Corporate**

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	%
Administrative expenses - cash	(3,321)	(2,460)	35
Risk management gain (loss) - realized	3,327	7,295	(54)
Cash settled award payments	(25)	(57)	(56)
Finance expense	(646)	(571)	(13)
Income tax recovery	-	-	-
Realized foreign exchange gain (loss)	(2)	(224)	(101)
<b>Funds flow from operations</b>	<b>(667)</b>	3,983	(117)

**Liquidity and Capital Resources**

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

Eagle's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Eagle manages its capital structure and makes adjustments to it based upon economic conditions and the risk characteristics of the underlying oil and natural gas assets. Eagle sets its dividend levels monthly as well as prepares annual capital expenditure and operating budgets, which are updated as necessary depending on factors such as current and forecast prices, successful capital deployment, authorized borrowing base levels and general industry conditions.

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

**Credit Facility**

As of March 31, 2016, Eagle had approximately \$35.8 million (\$US 27.6 million) of unused credit on its \$103.8 million Canadian dollar equivalent (\$US 80.0 million) revolving credit facility, which is held with a syndicate of Canadian chartered banks. Amounts drawn under the credit facility were \$68.0 million, primarily by way of bankers' acceptances.

The credit facility has a maturity date of May 26, 2017 and is subject to semi-annual redeterminations of the borrowing base by the credit facility lenders. The last semi-annual redetermination of the borrowing base was held on October 7, 2015 and the next semi-annual redetermination will be held no later than May 30, 2016.

Under the credit facility, Eagle is required to satisfy certain customary affirmative and negative covenants (including financial covenants). The credit facility documentation provides for customary negative covenants which, among other things, limits Eagle in paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing or would result from such dividend, or if the cash dividend payments made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined by the credit facility agreement and which was \$27.3 million at March 31, 2016) for the trailing four quarters.

At March 31, 2016, there were no covenant violations under or in connection with the credit facility.

**Working Capital**

At March 31, 2016, Eagle had a working capital surplus, excluding the non-cash risk management asset, of approximately \$1.3 million and \$68 million drawn on its bank credit facility described above.

**Shareholders' Equity, Dividends and Outstanding Share Data**

From January 21, 2015 to January 20, 2016, Eagle had a normal course issuer bid ("**NCIB**") in place. Under the NCIB, Eagle could purchase for cancellation up to 2,852,829 of its units, representing ten percent of its public float as

of January 16, 2015. For the 2016 period ended January 20, 2016, no purchases were made under the NCIB and the NCIB was not renewed.

Eagle pays monthly dividends to shareholders at the discretion of the Board of Directors. Effective with the dividend declared for February 29, 2016, and in light of current and expected commodity price volatility, Eagle reduced its monthly dividend from \$0.015 to \$0.01 per share per month. Cash dividends paid in the first quarter (for the December 31, 2015, February 3, 2016 and February 29, 2016 record dates) totaled approximately \$1.6 million.

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

At March 31, 2016, Eagle had issued 42,451,623 shares (December 31, 2015 – 34,863,634; March 31, 2015 – 35,023,364).

As at the date of this MD&A, 42,451,623 shares are issued and outstanding and 871,364 RSUs, 369,395 PSUs and 3,017,750 options are outstanding.

## Commitments

Eagle has committed to future payments as follows:

\$000's	Total	Less than 1 year	1 – 3 years
Operating leases <sup>(1) (2) (3)</sup>	2,216	859	1,357
<b>Total contractual obligations</b>	<b>2,216</b>	<b>859</b>	<b>1,357</b>

### Notes:

- (1) On January 1, 2013, Eagle entered into a lease for office space in Calgary which has an approximate 61 month term from January 8, 2013 to February 7, 2018. In May 2016, the lease will be amended to extend the lease term and decrease the annual basic rental charge. The new term begins August 1, 2016 and terminates February 28, 2023. Future minimum lease payments during the term of the lease from March 31, 2016 through February 28, 2023 approximate \$3.3 million and include a leasehold improvements allowance up to \$0.2 million, with 83 months remaining at March 31, 2016.
- (2) On August 20, 2015, concurrent with the closing of an acquisition, Eagle assumed an office lease obligation. The term of the lease is from March 1, 2011 to February 28, 2017. Future minimum lease payments during the term of the lease approximate \$1.4 million, with 11 months and approximately \$0.2 million remaining at March 31, 2016.
- (3) Eagle entered into a lease in Houston on April 1, 2011, which originally had an approximate 30 month term from April 7, 2011 through September 30, 2013. On November 21, 2012, the lease was extended for an additional 63 month period from October 1, 2013 to December 31, 2017 and the premise space was expanded to incorporate additional square footage. Future minimum lease payments during the term of the lease include a leasehold improvement allowance of \$US 0.1 million and approximate \$US 0.9 million, with 21 months and approximately \$US 0.5 million remaining at March 31, 2016. In \$CA the remaining future minimum lease payments approximate \$0.7 million translated at the exchange rate in effect at the balance sheet date of \$US 1 equal to \$CA 1.30.

## Non-IFRS Financial Measures

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

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

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

“**Basic payout ratio**” is calculated by dividing shareholder dividends by funds flow from operations.

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

The following table reconciles the non-IFRS financial measures “funds flow from operations” and “field netback” to “earnings (loss)”, the most directly comparable measure in Eagle’s Interim Financial Statements:

\$000’s	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b>Earnings (loss)</b>	(11,713)	5,477
Add back (deduct) items not involving cash:		
Administrative expenses - non-cash portion	325	
Share-based compensation – non-cash portion	(179)	(180)
Unrealized risk management loss (gain)	2,734	4,183
Depreciation, depletion and amortization	5,417	6,170
Finance expense - non-cash portion	247	201
Foreign exchange loss (gain) on intercompany loan	5,336	(8,124)
<b>Funds flow from operations</b>	<b>2,167</b>	<b>7,727</b>
Add back (deduct) items not directly related to field operations:		
Administrative expenses - cash portion	3,321	2,460
Cash settled award payments	25	57
Risk management gain realized	(3,327)	(7,295)
Finance expense - cash portion	646	571
Realized foreign exchange loss	2	224
<b>Field netback</b>	<b>2,834</b>	<b>3,744</b>

## No Change in Internal Controls over Financial Reporting and Disclosure Controls and Procedures during the Period January 1, 2016 to March 31, 2016

During the period beginning on January 1, 2016 through to March 31, 2016, there was no change in Eagle’s internal controls over financial reporting and disclosure controls and procedures that has materially affected, or is reasonably likely to materially affect, Eagle’s internal controls over financial reporting and disclosure controls and procedures. It should be noted, that Eagle’s control system, no matter how well designed, can provide only reasonable, but not absolute assurance of detecting, preventing and deterring errors or fraud.

## Critical Accounting Estimates

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

## Accounting Standards and Interpretations

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

There were no new or amended standards issued during the three months ended March 31, 2016 which are applicable to Eagle in future periods.

## Note about Forward-Looking Statements

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

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

- Eagle’s 2016 capital budget and specific uses;
- Eagle’s expectations regarding its 2016 full year average working interest production, operating costs and field netbacks;
- Eagle’s expectations regarding its 2016 funds flow from operations, corporate payout ratio and debt to trailing cash flow, and sensitivities of these metrics to production rates, exchange rates and commodity prices;
- anticipated crude oil, natural gas liquids and natural gas production levels and mix;
- Eagle’s expectations regarding bringing production from new wells on-stream;
- Eagle’s hedging program;
- Eagle’s expectations regarding dividends; and
- Eagle’s belief that its expected funds flow from operations and undrawn credit facility will be sufficient to fund its current and expected financial obligations.

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

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

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

- volatility of oil, natural gas liquid, and natural gas prices;
- commodity supply and demand;
- fluctuations in currency exchange and interest rates;
- inherent risks and changes in costs associated in the development of petroleum properties;
- ultimate recoverability of reserves;
- timing, results and costs of drilling and production activities;
- availability of financing and capital; and
- new regulations and legislation that apply to Eagle and the operations of its subsidiaries.

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

As a result of these risks, actual performance and financial results in 2016 may differ materially from any projections of future performance or results expressed or implied by these forward-looking statements. Eagle’s production rates, operating costs, field netbacks, drilling program, 2016 capital budget, funds flow from operations, and dividends are subject to change in light of ongoing results, prevailing economic circumstances, obtaining regulatory approvals, commodity prices, exchange rates and industry conditions and regulations. New factors emerge from time to time,

and it is not possible for management to predict all of these factors or to assess, in advance, the impact of each such factor on Eagle's business, or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

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

### **Advisory Regarding Oil and Gas Measures and Estimates**

This MD&A contains disclosure expressed as "boe" or "boe/d". All oil and natural gas equivalency volumes have been derived using the conversion ratio of six thousand cubic feet ("**Mcf**") of natural gas to one barrel ("**bbl**") of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. In addition, given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 Mcf:1 bbl would be misleading as an indication of value.

The estimates of reserves provided in this MD&A are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided.



# Eagle Energy Inc.

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

For the three months ended March 31, 2016 and March 31, 2015

# Eagle Energy Inc.

## Condensed Consolidated Interim Balance Sheets

(Thousands of Canadian dollars) (unaudited)

	Note	March 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		-	3,089
Trade and other receivables		5,189	5,207
Prepaid expenses		1,605	2,309
Risk management asset	4	6,035	9,162
		<b>12,829</b>	<b>19,767</b>
<b>Non-current assets</b>			
Risk management asset	4	3	-
Exploration and evaluation assets	13	975	1,033
Oil and gas properties	14	185,126	186,859
Property, plant and equipment		128	168
Other intangible assets		647	745
		<b>186,879</b>	<b>188,805</b>
<b>Total Assets</b>		<b>199,708</b>	<b>208,572</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		5,046	8,647
Dividends payable		426	523
Share-based payments	8	-	227
		<b>5,472</b>	<b>9,397</b>
<b>Non-current liabilities</b>			
Debt	15	68,044	65,618
Deferred income tax	11	-	-
Decommissioning liability	16	28,273	26,998
		<b>96,317</b>	<b>92,616</b>
<b>Total Liabilities</b>		<b>101,789</b>	<b>102,013</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	320,028	315,379
Currency reserves		35,477	35,615
Contributed surplus	8	48	-
Deficit		(257,634)	(244,435)
<b>Total Shareholders' Equity</b>		<b>97,919</b>	<b>106,559</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>199,708</b>	<b>208,572</b>

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

See note 18 "Commitments" and note 19 "Subsequent Event".



# Eagle Energy Inc.

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

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

	Note	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenue		11,653	13,393
Royalties		(2,554)	(3,671)
		<b>9,099</b>	9,722
Operating expenses		5,656	5,938
Transportation and marketing expenses		609	40
Administrative expenses		3,646	2,460
Depreciation, depletion and amortization		5,417	6,170
<b>Operating loss</b>		<b>(6,229)</b>	(4,886)
Share-based compensation recovery	8	(154)	(123)
Finance expense	10	893	772
Risk management gain	4	(593)	(3,112)
Foreign exchange loss net	9	2	224
Foreign exchange loss (gain) on intercompany loan	9	5,336	(8,124)
<b>Earnings (loss) before taxes</b>		<b>(11,713)</b>	5,477
Income tax expense (recovery)	11	-	-
<b>Earnings (loss)</b>		<b>(11,713)</b>	5,477
Foreign currency translation gain (loss)		(138)	4,610
<b>Comprehensive earnings (loss)</b>		<b>(11,851)</b>	10,087
Earning (loss) per share	12		
<b>Basic</b>		<b>(0.29)</b>	0.16
<b>Diluted</b>		<b>(0.29)</b>	0.16

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

# Eagle Energy Inc.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Thousands of Canadian dollars) (unaudited)

	Note	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b>Share Capital</b>			
Balance, beginning of period	17	315,379	317,150
Issuance of share capital due to acquisition		5,539	-
Issuance of share capital		-	67
Share issue costs		(890)	-
Cancellation of shares pursuant to NCIB		-	(292)
Balance, end of period		<b>320,028</b>	316,925
<b>Currency Reserves</b>			
Balance, beginning of period		35,615	29,494
Foreign currency translation gain (loss)		(138)	4,610
Balance, end of period		<b>35,477</b>	34,104
<b>Contributed Surplus</b>			
Balance, beginning of period		-	-
Share-based payments	8	48	-
Balance, end of period		<b>48</b>	-
<b>Deficit</b>			
Balance, beginning of period		(244,435)	(157,739)
Earnings (loss)		(11,713)	5,477
Cancellation of shares pursuant to NCIB		-	233
Dividends		(1,486)	(3,135)
Balance, end of period		<b>(257,634)</b>	(155,164)

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

# Eagle Energy Inc.

## Condensed Consolidated Interim Cash Flow Statements

(Thousands of Canadian dollars) (unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b>Cash flows from operating activities</b>		
Earnings (Loss)	(11,713)	5,477
Adjustments for non-cash items:		
Depreciation, depletion and amortization	5,417	6,170
Share-based compensation – non-cash portion	(179)	(180)
Unrealized risk management loss (gain)	2,734	4,183
Foreign exchange loss (gain) on intercompany loan	5,336	(8,124)
Finance expense	247	201
Administrative expenses - non-cash portion	325	-
	2,167	7,727
Changes in working capital:		
Trade and other receivables	(33)	(1,149)
Prepaid expenses	682	155
Trade and other payables	(3,422)	(4,414)
Working capital acquired	143	-
	(2,630)	(5,408)
<b>Net cash generated by operating activities</b>	<b>(463)</b>	2,319
<b>Cash flows from investing activities</b>		
Exploration and evaluation	(5)	-
Oil and gas properties	(1,897)	(3,059)
Property, plant and equipment	(336)	(1)
Change in non-cash working capital	-	2,535
<b>Net cash generated by (used in) investing activities</b>	<b>(2,238)</b>	(525)
<b>Cash flows from financing activities</b>		
Debt	2,095	450
Proceeds from issuance of shares	-	67
Purchase shares for cancellation	-	(59)
Share issue costs	(890)	-
Cash distributions to shareholders	(1,486)	(3,153)
Deferred financing charges	(35)	(176)
Change in non-cash working capital	(98)	-
<b>Net cash generated by (used in) financing activities</b>	<b>(414)</b>	(2,871)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,115)</b>	(1,077)
Effects of exchange rates on cash and cash equivalents	26	596
Cash at beginning of the period	3,089	11,127
<b>Cash at end of the period</b>	<b>-</b>	10,646

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

# Eagle Energy Inc.

## Notes to Condensed Consolidated Interim Financial Statements (unaudited)

For the three months ended March 31, 2016 and March 31, 2015

(in Canadian dollars)

### 1. Reporting Entity / Structure of Eagle Energy Inc.

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

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

Eagle intends to pay dividends to shareholders from a portion of its available cash and use the remainder of its available cash to reinvest to fund growth through acquisitions and capital expenditures. Cash flow is provided from properties owned directly by Eagle and indirectly by its wholly owned subsidiary, Eagle Hydrocarbons Inc.

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

### 2.1. Basis of Preparation

The foreign exchange rate at March 31, 2016 was \$US 1.00 equal to \$CA 1.30 (December 31, 2015 - \$US 1.00 equal to \$CA 1.38), and the average foreign exchange rate for the three months ended March 31, 2016 was \$US 1.00 equal to \$CA 1.37 (for the three months ended March 31, 2015 - \$US 1.00 equal to \$CA 1.24).

#### Basis of Accounting

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors made on May 5, 2016.

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

## 2.2. Changes in Accounting Policy and Disclosures

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

### Share-based Compensation

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

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

*(ii) Existing share option plan:* Under this plan, formerly referred to as a unit option plan, Eagle Energy Trust, the predecessor reporting issuer to Eagle, had issued options to directors, officers and employees of the Company. These options are accounted for using the fair-value method which estimates the value of the options using the Black-Scholes option pricing model. Consistent with their treatment prior to the conversion of Eagle Energy Trust into a corporate structure, they are treated similar to a cash settled stock-based compensation arrangement, with the associated liability being fair-valued at the end of each reporting period and the corresponding change to fair value being recognized in the income statement. The Company does not intend to issue further options under this plan. A forfeiture rate is estimated on the valuation.

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

### Taxation

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

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

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

### **Accounting for Acquisitions of Interests in Joint Operations**

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

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

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

### **Disclosure Initiative**

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

## **Accounting Pronouncements not yet Adopted**

### **Revenue from Contracts with Customers**

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

### **Financial Instruments: Recognition and Measurement**

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

### **Leases**

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

### 3. Critical Accounting Estimates and Judgments

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

#### Classification of Trust Units as Equity

This no longer applies after January 27, 2016.

#### Share Based Compensation

The amount of compensation expense accrued for share based compensation arrangements is subject to Management's best estimate. For both the RSUs and PSUs, (refer to note 8 "Share-based payments"), there is uncertainty as to what the share price will be when the RSUs and PSUs are ultimately settled. Since the performance conditions attached to the PSUs are not specifically measurable, the PSUs that have been issued are not considered granted in accordance with the definition of grant in IFRS 2. As a result, the fair value of the PSUs are determined at each reporting period based on the closing trading price for the shares of Eagle on the TSX multiplied by an estimated payout multiplier for the number of units expected to vest. As a result of revaluing the PSUs each reporting period, fluctuations in compensation expense may occur due to the re-measurement of the value of the shares as well as changes in estimating the outcome of the performance conditions (i.e. the performance multiplier). The fair value is based on several assumptions and therefore is subject to measurement uncertainty.

### 4. Financial Risk Management and Financial Instruments

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

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

This note presents information about changes in Eagle's exposure to each of the above risks since the year ended December 31, 2015.

#### Credit Risk

At March 31, 2016, there was no material change in credit risk compared to the December 31, 2015 year end.

#### Liquidity Risk

At March 31, 2016, the Company had a working capital surplus, excluding the risk management asset and share-based payments, of approximately \$1.3 million and \$68.0 million drawn on its \$104 million (\$US 80 million) Canadian dollar equivalent authorized credit facility. See note 15 "Debt". Eagle actively manages its liquidity through cash, debt and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue subordinate debt or additional common shares.

The last semi-annual redetermination review of the borrowing base of the credit facility was held on October 7, 2015 and the next semi-annual redetermination review will be held no later than May 30, 2016 (refer to note 15 "Debt").

**Market Risk****Summary of Unrealized Risk Management Positions**

As at March 31, 2016, Eagle has entered into the following financial contracts to mitigate the effects of fluctuating prices on a portion of its production:

	<b>Volume</b>	<b>Measure</b>	<b>Beginning</b>	<b>Term</b>	<b>Floor \$US</b>	<b>Ceiling \$US</b>	<b>Current fair value \$CA 000's</b>	<b>Non- current fair value \$CA 000's</b>
<b>Oil Fixed Price</b>								
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	65.00	65.00	4,153	-
NYMEX (i)	500	bbls/d	Jan-16	Dec-16	53.32	53.32	2,073	-
NYMEX (i)	300	bbls/d	Mar-16	Jul-16	36.00	36.00	(192)	-
NYMEX (i)	200	bbls/d	Mar-16	Jul-16	37.25	37.25	(89)	-
NYMEX (i)	400	bbls/d	Aug-16	Dec-16	40.05	40.05	(214)	-
NYMEX (i)	300	bbls/d	Aug-16	Dec-16	40.27	40.27	(148)	-
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	45.10	45.10	-	32
NYMEX (i)	375	bbls/d	Jan-17	Dec-17	44.75	44.75	-	(29)
<b>Gas Fixed Price</b>								
CGPR ALT daily spot (ii)	1,500	GJs/day	Jan-16	Dec-16	2.83	2.83	502	-
<b>Differential</b>								
Oil Edmonton SW (iii)	1,000	bbls/d	Dec-15	Dec-16	3.65	3.65	(50)	-
<b>Commodity - Unrealized risk management position</b>							<b>\$6,035</b>	<b>\$3</b>

(i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).

(ii) Represents a fixed price financial swap transaction with a set forward sale price (Alberta Daily Spot Price Averages).

(iii) Represents a fixed price differential between Edmonton SW Blended oil and WTI.

**Summary of Unrealized Risk Management Positions**

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

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

(i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).

(ii) Represents a fixed price financial swap transaction with a set forward sale price (Alberta Daily Spot Price Averages).

(iii) Represents a fixed price differential between Edmonton SW Blended oil and WTI.



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

\$000's	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)
Net effect - risk management	(3,327)	2,734	(593)	(7,295)	4,183	(3,112)

**Determination of Fair Values**

The net fair value of Eagle's unrealized risk management positions at March 31, 2016, is an asset of \$6.0 million (December 31, 2015 - \$9.2 million asset). The carrying value of Eagle's risk management position has been calculated using both quoted prices in active markets and observable market-corroborated data consistent with a Level 2 valuation.

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

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

**5. Subsidiaries and Consolidated Entities**

The following table summarizes the structure of Eagle as at March 31, 2016. All subsidiaries of Eagle are directly or indirectly wholly-owned by Eagle.

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

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

**6. Business Combination**

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

From the period January 27, 2016 through to March 31, 2016, the Maple Leaf assets acquired have contributed revenues of \$0.5 million and operating income of \$0.3 million. Had the acquisition closed on January 1, 2016, estimated contributed revenues would have been \$0.7 million and estimated contributed operating income would have been \$0.4 million to March 31, 2016.

<b>Net assets acquired (\$000's)</b>	
Oil and gas assets	5,144
Decommissioning liability	(73)
Working capital	143
Net asset value	5,214
<b>Share capital</b>	
Consideration paid	5,214

## 7. Segmented Information

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

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

Details of Eagle's reportable segments are as follows:

\$000's	<b>Three Months Ended March 31, 2016</b>			
	<b>Canada</b>	<b>United States</b>	<b>Corporate</b>	<b>Total</b>
Capital expenditures	48	2,190	-	2,238
Working interest sales and royalty income	4,679	6,974	-	11,653
Royalties	(574)	(1,980)	-	(2,554)
Revenue net of royalties	4,105	4,994	-	9,099
Operating expenses	2,487	3,169	-	5,656
Transportation and marketing expenses	594	15	-	609
Field Netback	1,024	1,810	-	2,834
Administrative expenses - cash portion	-	-	3,321	3,321
Cash settled award payments	-	-	25	25
Risk management gain - realized	-	-	(3,327)	(3,327)
Finance expense - cash portion	-	-	646	646
Income tax recovery	-	-	-	-
Realized foreign exchange loss	-	-	2	2
<b>Funds flow from operations</b>	<b>1,024</b>	<b>1,810</b>	<b>(667)</b>	<b>2,167</b>

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

\$000's	Three Months Ended March 31, 2016			
	Canada	United States	Corporate	Total
<b>Funds flow from operations</b>	<b>1,024</b>	<b>1,810</b>	<b>(667)</b>	<b>2,167</b>
Administrative expense - non-cash portion	-	-	325	325
Share-based compensation - non-cash portion	-	-	(179)	(179)
Risk management loss - unrealized	-	-	2,734	2,734
Depreciation, depletion and amortization	1,582	3,835	-	5,417
Foreign exchange loss on intercompany loan	-	-	5,336	5,336
Finance expense - non-cash portion	-	-	247	247
<b>Loss</b>	<b>(558)</b>	<b>(2,025)</b>	<b>(9,130)</b>	<b>(11,713)</b>

Total assets of Eagle's reportable segments at March 31, 2016 were as follows:

\$000's	Year-Ended March 31, 2016			
	Canada	United States	Corporate	Total
<b>Total Assets</b>	<b>109,748</b>	<b>83,922</b>	<b>6,038</b>	<b>199,708</b>

Details of Eagle's reportable segments at March 31, 2015 are as follows:

\$000's	Three Months Ended March 31, 2015			
	Canada	United States	Corporate	Total
Capital expenditures	<b>850</b>	<b>2,210</b>	-	<b>3,060</b>
Working interest sales and royalty income	3,791	9,602	-	13,393
Royalties	(869)	(2,802)	-	(3,671)
Revenue net of royalties	2,922	6,800	-	9,722
Operating expenses	2,082	3,856	-	5,938
Transportation and marketing expenses	2	31	-	40
Field Netback	831	2,913	-	3,744
Administrative expenses	-	-	2,460	2,460
Cash settled award payments	-	-	57	57
Risk management gain - realized	-	-	(7,295)	(7,295)
Finance expense (cash portion)	-	-	571	571
Realized foreign exchange loss	-	-	224	224
<b>Funds flow from operations</b>	<b>831</b>	<b>2,913</b>	<b>3,983</b>	<b>7,727</b>

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

\$000's	Three Months Ended March 31, 2015			
	Canada	United States	Corporate	Total
<b>Funds flow from operations</b>	<b>831</b>	<b>2,913</b>	<b>3,983</b>	<b>7,727</b>
Share-based compensation - non-cash portion	-	-	(180)	(180)
Risk management loss - unrealized	-	-	4,183	4,183
Depreciation, depletion and amortization	1,284	4,886	-	6,170
Foreign exchange gain on intercompany loan	-	-	(8,124)	(8,124)
Finance expense (non-cash portion)	-	-	201	201
<b>Earnings</b>	<b>(453)</b>	<b>(1,973)</b>	<b>7,903</b>	<b>5,477</b>

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

\$000's	Period-Ended March 31, 2015			
	Canada	United States	Corporate	Total
<b>Total Assets</b>	<b>111,750</b>	<b>141,572</b>	<b>12,020</b>	<b>265,342</b>

## 8. Share-based Payments

The Company's share-based compensation program consists of (i) a new long-term equity compensation incentive plan (the "2016 Equity Incentive Plan") which was implemented following the closing of the Arrangement and under which RSUs and PSUs have been awarded; (ii) a share option plan that was previously in place (the "2010 Option Plan"), which has been adjusted to entitle holders of options to purchase shares of Eagle on identical terms and conditions; and (iii) cash-settled RUR agreements which were previously in place and have been adjusted to reference shares, but otherwise entitle holders to identical rights, terms and conditions.

In addition, and as described below, the cash settled Unit Rights ("URs") granted to United States-based directors, officers, employees and certain consultants of Eagle Hydrocarbons Inc. were terminated on February 23, 2016 and the UR Plan was terminated on March 31, 2016.

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

\$000's	Note	Three Months Ended March 31 2016	Three Months Ended March 31, 2015
RSUs and PSUs	8(a)	48	-
Share Options	8(b)	(183)	28
RURs	8(c)	19	6
URs	8(d)	(38)	(157)
Total share-based compensation recovery		<b>(154)</b>	<b>(123)</b>

The following table reconciles the share-based payments liability:

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

The following table shows the continuity of contributed surplus:

	March 31, 2016	December 31, 2015
Balance, beginning of period	-	-
Share-based compensation	48	-
RSU / PSU settlement	-	-
Option exercises	-	-
Balance, end of period	48	-

### Note 8(a)

#### 2016 Equity Incentive Plan

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

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

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

As of March 31, 2016, there were 871,364 RSUs and 369,395 PSUs granted as described below.

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

- (i) As to one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2016;
- (ii) As to one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2017; and
- (iii) As to the remaining one-third of the total RSUs and one-third of the total PSUs granted on the date that is the sixth day that the shares traded on the TSX after the date that Eagle has publicly released its annual financial results for the year ended December 31, 2018.

The fair value of the RSUs is determined at the date of grant and is the volume weighted average trading price for the shares of Eagle on the TSX for the five days that the shares traded preceding the grant date (with the Black-Scholes option pricing model yielding a similar fair value). The resulting compensation expense is amortized over the three year vesting period (with the offsetting entry to contributed surplus) using graded vesting and an estimated forfeiture

rate of 5%. Upon settlement, amounts are transferred from contributed surplus to share capital. The estimated weighted average fair value for RSUs at the measurement date (the grant date) is \$0.63 per RSU granted for the three months ended March 31, 2016.

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

	Three Months Ended March 31, 2016	Year Ended December 31, 2015	Three Months Ended March 31, 2015
Balance, beginning of period	-	-	-
Issued	861,350	-	-
Dividend equivalent rights	10,014		
Forfeited	-	-	-
Balance, end of period	871,364	-	-
Number of RSUs vested	-	-	-

Since the performance conditions attached to the PSUs are not specifically measurable, the PSUs that have been issued are not considered granted in accordance with the definition of grant in IFRS 2. As a result, the fair value of the PSUs are determined at each reporting period and at the date of settlement based on either the closing trading price for the shares of Eagle on the TSX multiplied by an estimated payout multiplier of one for the number of units expected to vest (in the case of valuation at each reporting period, and with the Black-Scholes option pricing model yielding a similar fair value) or based on the actual Fair Market Value and actual payout multiplier applied to the number of units vested. As a result of revaluing the PSUs each reporting period, fluctuations in compensation expense may occur due to the re-measurement of the value of the shares as well as changes in estimating the outcome of the performance conditions (i.e. the performance multiplier). The resulting compensation expense at each reporting period is amortized over the remaining portion of the three year vesting period (with the offsetting entry to contributed surplus) using graded vesting and an estimated forfeiture rate of 5%. Upon settlement, amounts are transferred from contributed surplus to share capital. The estimated weighted average fair value for PSUs at the measurement date (March 31, 2016) is \$0.84 per PSU granted for the three months ended March 31, 2016.

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

	Three Months Ended March 31, 2016	Year Ended December 31, 2015	Three Months Ended March 31, 2015
Balance, beginning of period	-	-	-
Issued	365,150	-	-
Dividend equivalent rights	4,245		
Forfeited	-	-	-
Balance, end of period	369,395	-	-
Number of PSUs vested	-	-	-

## Note 8(b)

### 2010 Option Plan

Pursuant to the Arrangement, the unit option plan of Eagle Energy Trust that was adopted in 2010 became a stock option plan of Eagle Energy Inc., with such amendments thereto as was necessary to reflect the status of Eagle Energy Inc. as an Alberta corporation. In addition, each option previously granted under this plan was adjusted, without constituting a novation or disposition of such option, to provide that each such option will, without any further action on the part of an optionholder, entitle the optionholder to purchase an equivalent number of shares in lieu of units. Each option continues to be governed by, and be subject to, the terms of the option plan that was adopted in 2010.

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

	Three Months Ended March 31, 2016		Year Ended December 31, 2015		Three Months Ended March 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	3,159,418	5.54	3,431,750	5.94	3,431,750	5.94
Forfeited	(141,668)	5.54	(272,332)	6.28	(93,332)	1.82
Exercised	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Outstanding at end of period	<b>3,017,750</b>	<b>5.50</b>	3,159,418	5.54	3,338,418	5.70
Exercisable at end of period	<b>2,476,426</b>	<b>5.59</b>	2,601,427	5.62	2,125,762	5.71

The range of exercise prices of the outstanding options is as follows at March 31, 2016:

	Weighted average exercise price	Weighted average contractual life (years)
\$4.47 - \$7.12	<b>5.50</b>	<b>6.30</b>

The March 31, 2016 fair value of the options was estimated using the Black-Scholes valuation model and using the same inputs as December 31, 2015 (other other than a closing share price assumption of \$0.84 per share as compared to \$1.14 per share at December 31, 2015). Based on these assumptions, the fair value at the March 31, 2016 balance sheet was nil per option (December 31, 2015 - \$0.07 per option, March 31, 2015 - \$0.37 per option).

#### Note 8(c)

##### Cash settled RURs

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

For the three months ended March 31, 2016, \$24,809 has been paid to the RUR holders (year ended December 31, 2015 - \$227,685, three months ended March 31, 2015 - \$56,925).

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

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

The March 31, 2016 fair value of the RURs was estimated using the Black-Scholes valuation model and using the same inputs as December 31, 2015 (other than a 5-day volume weighted average share price assumption of \$0.84 per share as compared to \$1.13 per share at December 31, 2015). Based on these assumptions, the fair value at the March 31, 2016 balance sheet was nil per RUR (December 31, 2015 - \$0.01 per RUR, March 31, 2015 - \$0.11 per RUR).

#### Note 8(d)

#### UR Plan

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

The following schedule shows the continuity of cash settled URs:

	Three Months Ended March 31, 2016	Year Ended December 31, 2015	Three Months Ended March 31, 2015
Balance, beginning of period	653,500	937,000	937,000
Issued	-	-	-
Forfeited	(653,500)	(283,500)	(197,500)
Balance, end of period	-	653,500	739,500
Number of URs vested	-	524,505	340,839

Since the URs were terminated following the Arrangement, the March 31, 2016 fair value of the URs was nil per UR (December 31, 2015 - \$0.06 per UR, March 31, 2015 - \$0.32 per UR).



## 9. Foreign Exchange

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

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net loss arising on settlement of foreign currency transactions arising out of operating activities	2	224
Foreign exchange loss (gain) on intercompany loan	5,336	(8,124)
Foreign exchange loss (gain) net	<b>5,338</b>	7,900

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

\$000's	March 31, 2016	December 31, 2015
Beginning balance	35,615	29,494
Foreign currency translation gain (loss)	(138)	6,121
Ending balance	<b>35,477</b>	35,615

## 10. Finance Expense

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Interest expense on debt	557	488
Standby and bank fees	89	82
Accretion of decommissioning provision	132	68
Amortization of deferred financing costs	115	134
Finance expense	<b>893</b>	772

## 11. Taxation

### Reconciliation of Effective Tax Rate

The income tax provision differs from the amount that would have been expected if the reported (loss) earnings had been subject only to the statutory Canadian income tax rate of 27% (2015 - 25%) as follows:

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
(Loss) Earnings before taxation	(11,713)	5,477
Expected tax rate (%)	27	25
Expected income tax provision	(3,163)	1,369
Decrease (Increase) resulting from:		
Non-deductible items – permanent differences		
Administrative expenses of Eagle	-	138
Share-based compensation	(42)	(17)
Foreign exchange loss (gain), net	4,637	(4,693)
Foreign tax rate differentials	(437)	(359)
Changes in temporary differences for which no amounts are recognized	(1,077)	4,148
Items deductible at the subsidiary level		
Interest on internal debt of subsidiary	-	(606)
Other	82	20
Total income tax recovery	-	-

### Deferred Tax Assets and Liabilities

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

\$000's	March 31, 2016	December 31, 2015
Deferred tax assets - capital assets:		
United States	8,242	8,330
Canada	15,277	16,210
	23,519	25,040
Deferred tax assets - non-capital losses:		
United States	41,692	42,447
Canada	17,463	16,298
	59,155	58,745
Net deferred tax(liability) asset – before valuation allowance	82,674	83,785
Valuation allowance	(82,674)	(83,785)
Net deferred tax (liability) asset	-	-

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

## 12. Earnings (loss) per Share

\$000's	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Earnings (loss) attributable to shareholders – basic and diluted	(11,713)	5,477
Weighted average number of shares outstanding – basic and diluted	40,200	35,032
Earnings (loss) per share – basic and diluted	<b>(0.29)</b>	0.16

## 13. Exploration and Evaluation Assets

\$000's	March 31, 2016	December 31, 2015
Beginning balance	1,033	-
Additions	5	1,033
Transferred to oil and gas properties	-	-
Expense	-	-
Foreign exchange adjustment	(63)	-
Ending balance	<b>975</b>	1,033

## 14. Oil and Gas Properties

\$000's	Developed oil and gas assets	Production facilities and equipment	Impairment	Total
<b>Cost</b>				
At December 31, 2015	473,496	11,046	-	484,542
Additions	3,521	85	-	3,606
Acquisition, net - refer to note 6	5,144	-	-	5,144
Effects of foreign exchange	(19,773)	(609)	-	(20,382)
<b>At March 31, 2016</b>	<b>462,388</b>	<b>10,522</b>	<b>-</b>	<b>472,910</b>
<b>Accumulated depreciation, depletion and amortization</b>				
At December 31, 2015	(145,212)	(6,518)	(145,953)	(297,683)
Depreciation, depletion and amortization	(8,731)	(307)	3,886	(5,152)
Effects of foreign exchange	8,585	393	6,072	15,050
<b>At March 31, 2016</b>	<b>(145,358)</b>	<b>(6,432)</b>	<b>(135,995)</b>	<b>(287,785)</b>
<b>Net book value</b>				
At December 31, 2015	328,284	4,528	(145,253)	186,859
Net change for the period	(11,254)	(438)	9,958	(1,734)
<b>At March 31, 2016</b>	<b>317,030</b>	<b>4,090</b>	<b>(135,995)</b>	<b>185,126</b>

Eagle does not capitalize general and administrative costs. Future development costs related to proved plus probable reserves of \$45.7 million (December 31, 2015 - \$40.3 million) were included in the depletion calculation.

## 15. Debt

Eagle has a credit facility with a syndicate of Canadian chartered banks. The credit facility is used for general corporate purposes, including working capital, capital expenditures and future acquisitions. As at March 31, 2016, the authorized borrowing base of Eagle's credit facility was \$US 80 million with a maturity date of May 26, 2017. The credit facility is secured by a first priority security interest on substantially all of the property and assets of Eagle Energy Inc. and Eagle Hydrocarbons Inc. (each a borrower under the credit facility).

The credit facility is subject to semi-annual redetermination of the borrowing base by the credit facility lenders. The last semi-annual redetermination review was held on October 7, 2015 and the next semi-annual redetermination review will be held no later than May 30, 2016.

Under the credit facility, Eagle is required to satisfy certain customary affirmative and negative covenants (including financial covenants). The credit facility documentation provides for customary negative covenants which, among other things, limits Eagle in paying dividends to its shareholders if any default, event of default or borrowing base deficiency has occurred and is continuing or would result from such dividend, or if the cash dividend payment made for the trailing four quarters exceeds the Available Distributable Cash Flow (as defined by the credit facility agreement, and which was \$27.3 million at March 31, 2016) for the trailing four quarters.

In the event that a borrowing base redetermination results in a reduction of the authorized credit facility below the amount outstanding under the credit facility (such that a "borrowing base deficiency" exists) the credit facility instructs that Eagle must elect to take any one or a combination of the following actions: (1) Repay the borrowing base deficiency within 10 days; (2) pledge additional acceptable collateral such that the borrowing base deficiency is cured within 30 days; (3) deliver an election in writing to the lender to agree to repay borrowing base deficiency in six monthly installments equal to one-sixth of such borrowing base deficiency with the first such installment due thirty (30) days after the date such deficiency notice was received by Eagle.

At March 31, 2016, there were no covenant violations under or in connection with the credit facility.

At March 31, 2016, details of Eagle's credit facility are as follows:

\$000's	\$US	\$CA
Authorized (revolving)	80,000	103,896
Less:		
Amounts drawn	52,394	68,044
Available	27,606	35,852

The exchange rate in effect at March 31, 2016 was \$US 1.00 equal to \$CA 1.30. The amount drawn on the credit facility at March 31, 2016 was denominated in Canadian funds.

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

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

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

## 16. Decommissioning Liability

\$000's	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Beginning balance	26,998	10,347
Acquisition	73	3,187
Additions	14	251
Change in estimate due to acquired properties	180	9,011
Other changes in estimates	1,103	3,274
Accretion (unwinding of discount)	131	399
Effects of exchange rate	(226)	529
Ending balance	28,273	26,998

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

The decommissioning provision was estimated using existing technology, at current prices (adjusted for a 2.0% annual inflation rate), and discounted using a risk-free discount rate at March 31, 2016, of 2.0% for the Salt Flat properties (December 31, 2015 – 1.39%), 2.0% for the Hardeman properties (December 31, 2015 – 2.15%) 2.0 % for the Dixonville properties (December 31, 2015 – 2.15%), 1.23% for the Twining properties (December 31, 2015 – 1.39%) and 2.0% for the NW Alberta properties that were recently acquired.

## 17. Share Capital

### Shares Outstanding

	Three Months Ended March 31, 2016		Year Ended December 31, 2015	
	Number of shares (000's)	Amount (\$000's)	Number of shares (000's)	Amount (\$000's)
Beginning balance	34,863	315,379	35,017	317,150
Issuance of shares pursuant to the Business Combination (Note 6)	7,588	5,539	-	-
Issuance of shares pursuant to the DRIP	-	-	36	67
Cancellation of shares pursuant to the NCIB	-	-	(190)	(1,833)
Share issuance costs	-	(890)	-	(5)
Ending balance	42,451	320,028	34,863	315,379

On January 27, 2016, as part of the Arrangement, Eagle issued 7.6 million shares valued at \$0.73 per share for a total value of \$5.5 million (see note 6 "Business Combination"). Costs associated with issuing shares pursuant to the Arrangement were approximately \$890,000.

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

## 18. Commitments

### Operating Lease Commitment – Head Office Lease in Calgary, Alberta

On January 1, 2013, Eagle entered into a lease for office space in Calgary which has an approximate 61 month term from January 8, 2013 to February 7, 2018. Future minimum lease payments during the term of the lease approximate \$2.4 million and include a leasehold improvements allowance up to \$0.3 million, with 22 months and approximately \$0.9 million remaining at March 31, 2016.

### Operating Lease Commitment - Sublease in Calgary, Alberta

On August 20, 2015, concurrent with the closing of an acquisition, Eagle assumed an office lease obligation. The term of the lease is from March 1, 2011 to February 28, 2017. Future minimum lease payments during the term of the lease approximate \$1.4 million, with 11 months and approximately \$0.2 million remaining at March 31, 2016.

### Operating Lease Commitment – Office Lease in Houston, Texas

Eagle entered into a lease in Houston on April 1, 2011, which originally had an approximate 30 month term from April 7, 2011 through September 30, 2013. On November 21, 2012, the lease was extended for an additional 63 month period from October 1, 2013 to December 31, 2017 and the premise space was expanded to incorporate additional square footage. Future minimum lease payments during the term of the lease include a leasehold improvement allowance of \$US 0.1 million and approximate \$US 0.9 million, with 21 months and approximately \$US 0.5 million remaining at March 31, 2016. In \$CA the remaining future minimum lease payments approximate \$0.7 million translated at the exchange rate in effect at the balance sheet date of \$US 1 equal to \$CA 1.30.

## 19. Subsequent Event

### Operating Lease Commitment – extension of Head Office Lease in Calgary, Alberta

In May, 2016, Eagle will enter into an amendment to its lease agreement for its Calgary office space which extends the lease term and decreases the annual basic rental charge. The lease term, which originally terminated on February 7, 2018, has been extended by approximately 5 years with a termination date of February 28, 2023. The new lease, which provides for the lower annual basic rental charge, is effective August 1, 2016. Future minimum lease payments from March 31, 2016 through to the February 28, 2023 termination of the lease total \$3.3 million, with 83 months remaining at March 31, 2016. The amended lease agreement also includes a leasehold improvement allowance up to \$0.2 million, which can be applied against basic annual rent.

# Corporate Information

## Board of Directors

David M. Fitzpatrick  
Chairman of the Board

Bruce K. Gibson <sup>(1)</sup>  
Director

Warren D. Steckley <sup>(2)(3)</sup>  
Director

Richard W. Clark  
President, Chief Executive Officer and Director

(1) Audit Committee Chair

(2) Reserves & Governance Committee Chair

(3) Compensation Committee Chair

## Officers

Richard W. Clark  
President, Chief Executive Officer and Director

Kelly A. Tomin  
Chief Financial Officer

J. Wayne Wisniewski  
Chief Operating Officer

M. Scott Lovett  
Vice President, Corporate and Business Development

Eric C. McFadden  
Vice President, Capital Markets and Business Development

Jo-Anne M. Bund  
General Counsel and Corporate Secretary

## Auditors

PricewaterhouseCoopers LLP

## Trustee and Transfer Agent

Computershare Trust Company of Canada

## Engineering Consultants

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

## Bankers

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

## Legal Counsel

Bennett Jones LLP

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