



EAGLE ENERGY™

INC.

Financial Report
First Quarter 2019

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EAGLE ENERGY™
INC.

Management's Discussion and Analysis

May 9, 2019

This Management's Discussion and Analysis ("**MD&A**") of financial condition and results of operations for Eagle Energy Inc. ("**Eagle**"), dated May 9, 2019, should be read in conjunction with Eagle's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2019 ("**Interim Financial Statements**") and Eagle's audited consolidated financial statements and accompanying notes and related MD&A for the year ended December 31, 2018 and Eagle's Annual Information Form dated March 21, 2019 ("**AIF**"), which are available online under Eagle's issuer profile at www.sedar.com and on Eagle's website at www.EagleEnergy.com.

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

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

The foreign exchange rate at March 31, 2019 was \$US 1.00 equal to \$CA 1.34 (December 31, 2018 - \$US 1.00 equal to \$CA 1.36), and the average foreign exchange rate for the three months ended March 31, 2019 was \$US 1.00 equal to \$CA 1.33 (for the three months ended March 31, 2018 - \$US 1.00 equal to \$CA 1.26).

Throughout this MD&A, Eagle and its subsidiaries are collectively referred to as "Eagle" for purposes of convenience. In addition, references to the results of operations refer to operations of Eagle's subsidiaries in the U.S. and in Canada.

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 and Going Concern

Eagle is an Alberta corporation. Its common shares are widely held and listed for trading on the Toronto Stock Exchange under the symbol "EGL". Eagle is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Alberta, Canada and Texas, United States.

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 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.

Circumstances exist which cause material uncertainties that may cast significant doubt regarding Eagle's ability to continue as a going concern. Refer to "Going Concern" in the "Liquidity and Capital Resources" section of this MD&A.

Review of the Three Months ended March 31, 2019

- Reduced long term debt by 21% (from \$US 38.5 million to \$US 30.4 million) from the first quarter of 2018 using proceeds from the 2018 third quarter Twining area disposition.
- Reduced finance expense by 32% from the first quarter of 2018 (excluding costs associated with the disposition).
- Increased field netback per boe by 15% when compared to the fourth quarter of 2018 when Alberta oil price differentials were historically wide.
- Continued to reduce expenses by trimming corporate office staff by 20% and decreasing field contractors in the Dixonville area by 25%.
- Hedged a combined 675 barrels of oil per day at an average WTI price of \$US 59.62 per barrel for the April through September 2019 period to mitigate the risk that fluctuating commodity prices have on generating positive cash flows from operations.
- Curtailed 2019 capital expenditures to preserve maximum financial flexibility.

Consolidated Results of Operations

Production

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|--------------------------|---|---|------|
| Working interest (boe/d) | 1,404 | 2,772 | (49) |
| Royalty interest (boe/d) | 138 | 202 | (32) |
| Total (boe/d) | 1,542 | 2,974 | (48) |

Working interest sales volumes for the first quarter of 2019 averaged 1,404 boe/d (86% oil, 5% NGLs, 9% natural gas), a decrease of 49% over the prior year's comparative quarter due to the dispositions of the Salt Flat and Twining properties which contributed approximately 1,000 boe/d in the first quarter of 2018. Royalty interest volumes from non-operated properties for the quarter averaged 138 boe/d (22% oil, 26% NGLs, 52% natural gas), compared to 202 boe/d for the comparative period in 2018.

Average Daily Production by Product Type

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---|--|---|------|
| Working Interest | | | |
| Oil (bbl/d) | 1,206 | 2,263 | (47) |
| Natural gas (Mcf/d) | 749 | 2,278 | (67) |
| NGLs (bbl/d) | 73 | 129 | (43) |
| Oil equivalent sales volumes (boe/d @6:1) | 1,404 | 2,772 | (49) |
| Royalty Interest | | | |
| Oil (bbl/d) | 31 | 45 | (31) |
| Natural gas (Mcf/d) | 428 | 714 | (40) |
| NGLs (bbl/d) | 36 | 38 | (5) |
| Oil equivalent sales volumes (boe/d @6:1) | 138 | 202 | (32) |
| Total | | | |
| Oil (bbl/d) | 1,237 | 2,308 | (46) |
| Natural gas (Mcf/d) | 1,177 | 2,992 | (61) |
| NGLs (bbl/d) | 109 | 167 | (35) |
| Oil equivalent sales volumes (boe/d @6:1) | 1,542 | 2,974 | (48) |

Revenue

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---------------------------------|--|---|------|
| Working Interest Revenue | | | |
| Oil | 6,207 | 13,986 | (56) |
| Natural gas | 186 | 486 | (62) |
| NGLs | 186 | 453 | (59) |
| Other | 52 | 140 | (63) |
| | 6,631 | 15,065 | (56) |
| Royalty Interest Revenue | | | |
| Oil | 178 | 255 | (30) |
| Natural gas | 79 | 99 | (20) |
| NGLs | 96 | 115 | (17) |
| Other | - | - | - |
| | 353 | 469 | (25) |
| Total Revenue | | | |
| Oil | 6,385 | 14,241 | (55) |
| Natural gas | 265 | 585 | (55) |
| NGLs | 282 | 568 | (50) |
| Other | 52 | 140 | (63) |
| | 6,984 | 15,534 | (55) |

Product Prices

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|-------------------------|--|---|------|
| Realized Prices | | | |
| Oil (\$/bbl) | 57.35 | 68.56 | (16) |
| Natural gas (\$/Mcf) | 2.50 | 2.17 | 15 |
| NGLs (\$/bbl) | 28.77 | 37.79 | (24) |
| Other (\$/bbl) | 0.37 | 0.52 | (29) |
| Revenue (\$/boe) | 50.32 | 58.06 | (13) |

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|-----------------------------------|--|---|------|
| Benchmark prices | | | |
| WTI crude oil (\$US/bbl) | 54.81 | 62.87 | (13) |
| Exchange rate (\$CA/\$US) | 1.33 | 1.26 | 6 |
| Edmonton Par crude oil (\$CA/bbl) | 66.92 | 70.09 | (5) |
| NYMEX Gas (\$US/Mcf) | 2.86 | 2.84 | 1 |
| AECO natural gas (\$CA/Mcf) | 2.62 | 2.06 | 27 |

Eagle's 2019 first quarter revenue is 94% derived from oil, consistent with the first quarter of 2018 which was 93% derived from oil. Realized oil prices in Canadian dollars for the three months ended March 31, 2019 decreased by 16% when compared to the three months ended March 31, 2018. This was due to a first quarter 2019 benchmark WTI crude oil price that was 13% lower than the first quarter of 2018, differentials on the Canadian properties which were 8% wider than in the first quarter of 2018, offset slightly by a 6% increase in the foreign exchange rate quarter-over-quarter.

For Eagle's U.S. properties, there is a quality differential between the benchmark \$US WTI price and the \$US price realized by Eagle. Eagle enters into field marketing contracts to obtain predictable pricing. Management monitors pricing regularly and endeavours to maximize realized sales prices while minimizing counterparty risk. The North Texas properties field marketing contracts are on a month-to-month term using WTI as a reference price and holding all other field pricing adjustments fixed while letting the Argus P+ differential to float.

For the Dixonville properties in Canada, the entire differential to WTI, including quality and transportation, is a discount of approximately \$CA 22.77 per barrel in the first quarter of 2019 compared to \$CA 21.09 per barrel in the first quarter of 2018 and \$CA 50.84 per barrel in the fourth quarter of 2018. Since the end of the first quarter of 2019, industry has seen an improvement, or narrowing, of Canadian differentials.

The above prices do not include realized gains or losses from financial commodity contracts, which were \$nil for the three months ended March 31, 2019 as there were no commodity hedges in place during the quarter. See "Realized and Unrealized Risk Management Loss".

Royalties

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|--|--|---|------|
| Total royalties (\$000's)⁽¹⁾ | 1,162 | 3,073 | (62) |
| \$/boe ⁽²⁾ | 8.37 | 11.49 | (27) |
| Royalty rate on working interest sales | 18% | 20% | (10) |

Notes:

- (1) There are no royalty expenses associated with royalty interest volumes.
- (2) Total \$/boe amounts are calculated using total working interest and royalty interest volumes.

The overall royalty rate of approximately 18% for the three months ended March 31, 2019 was slightly lower than the prior year comparative period primarily due to a decreased royalty rate on the Canadian properties. The royalty rate for the Canadian properties decreased from 15% in the first quarter of 2018 to 11% in the first quarter of 2019 due to the Alberta PAR pricing decrease as a result of high differentials in the fourth quarter of 2018. For the first quarter of

2019, 62% of Eagle's production was from Canadian properties and 38% was from U.S. properties. For the first quarter of 2018, these percentages were 61% and 39%, respectively. Canadian properties had an average royalty rate of 11% in the first quarter of 2019 compared to 23% for the U.S. properties.

The sliding scale nature of royalties paid on Canadian properties affects the royalty rate. Crown royalty rates in Alberta depend on four components: (i) production volumes; (ii) Alberta PAR commodity prices; (iii) product density; and (iv) if wells qualify for royalty holidays. Alberta PAR commodity prices reflect market prices. Royalty rates for Eagle's U.S. properties generally do not fluctuate with underlying commodity prices.

Operating and Transportation and Marketing Expenses

| | Three Months Ended March 31, 2019 | | Three Months Ended March 31, 2018 | | % |
|---|--------------------------------------|--------------|--------------------------------------|--|------|
| Total operating expenses (\$000's)⁽¹⁾ | | | | | |
| Operating expenses | | 2,765 | 4,550 | | (39) |
| Transportation and marketing expenses | | 385 | 559 | | (31) |
| | | 3,150 | 5,109 | | (38) |
| (\$/boe)⁽²⁾ | | | | | |
| Operating expenses | | 19.92 | 17.01 | | 17 |
| Transportation and marketing expenses | | 2.77 | 2.09 | | 33 |
| | | 22.69 | 19.10 | | 19 |

Notes:

- (1) There are no operating costs associated with royalty interest volumes.
(2) Total \$/boe amounts are calculated using total working interest and royalty interest volumes.

Total operating expenses (inclusive of transportation and marketing expenses) of \$3.1 million for the three months ended March 31, 2019 were comprised primarily of fuel (11%), oil transportation (9%), field salaries (8%) and power (5%). For the three months ended March 31, 2018, total operating expenses of \$5.1 million were comprised primarily of power (13%), fuel (9%), oil transportation (8%), chemicals (6%), field salaries (6%) and water disposal fees (4%).

Quarter-over-quarter operating costs on a per boe basis increased due to workover costs on a significant North Texas oil well, as well as additional field costs in Dixonville to restore production after the selective well shut in program was implemented in the fourth quarter of 2018 due to weak commodity prices. Transportation and marketing expenses on a per boe basis increased due to an increase in trucking costs at Dixonville.

Field Netback

| | Three Months Ended March 31, 2019 | | Three Months Ended March 31, 2018 | |
|---------------------------------------|--------------------------------------|--------------|--------------------------------------|---------|
| | \$000's | \$/boe | \$000's | \$/boe |
| Revenue | 6,984 | 50.32 | 15,534 | 58.06 |
| Royalties | (1,162) | (8.37) | (3,073) | (11.49) |
| Operating expenses | (2,765) | (19.92) | (4,550) | (17.01) |
| Transportation and marketing expenses | (385) | (2.77) | (559) | (2.09) |
| Field netback | 2,672 | 19.26 | 7,352 | 27.47 |
| Sales volumes (boe/d) | | 1,542 | | 2,974 |

During the first quarter, Eagle averaged revenue of \$50.32 per boe and realized a field netback of \$19.26 per boe. When compared to the prior year, the decrease in field netback per boe was primarily due to the decrease in commodity prices, coupled with an increase in field operating expenses per boe. In the first quarter of 2018, the Twining and Salt Flat properties, which have since been sold, contributed revenue net of royalties of \$4.4 million and operating expenses of \$1.9 million.

When compared to the fourth quarter of 2018, first quarter 2019 field netback per boe increased by 15%. This increase was due to a significant (\$CA 28.07 per barrel) improvement in the Dixonville oil price differential being only partially offset by higher corporate per boe operating expenses.

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

Administrative Expenses

| (\$000's) | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---------------------------------------|--------------------------------------|--------------------------------------|-------------|
| Administrative expenses | 1,853 | 1,809 | 2 |
| Costs associated with the disposition | - | 1,087 | - |
| Total administrative expenses | 1,853 | 2,896 | (36) |
| \$/boe | 13.35 | 10.82 | 23 |

First quarter 2019 administrative expenses include one-time charges of \$0.8 million relating to severance and retention costs. Total administrative expenses for the quarter, excluding these costs, would have been \$1.1 million (\$7.95 per boe) and a 39% reduction (not including costs associated with dispositions) from the 2018 comparative period.

Beginning January 1, 2019, Eagle implemented IFRS 16 – *Leases*, which reclassified office rent as a right-of-use asset. The result of implementing this accounting policy was the removal of office rent expense from administrative expenses and instead recording rent payments to finance expense and as a reduction to the office rent lease obligation. Implementing this policy resulted in no office rent expense in 2019 first quarter administrative expenses, as compared to \$0.13 million of office rent expense in 2018 first quarter administrative expenses.

For the three months ended March 31, 2019, staff and related employment costs, professional fees and office costs accounted for 82%, 5% and 5%, respectively (three months ended March 31, 2018 – 51%, 35% and 9%, respectively).

Realized and Unrealized Risk Management Loss

As part of Eagle's ongoing strategy to mitigate the effects of fluctuating prices on a portion of its production, the following contracts were in place at March 31, 2019:

| | Volume | Measure | Beginning | Term | Floor \$US | Ceiling \$US |
|------------------------|--------|---------|-----------|--------|------------|--------------|
| Oil Fixed Price | | | | | | |
| NYMEX ⁽¹⁾ | 450 | bbls/d | Apr-19 | Sep-19 | 57.81 | 57.81 |

Note:

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

On March 12, 2019, Eagle entered into a fixed price financial swap on 450 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of \$US 57.81 per barrel. In 2018, Eagle had 1,000 barrels of oil per day hedged at an average WTI price of \$US 57.50 per barrel for the first quarter.

On April 8, 2019, Eagle entered into a fixed price financial swap on 225 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of \$US 63.23 per barrel in order to mitigate the risk that fluctuating commodity prices has on generating positive cash flows from operations.

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|-----------------|--------------------------------------|--------------------------------------|-------------|
| Realized loss | - | 613 | - |
| Unrealized loss | 213 | 216 | (1) |
| Net loss | 213 | 829 | (74) |

The net value of 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, as well as the amount of production that Eagle has hedged. Although Eagle currently does not intend to unwind the contracts 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.

Finance Expense

| (\$000's) | Three Months Ended | | % |
|--|--------------------|----------------|-------------|
| | March 31, 2019 | March 31, 2018 | |
| Finance expense | 1,314 | 1,939 | (32) |
| Finance expense related to debt repayment and reclassification | - | 3,113 | - |
| Total finance expense | 1,314 | 5,052 | (74) |
| \$/boe | 9.47 | 18.88 | (50) |

Eagle has in place a four-year secured term loan (see "Liquidity and Capital Resources") with a U.S. based lender who is an SEC-registered investment adviser headquartered in San Francisco.

For the three months ended March 31, 2019 and 2018, funds borrowed are denominated in U.S. dollars and have a coupon rate of LIBOR plus 8% (with LIBOR having a floor of 1%).

For the three months ended March 31, 2019, a lower finance expense is reflective of a lower debt level and no amortization of deferred financing costs on the term loan as these costs were amortized fully through interest expense on the income statement in the fourth quarter of 2018. As well, the first quarter of 2019 includes \$0.1 million of finance expense associated with the implementation of IFRS 16 that was not recorded in the first quarter of 2018.

For the three months ended March 31, 2019, finance expense of \$9.47 per boe is 31% higher than the three months ended March 31, 2018 of \$7.25 per boe (excluding amounts related to debt repayment and reclassification) due to 48% lower production in the first quarter of 2019 when compared to the first quarter of 2018.

For the three months ended March 31, 2019, the effective interest rate, excluding the one-time finance costs associated with the prepayment of the term loan, was 11.41% (three months ended March 31, 2018 – 12.11%).

During 2018, Eagle used a portion of the net proceeds from the Twining and Salt Flat dispositions to reduce its term loan by 48% (from \$US 58.2 million to \$US 30.4 million).

Funds Flow (used in) generated from Operations

The following table summarizes funds flow (used in) generated from operations on an absolute and on a per boe basis:

| | Three Months Ended | | Three Months Ended | |
|---|--------------------|---------------|--------------------|-------------|
| | March 31, 2019 | | March 31, 2018 | |
| | \$000's | \$/boe | \$000's | \$/boe |
| Field netback ⁽¹⁾ | 2,672 | 19.26 | 7,352 | 27.47 |
| Administrative expenses - cash | (1,853) | (13.35) | (2,896) | (10.82) |
| Realized risk management loss | - | - | (613) | (2.29) |
| Finance expense - cash | (1,232) | (8.88) | (3,766) | (14.07) |
| Interest income | 5 | 0.04 | - | - |
| Realized foreign exchange (loss) gain ⁽²⁾ | (25) | (0.18) | 1,641 | 6.13 |
| Funds flow (used in) generated from operations⁽³⁾ | (433) | (3.11) | 1,718 | 6.42 |

Notes:

- (1) Field netback is a non-IFRS financial measure. See "Non-IFRS Financial Measures".
- (2) This represents settled foreign currency transactions related to operating activities and partial repayment of U.S. denominated debt.
- (3) Funds flow from operations for the three months ended March 31, 2018 includes one-time disposition costs of \$1.0 million incurred in the first quarter and relating to the Salt Flat disposition.

Despite lower administrative and finance expenses when compared to the fourth quarter of 2018, first quarter 2019 funds flow from operations was negative, and \$1.5 million below fourth quarter 2018 levels. Lower 2019 first quarter funds flow was due to lower overall sales volumes (Dixonville production was not yet fully restored after the well shut-in program in response to low commodity prices and North Texas production was reduced when a significant well was temporarily shut in for repairs), higher operating expenses (as a result of both the additional field expenses at

Dixonville to restore shut-in production and the additional costs to repair the well in North Texas) and one-time charges of \$0.8 million related to severance and retention costs. In addition, fourth quarter 2018 funds flow included a \$1.3 million realized risk management gain from commodity hedging, while there was no comparable amount during the first quarter of 2019 because Eagle had no 2019 commodity hedges in effect until April 2019.

2019 Sensitivities

Eagle's results and the 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 ⁽¹⁾ |
|--------------------------|-------------------------|--------------------------------------|---|
| Gas price ⁽²⁾ | \$US 0.10/mcf Henry HUB | 9 | - |
| Oil price ⁽²⁾ | \$US 1.00/bbl WTI | 146 | - |
| Gas production | +1000 mcf/d | 240 | - |
| Oil production | +100 bbls/d | 173 | - |
| Currency ⁽²⁾ | CA weaken by \$0.01 | 14 | - |
| Interest rate | +1% prime | (101) | - |

Notes:

- (1) Per share figures are based on 44,243,634 weighted average basic shares outstanding for the three months ended March 31, 2019.
- (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 1,542 boe/d.

Depreciation, Depletion and Amortization

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---|--------------------------------------|--------------------------------------|----------|
| Depreciation, depletion and amortization | 1,799 | 3,220 | (44) |
| Impairment expense | - | (1,475) | - |
| Total | 1,799 | 1,745 | 3 |
| Depreciation, depletion and amortization (\$/boe) | 12.96 | 6.52 | 99 |

The depletion, depreciation, and amortization provision for the three months ended March 31, 2019 for all properties was based on proved plus probable reserves, including the future development costs associated with those reserves, as outlined in the 2018 year end reserves evaluation report prepared by Eagle's independent reserves evaluators.

For the Dixonville properties, a decrease in carrying value due to 2018 depletion, and an impairment at 2018 year-end, was partially offset by increased future development capital. This decrease in carrying value, combined with a decrease in reserves, resulted in a depletion rate of \$6.48 per boe in the first quarter of 2019 compared to \$6.50 per boe in the first quarter of 2018.

For the North Texas properties, an increase in carrying value due to the 2018 drilling program, combined with higher future development capital and incremental reserve bookings at 2018 year end, resulted in an increased depletion rate of \$20.82 per boe in the first quarter of 2019 compared to \$18.08 per boe for the first quarter of 2018.

Included in the first quarter of 2019 are depreciation expenses of \$0.2 million related to the leased assets.

On an overall corporate level, the quarter-over-quarter depletion rate decreased 5% to \$11.68 per boe from \$12.27 per boe. When the lower rate is combined with lower production due to the dispositions of Salt Flat and Twining, the result was lower depreciation, depletion and amortization expense in the first quarter of 2019 versus the first quarter of 2018.

At March 31, 2019, Eagle assessed each of its CGUs and determined there were no indicators of impairment. An assessment of impairment indicators will be done in each quarter of 2019.

Foreign Exchange Loss (Gain)

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|--|--|---|
| Net loss (gain) arising on settlement of foreign currency transactions arising out of operating activities | 25 | (136) |
| Foreign exchange gain on repayment of U.S. denominated debt | - | (1,505) |
| Realized loss (gain) on foreign exchange | 25 | (1,641) |
| Foreign exchange loss on U.S. denominated debt | 1,047 | 2,791 |
| Foreign exchange gain on Canadian denominated intercompany loan | (744) | (1,878) |
| Foreign exchange loss on U.S. denominated risk management liability | - | 41 |
| Unrealized loss on foreign exchange | 303 | 954 |
| Foreign exchange loss (gain), net | 328 | (687) |

Both the net loss (gain) arising on the settlement of foreign currency transactions from operating activities and the gain on the repayment of U.S. denominated debt are recorded as realized gains in the statement of earnings or loss.

The foreign exchange loss on the U.S. denominated debt (see "Loan Agreement" under Liquidity and Capital Resources) is a non-cash entry resulting from the re-evaluation of the term loan from a U.S.-based lender to the Canadian dollar equivalent amount on each balance sheet date. The change in the Canadian dollar amount is recorded as an unrealized amount in earnings or loss. The three months ended March 31, 2019 show an unrealized loss of \$1.0 million and the three months ended March 31, 2018 shows an unrealized loss of \$2.8 million due to an increase in the period exchange rate quarter-over-quarter.

When the balance of the U.S. denominated debt changes due to a repayment, as it did in February 2018 when proceeds from the Salt Flat disposition were used to partially pay down debt, the foreign exchange gain or loss is a realized gain or loss in the statement of loss. Due to the decrease in the foreign exchange rate from the March 2017 inception of the loan to the February 2018 repayment, the three months ended March 31, 2018 show a realized gain of \$1.5 million due to the \$US 19.7 million term loan repayment in February.

The \$0.7 million unrealized foreign exchange gain on the Canadian denominated intercompany loan for the three months ended March 31, 2019 is a non-cash entry and the result of a U.S. subsidiary holding a Canadian dollar denominated loan issued by its parent. The intercompany loan is eliminated on consolidation, but it is no longer considered part of the net investment in the subsidiary (because amounts have been repaid in the past); thus, any related period-end foreign exchange translation adjustment is recorded in the statement of loss as opposed to currency reserves in shareholders' equity.

The foreign exchange loss (gain) on financial instruments is a non-cash entry resulting from the re-evaluation of the U.S. denominated financial instruments. The change in the Canadian dollar amount is recorded as an unrealized amount in earnings or loss.

Capital Expenditures

Capital expenditures during the three month period ended March 31, 2019 were as follows:

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|-------------------------------------|--|---|
| Land | - | - |
| Intangible drilling and completions | (122) | 2,243 |
| Well equipment and facilities | (140) | 32 |
| Other | - | 2 |
| Total | (262) | 2,277 |

Capital expenditures in the first quarter are a credit position due to an adjustment to the property dispositions in 2018. Eagle has curtailed capital spending for 2019.

Summary of Quarterly Results

| | Q1/2019 | Q4/2018 | Q3/2018 | Q2/2018 | Q1/2018 | Q4/2017 | Q3/2017 | Q2/2017 |
|--|---------|---------|----------------------|----------|----------------------|----------|---------|---------|
| (\$000's except for boe/d and per share amounts) | | | | | | | | |
| Sales volumes – boe/d | 1,542 | 1,852 | 1,958 | 2,262 | 2,974 | 3,804 | 3,749 | 3,966 |
| Revenue, net of royalties | 5,822 | 5,577 | 9,010 | 10,228 | 12,461 | 14,725 | 12,459 | 14,167 |
| per boe | 41.95 | 32.73 | 50.01 | 49.69 | 46.57 | 42.08 | 36.12 | 39.25 |
| Operating, transportation and marketing expenses | 3,150 | 2,730 | 3,946 | 4,206 | 5,109 | 6,864 | 6,301 | 5,885 |
| per boe | 22.69 | 16.02 | 21.91 | 20.43 | 19.10 | 19.61 | 18.27 | 16.31 |
| Field netback | 2,672 | 2,847 | 5,064 | 6,022 | 7,352 | 7,861 | 6,158 | 8,282 |
| per boe | 19.26 | 16.71 | 28.10 | 29.26 | 27.47 | 22.47 | 17.85 | 22.94 |
| Funds flow from operations | (433) | 1,062 | 1,622 ⁽²⁾ | 1,932 | 1,718 ⁽³⁾ | 3,488 | 3,346 | 4,272 |
| per boe | (3.11) | 6.23 | 9.00 | 9.39 | 6.42 | 9.98 | 9.70 | 11.84 |
| per share – basic | (0.01) | 0.02 | 0.04 | 0.04 | 0.04 | 0.08 | 0.08 | 0.10 |
| per share – diluted | (0.01) | 0.02 | 0.04 | 0.04 | 0.04 | 0.08 | 0.07 | 0.10 |
| (Loss) earnings | (2,908) | (8,259) | (1,887) | (15,093) | (2,568) | (14,293) | (4,711) | 675 |
| per share – basic | (0.07) | (0.19) | (0.04) | (0.34) | (0.06) | (0.34) | (0.11) | 0.02 |
| per share - diluted | (0.07) | (0.19) | (0.04) | (0.34) | (0.06) | (0.34) | (0.11) | 0.02 |
| Current assets | 7,633 | 7,751 | 13,270 | 10,920 | 14,941 | 13,869 | 11,122 | 11,847 |
| Current liabilities | 47,809 | 47,769 | 9,686 | 5,762 | 7,528 | 13,715 | 8,042 | 6,599 |
| Total assets | 138,011 | 136,674 | 141,264 | 159,935 | 174,877 | 207,314 | 213,867 | 222,155 |
| Total non-current liabilities | 21,083 | 16,658 | 51,886 | 62,427 | 70,870 | 94,312 | 92,367 | 97,086 |
| Shareholders' equity | 69,119 | 72,247 | 79,692 | 81,709 | 96,479 | 99,287 | 113,458 | 118,470 |
| Shares issued | 44,244 | 44,244 | 44,244 | 43,750 | 43,750 | 43,302 | 43,302 | 42,857 |

For the three months ended March 31, 2019, sales volumes were lower than the previous quarter due to the selective well shut in program in Dixonville and a significant well in North Texas being shut-in for repairs for a portion of the quarter. Production is down from previous quarters due to the sale of Salt Flat in February 2018 and Twining in August 2018.

First quarter 2019 field netback per boe increased 15% from the fourth quarter of 2018. This increase was due to significantly improved pricing on Canadian production being partially offset by higher per boe operating expenses resulting from a North Texas well repair and costs incurred to restore Dixonville production to the level it was at prior to the selective well shut in program that was implemented in response to low 2018 fourth quarter prices.

First quarter 2019 funds flow from operations was negative and \$1.5 million below the fourth quarter of 2018. This was primarily due to a \$1.3 million risk management gain realized in the fourth quarter of 2018. In addition, lower 2019 first quarter funds flow was due to lower overall sales volumes (Dixonville production was not yet fully restored after the well shut-in program in response to low commodity prices and North Texas production was reduced when a significant well was temporarily shut in for repairs), higher operating expenses (as a result of both the additional field expenses at Dixonville to restore shut-in production and the additional costs to repair the well in North Texas) and one-time charges of \$0.8 million related to severance and retention costs. Despite a 17% decrease in volumes and higher total operating costs when compared to the fourth quarter of 2018, first quarter 2019 total field netback only decreased by 6% due to higher realized pricing on Canadian properties.

Changes in (loss) earnings from one quarter to the next often do not move directionally or by the same amount as quarterly changes in funds flow from operations. This is due to items of a non-cash nature that factor into the calculation of (loss) earnings, and those that are required to be fair valued at each quarter end. First quarter 2019 funds flow from operations was 141% less than the fourth quarter of 2018, yet first quarter 2019 net income was only

65% less than the fourth quarter of 2018. This was primarily due to a \$5.3 million non-cash impairment expense relating to the Dixonville oil and gas properties that was recognized in the fourth quarter of 2018.

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, 2019 | Three Months Ended March 31, 2018 | % |
|---|--------------------------------------|--------------------------------------|-------------|
| Production | | | |
| Working interest | | | |
| Oil (bbl/d) | 472 | 1,027 | (54) |
| Natural gas (Mcf/d) | 341 | 422 | (19) |
| NGLs (bbl/d) | 60 | 63 | (5) |
| Oil equivalent sales volumes (boe/d @ 6:1) | 589 | 1,160 | (49) |
| Royalty interest | | | |
| Oil (bbl/d) | - | - | - |
| Natural gas (Mcf/d) | - | - | - |
| NGLs (bbl/d) | - | - | - |
| Oil equivalent sales volumes (boe/d @ 6:1) | - | - | - |
| Total | | | |
| Oil (bbl/d) | 472 | 1,027 | (54) |
| Natural gas (Mcf/d) | 341 | 422 | (19) |
| NGLs (bbl/d) | 60 | 63 | (5) |
| Oil equivalent sales volumes (boe/d @ 6:1) | 589 | 1,160 | (49) |

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---------------------------------------|--------------------------------------|--------------------------------------|-------------|
| Field Netback (\$000's) | | | |
| Revenue | 3,220 | 7,712 | (58) |
| Royalties | (755) | (1,897) | (60) |
| Operating expenses | (1,185) | (1,605) | (26) |
| Transportation and marketing expenses | (105) | (117) | (10) |
| Field netback | 1,175 | 4,093 | (71) |
| (\$/boe) | | | |
| Revenue | 60.76 | 73.85 | (18) |
| Royalties | (14.25) | (18.17) | (22) |
| Operating expenses | (22.35) | (15.37) | 45 |
| Transportation and marketing expenses | (1.98) | (1.12) | 77 |
| Field netback | 22.18 | 39.19 | (43) |

| Capital Activity | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|--------------------------------|--|--|----------|
| Capital expenditures (\$000's) | (255) | 2,133 | (112) |
| Wells drilled (rig-released) | | | |
| Gross | - | 1.0 | - |
| Net | - | 1.0 | - |
| Wells brought on-stream | | | |
| Gross | - | - | - |
| Net | - | - | - |

On February 8, 2018, Eagle disposed of its oil and gas interests in the Salt Flat field located in Caldwell County, Texas. Capital expenditures in the first quarter of 2019 were a credit of \$0.3 million pertaining to the 2018 disposition of Salt Flat. Prior to its disposition, Salt Flat produced approximately 1,200 boe/d.

Revenue for the first quarter of 2019 was received primarily from Sunoco Logistics Partners L.P. ("**Sunoco**"), with revenue received amounting to \$2.2 million (69%). For the first quarter of 2018, \$4.2 million (55%) was received from Texican Crude Hydrocarbons LLC and \$3.2 million (41%) from Sunoco.

Canada

| Production | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---|--|--|-------------|
| Working interest | | | |
| Oil (bbl/d) | 734 | 1,236 | (41) |
| Natural gas (Mcf/d) | 408 | 1,856 | (78) |
| NGLs (bbl/d) | 13 | 66 | (80) |
| Oil equivalent sales volumes (boe/d @ 6:1) | 815 | 1,611 | (49) |
| Royalty interest | | | |
| Oil (bbl/d) | 31 | 45 | (31) |
| Natural gas (Mcf/d) | 428 | 714 | (40) |
| NGLs (bbl/d) | 36 | 38 | (5) |
| Oil equivalent sales volumes (boe/d @ 6:1) | 138 | 202 | (32) |
| Total | | | |
| Oil (bbl/d) | 765 | 1,281 | (40) |
| Natural gas (Mcf/d) | 836 | 2,570 | (67) |
| NGLs (bbl/d) | 49 | 104 | (53) |
| Oil equivalent sales volumes (boe/d @ 6:1) | 953 | 1,814 | (47) |

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|---------------------------------------|---|---|-------------|
| Field Netback (\$000's) | | | |
| Revenue | 3,764 | 7,822 | (52) |
| Royalties | (407) | (1,176) | (65) |
| Operating expenses | (1,580) | (2,945) | (46) |
| Transportation and marketing expenses | (280) | (442) | (37) |
| Field netback | 1,497 | 3,259 | (54) |
| (\$/boe) | | | |
| Revenue | 43.87 | 47.93 | (8) |
| Royalties | (4.74) | (7.21) | (34) |
| Operating expenses | (18.41) | (18.05) | 2 |
| Transportation and marketing expenses | (3.26) | (2.71) | 20 |
| Field netback | 17.46 | 19.97 | (13) |

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|--------------------------------|---|---|-------|
| Capital Activity | | | |
| Capital expenditures (\$000's) | (7) | 142 | (105) |
| Wells drilled (rig-released) | | | |
| Gross | - | - | - |
| Net | - | - | - |
| Wells brought on-stream | | | |
| Gross | - | - | - |
| Net | - | - | - |

Revenue for the first quarter was received primarily from Trafigura Canada General Partnership ("**Trafigura**") in the amount of \$3.3 million (87%). For the first quarter of 2018, \$6.3 million of revenue was received from Trafigura.

In the first quarter of 2019, with the improvement in realized prices, Eagle focused on restoring Dixonville production to levels prior to when the selective well shut in program was implemented in the fourth quarter of 2018 due to the low pricing environment.

Corporate

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % |
|--|---|---|-------------|
| Administrative expenses - cash portion | (1,853) | (2,896) | (36) |
| Risk management loss - realized | - | (613) | - |
| Finance expense - cash portion | (1,232) | (3,776) | (67) |
| Interest income | 5 | - | - |
| Realized foreign exchange loss (gain) | (25) | 1,641 | (102) |
| Total | (3,105) | (5,644) | (45) |

Liquidity and Capital Resources

Going Concern

The Interim Financial Statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business as they become due.

At March 31, 2019, Eagle had a working capital deficiency of \$40.2 million (December 31, 2018 - \$40.0 million) and negative funds flow from operations for the three months ended March 31, 2019. In addition, Eagle's estimate of future cash flows from operating activities over the next twelve months is not sufficient to repay the loan principal which is classified as a current liability.

At March 31, 2019, Eagle was in default of two of its four financial covenants under the four-year secured term loan from its U.S.-based lender (the "**Loan Agreement**") and there is no assurance that it will not be in violation of one or more financial covenants in future quarters. Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement and, as a result, Eagle's debt was classified as a current liability.

Notwithstanding the default, the lender has not, as of the date hereof, exercised any of its available remedies. However, there can be no assurance that it will not do so in the future.

Negative funds flow from operations in the first quarter of 2019 due to lower production and higher operating costs caused Eagle to be in default of the Consolidated Fixed Charge Coverage Ratio covenant under the Loan Agreement. In addition, when first quarter 2019 negative funds flow from operations was combined with low WTI oil prices and historically wide Alberta oil price differentials during the fourth quarter of 2018, Eagle was also in default of the Consolidated Leverage Ratio covenant, which is a trailing four quarters based calculation.

These circumstances cause material uncertainties that may cast significant doubt regarding Eagle's ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities, reported amounts of revenue and expenses, and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. Such adjustments could be material.

Eagle has undertaken several cost-cutting measures to reduce administrative and operating expenses, such as reducing its staff headcount, reducing its number of contractors, negotiating better pricing with contractors and listing its Calgary and Houston office space for sublease. Eagle continues to evaluate exposure to market risks from fluctuations in commodity prices and has entered into risk management contracts to reduce commodity price risks. Eagle has curtailed capital spending for 2019. Eagle continues to work with its financial advisors to investigate, evaluate and consider possible asset sales and restructuring alternatives.

Eagle's ability to meet its ongoing financial liabilities, including liabilities relating to the Loan Agreement, and to continue as a going concern, is dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. There is no certainty that such initiatives will be successful. During 2019, Eagle has undertaken the following:

- On March 12, 2019, Eagle entered into a fixed price financial swap on 450 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of \$US 57.81 per barrel in order to mitigate the risk that fluctuating commodity prices have on generating positive cash flows from operations.
- On April 8, 2019, Eagle entered into a fixed price financial swap on 225 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of \$US 63.23 per barrel in order to mitigate the risk that fluctuating commodity prices has on generating positive cash flows from operations.
- Given the improvement in commodity prices since the end of 2018, Eagle's ongoing work with its financial advisors in investigating, evaluating and considering possible asset sales and restructuring alternatives, Eagle made the decision to forego entering into another forbearance agreement (upon the January 31, 2019 expiry of the initial forbearance agreement) with its lender. Eagle felt this afforded it the maximum flexibility to manage its business and avoided incurring additional fees and conditions associated with a forbearance agreement.

Loan Agreement

Effective March 15, 2019, the lender finalized its borrowing base redetermination and set the borrowing base at \$CA 40.9 million (the approximate Canadian dollar equivalent of \$US 30.6 million). Eagle currently has \$US 30.4 million drawn on the \$US 30.6 million borrowing base, with no ability to draw any further funds.

At March 31, 2019, the Company had a \$0.7 million working capital surplus (excluding the debt and the non-cash risk management liability) and \$40.7 million (the approximate March 31, 2019 Canadian dollar equivalent of \$US 30.4 million) drawn under the Loan Agreement.

The details of Eagle's outstanding debt (translated into the approximate Canadian dollar equivalent) were as follows:

| \$000's | March 31, 2019 | December 31, 2018 |
|-------------|----------------|-------------------|
| Debt | 40,672 | 41,521 |

At March 31, 2019, Eagle was in violation of two of its four financial covenants. Under the Loan Agreement, Eagle is to maintain a Consolidated Leverage Ratio of not more than 3.50 to 1:00 and a Consolidated Fixed Charge Ratio of not less than 1.70 to 1.00 as at the end of each fiscal quarter. For the quarter ending March 31, 2019, the Consolidated Leverage Ratio was 4.25 to 1.00 and the Consolidated Fixed Charge Ratio was 0.70 to 1.00.

Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement in which the lender may, without notice or demand, do any or all of the following: terminate the loan; declare amounts immediately due and payable; stop advancing money or extending credit; settle or adjust disputes and claims directly with debtors; or make any payments and do any acts it considers necessary or reasonable to protect its collateral (including placing a hold on deposit accounts of Eagle and demanding and receiving possession of Eagle's books and records).

Draws under the Loan Agreement are subject to quarterly covenant calculations which are directly impacted by commodity prices, foreign exchange rate fluctuations, production levels and drilling results. The amount available under the Loan Agreement is subject to semi-annual borrowing base determinations which are directly impacted by the future value of the oil and natural gas reserves.

The following lists the key terms of the Loan Agreement between Eagle and its lender after giving effect to all amendments and borrowing base redeterminations through May 9, 2019:

- Effective Date - March 13, 2017
- Term - 4 years
- Maturity Date - March 13, 2021
- Borrowing Base - \$US 30.6 million
- Borrowing Base Redeterminations – Scheduled borrowing base redeterminations take place semi-annually (using reserve reports with effective dates of June 30 and December 31) and become effective when the new borrowing base notice is received from the lender. Such borrowing base remains in effect until the next borrowing base redetermination. The borrowing base redeterminations are effective for Eagle and its lender on March 15 and September 15 of each year. For purposes of semi-annual borrowing base redeterminations, Eagle will provide its lender with reserve reports with effective dates of June 30 and December 31. Failure of Eagle to provide a semi-annual reserve report constitutes an immediate event of default.

Upon receipt by the lender of the semi-annual reserve report (and other reports, data and supplemental information as may be reasonably requested), the lender will evaluate the information and propose a new borrowing base based upon an advance rate of 75% of the proved developed producing reserves value, before tax, discounted at 10% ("**PDP PV10 reserves value**"). The forward pricing used to calculate the PDP PV10 reserves value is based on 48 months of NYMEX futures contracts and is defined in the Loan Agreement.

In the event that a borrowing base redetermination results in the outstanding principal of the term loan exceeding the borrowing base then in effect ("**Term Loan Excess**"), then, after receiving a new borrowing base notice of such new or adjusted borrowing base (such date of receipt of notice being the "**Borrowing Base Notification Date**"), Eagle will, no later than twenty business days from the Borrowing Base Notification Date, repay an amount equal to (A) the then applicable Term Loan Excess plus (B) 2% of the aggregate principal amount of any such repayment. If Eagle fails to pay the amount under (B), then that amount bears interest until paid in full at a rate of LIBOR plus 13% per annum. A non-payment by Eagle when and as required of amounts to be paid or repaid would constitute an immediate event of default.

- Coupon - LIBOR plus 8% (with LIBOR having a floor of 1%)
- Financial covenants - The four financial covenants in the Loan Agreement are summarized below.

(a) Consolidated Leverage Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter ending on or after June 30, 2018, a Consolidated Leverage Ratio of not greater than 3.50 to 1.00.

As at March 31, 2019, the Consolidated Leverage Ratio was 4.25 to 1.00 and Eagle was in violation of this covenant.

The “Consolidated Leverage Ratio” is defined in the Loan Agreement as the ratio of Consolidated Funded Debt to Consolidated Adjusted EBITDAX (as defined below) for the trailing four fiscal quarters.

(b) Consolidated Fixed Charge Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter, a Consolidated Fixed Charge Coverage Ratio of not less than 1.70 to 1.00.

As at March 31, 2019, the Consolidated Fixed Charge Ratio was 0.70 to 1.00 and Eagle was in violation of this covenant.

The “Consolidated Fixed Charge Ratio” for the fiscal quarter is defined in the Loan Agreement as the ratio that (i) Consolidated Adjusted EBITDAX plus (ii) income tax payments minus (iii) maintenance capital expenditures associated with proved developed producing reserves is to interest expense (each for the fiscal quarter and with one-time interest charges relating to the disposition of the Salt Flat properties being excluded from interest expense).

(c) Asset Coverage Ratio

Eagle is to maintain, as at June 30 and December 31 of each fiscal year, and based on reserve reports internally prepared by Eagle, an Asset Coverage Ratio of not less than 1.333 to 1.000.

At December 31, 2018, the Asset Coverage Ratio was 1.343 to 1.00. No test was required or performed at March 31, 2019.

The “Asset Coverage Ratio” is defined in the Loan Agreement as the ratio of the PDP PV10 reserves value (using prices quoted on NYMEX and before tax) to the aggregate principal balance outstanding under the term loan.

(d) Consolidated Current Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter, a Consolidated Current Ratio in an amount not less than 1.00 to 1.00.

As at March 31, 2019, the Consolidated Current Ratio was 1.10 to 1.00.

The “Consolidated Current Ratio” is defined in the Loan Agreement as the ratio of Consolidated Current Assets to Consolidated Current Liabilities, but, in each case, excluding any risk management assets or risk management liabilities that are classified as current.

“Consolidated Adjusted EBITDAX”, as defined in the Loan Agreement, means:

- (a) net income; plus
- (b) actual cash transaction costs and expenses directly incurred in connection with the dispositions of Salt Flat and Twining; plus;
- (c) interest expense, accrued taxes, depreciation, depletion, amortization, exploration expense and other non-recurring expenses that do not represent a cash item in such period or any future period; plus or minus

- (d) gains or losses attributable to write-ups or write-downs of assets; plus or minus
- (e) unrealized foreign exchange gains or losses; plus or minus
- (f) non-cash gains, losses or adjustments under Financial Accounting Standards Board (FASB) Statement 133 as a result of changes in the fair market value of derivatives; plus or minus
- (g) non-cash share-based compensation or recovery amounts.

In addition, EBITDAX is calculated after giving effect on a pro-forma basis to any permitted acquisition or disposition (that is also a “material disposition”) as if such acquisition or disposition occurred at the beginning of such period, provided that the dispositions of Salt Flat and Twining have been deemed not to constitute material dispositions.

Working Capital

At March 31, 2019, Eagle had a \$0.7 million working capital surplus (excluding the debt and the non-cash risk management liability) and \$40.7 million (the approximate March 31, 2019 Canadian dollar equivalent of \$US 30.4 million) drawn under the Loan Agreement.

Shareholders’ Equity, Dividends and Outstanding Share Data

At March 31, 2019, Eagle had issued 44,243,634 shares (December 31, 2018 – 44,243,634).

As at the date of this MD&A, 44,243,634 shares are issued and outstanding and 1,702,142 RSUs and 574,703 PSUs are outstanding (December 31, 2018 – 1,765,141 RSUs and 574,703 PSUs).

Commitments

Eagle has committed to future payments as follows:

| \$000's | Total | Less than 1 year | 1 - 3 years | Greater than 3 years |
|--|--------------|---------------------|----------------|-------------------------|
| Lease obligations ^{(1) (2) (3) (4)} | 4,187 | 798 | 1,644 | 1,745 |
| Total contractual obligations | 4,187 | 798 | 1,644 | 1,745 |

Notes:

- (1) On January 1, 2013, Eagle entered into a lease for office space in Calgary which originally had an approximate 61 month term from January 8, 2013 to February 7, 2018. In May 2016, the lease was amended to extend the lease term and decrease the annual basic rental charge. The new term began August 1, 2016 and terminates February 28, 2023. Total minimum lease payments and estimated operating costs during the term of the lease from August 1, 2016 through February 28, 2023 approximate \$3.1 million and include a leasehold improvement allowance up to \$0.2 million, with 47 months and approximately \$1.8 million remaining at March 31, 2019.
- (2) Eagle entered into an office lease in Houston on September 22, 2017 to replace the lease expiring on December 31, 2017. The term of the lease is from February 1, 2018 to August 31, 2025, with payments beginning September 1, 2018. Total minimum lease payments and estimated operating costs during the term of the lease approximate \$CA 2.3 million (\$US 1.7 million translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to \$CA 1.34) with 77 months remaining and approximately \$CA 2.2 million remaining (\$US 1.7 million, translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to 1.34) at March 31, 2019.
- (3) Eagle has entered into five vehicle lease agreements in North Texas. The terms of the leases range from August 17, 2016 to October 27, 2020. Total minimum lease payments during the terms of the leases approximate \$US 0.2 million with 31 months and approximately \$US 0.05 million remaining at March 31, 2019. In \$CA, the total minimum lease payments during the term are \$0.27 million, with the remaining future minimum lease payments approximating \$CA 0.07 million (translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to \$CA 1.34).
- (4) Eagle has entered into four vehicle lease agreements in Dixonville. The terms of the leases range from April 6, 2017 to December 31, 2021. Total minimum lease payments during the terms of the leases approximate \$0.16 million with 33 months and approximately \$0.07 million remaining at March 31, 2019.

Non-IFRS Financial Measures

Statements throughout this MD&A make reference to the terms “field netback”, “Consolidated Adjusted EBITDAX”, “Consolidated Leverage Ratio”, “Consolidated Fixed Charge Ratio”, “Asset Coverage Ratio” and “Consolidated Current 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.

“Field netback” is calculated by subtracting royalties, operating expenses, and transportation and marketing expenses from revenues. This method of calculating field netback is in accordance with the standards set out in the Canadian Oil and Gas Evaluation Handbook maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter). Management believes that field netback provides useful information to investors and management because such a measure reflects the quality of production and the level of profitability.

The terms “Consolidated Adjusted EBITDAX”, “Consolidated Leverage Ratio”, “Consolidated Fixed Charge Ratio”, “Asset Coverage Ratio” and “Consolidated Current Ratio” are used for purposes of covenant calculations in the Loan Agreement and are calculated as described above under the heading “Liquidity and Capital Resources”.

No Change in Internal Controls over Financial Reporting during the Period January 1, 2019 to March 31, 2019

During the period beginning on January 1, 2019 and ended on March 31, 2019, there was no change in Eagle’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, Eagle’s internal controls over financial reporting. 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 and Judgments

There have been no changes made to Eagle’s critical accounting estimates and judgments for the first quarter of 2019. 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, 2018.

Accounting Standards and Interpretations

Other than the items below which were adopted effective January 1, 2019, 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).

IFRS 16 - Leases

On January 1, 2019, Eagle adopted IFRS 16 *Leases*, which introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Eagle adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$3.2 million increase to right-of-use assets (included in “Other assets”) at January 1, 2019, with a corresponding increase to lease obligations (the non-current portion of \$2.6 million was recorded in “Lease liability” and the current portion of \$0.6 million was recorded in “Trade and other payables”). The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 11%. The right-of-use assets and lease obligations recognized largely relate to Eagle’s office leases in Calgary and Houston, and vehicle leases for field vehicles in Alberta and Texas.

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 expectations regarding its ability to meet its ongoing financial liabilities, including liabilities relating to the Loan Agreement, and to continue as a going concern being dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements;
- Eagle’s intentions to reduce debt and corporate costs, including interest costs;
- Eagle’s hedging program;

- the Loan Agreement, including terms relating to maturity date, borrowing base redeterminations, future drawings, and financial covenant ratio calculations;
- Eagle's expectation that its future cash flows from operating activities over the next 12 months is not sufficient to repay the loan principal;
- the possibility of Eagle's lender exercising its remedies under the Loan Agreement in the future; and
- future office and lease payments.

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

- future crude oil, NGL and natural gas prices, differentials and weighting;
- future foreign exchange and interest rates;
- future production levels;
- future capital expenditures and the ability of Eagle to obtain financing on acceptable terms;
- future production estimates;
- projected operating costs, which are estimated based on historical information and anticipated changes in the cost of equipment and services, among other things; and
- ongoing support of Eagle by its lender.

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:

- the exercise by Eagle's lender of its rights and remedies under the Loan Agreement as a result of Eagle not being in compliance with all of the covenants under the Loan Agreement;
- volatility of prices and differentials for crude oil, NGLs and natural gas;
- commodity supply and demand;
- fluctuations in foreign exchange and interest rates;
- inherent risks and changes in costs associated with the development of petroleum properties;
- ultimate recoverability of reserves;
- timing, results and costs of drilling and production activities;
- availability and terms of financing and capital; and
- new regulations and legislation that apply to the operations of Eagle and its subsidiaries.

As a result of these risks, actual performance and financial results in 2019 may differ materially from any projections of future performance or results expressed or implied by these forward-looking statements. Eagle's production rates, operating and general and administrative costs, field netbacks, drilling program, capital budget, reserves and potential transactions are subject to change in light of ongoing results, prevailing economic circumstances, obtaining regulatory approvals, commodity prices, exchange rates, financing terms, 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. These statements speak only as of the date of this MD&A and may not be appropriate for other purposes. 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.

Note Regarding Barrel of Oil Equivalency

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



EAGLE ENERGY™
INC.

Eagle Energy Inc.

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

For the three months ended March 31, 2019 and March 31, 2018

Eagle Energy Inc.

Condensed Consolidated Interim Balance Sheets

(Thousands of Canadian dollars) (unaudited)

| | Note | March 31, 2019 | December 31, 2018 |
|---|------|----------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | 3,470 | 3,411 |
| Trade and other receivables | | 3,651 | 3,521 |
| Deposits and prepaid expenses | | 512 | 819 |
| | | 7,633 | 7,751 |
| Non-current assets | | | |
| Oil and gas properties | | 127,243 | 128,862 |
| Other assets | | 3,135 | 61 |
| | 11 | 130,378 | 128,923 |
| Total Assets | | 138,011 | 136,674 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 6,924 | 6,248 |
| Risk management liability | 4 | 213 | - |
| Debt | 13 | 40,672 | 41,521 |
| | | 47,809 | 47,769 |
| Non-current liabilities | | | |
| Lease liability | 2.2 | 2,588 | - |
| Decommissioning liability | 14 | 18,495 | 16,658 |
| | | 21,083 | 16,658 |
| Total Liabilities | | 68,892 | 64,427 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 15 | 320,999 | 320,999 |
| Currency reserves | 7 | 34,751 | 35,049 |
| Contributed surplus | 6 | 555 | 477 |
| Deficit | | (287,186) | (284,278) |
| Total Shareholders' Equity | | 69,119 | 72,247 |
| Total Liabilities and Shareholders' Equity | | 138,011 | 136,674 |

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

See the "Going Concern" section of note 2.1 "Basis of Preparation" and note 16 "Commitments" and note 17 "Subsequent Event".

Eagle Energy Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

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

| | Note | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|------|--------------------------------------|--------------------------------------|
| Sales | | 6,984 | 15,534 |
| Royalties | | (1,162) | (3,073) |
| Revenue | | 5,822 | 12,461 |
| Operating expenses | | 2,765 | 4,550 |
| Transportation and marketing expenses | | 385 | 559 |
| Administrative expenses | | 1,853 | 1,809 |
| Costs associated with the disposition | 12 | - | 1,087 |
| Depreciation, depletion and amortization | 9 | 1,799 | 3,220 |
| Impairment recovery | 9 | - | (1,475) |
| Operating (loss) earnings | | (980) | 2,711 |
| Share-based compensation expense | 6 | 78 | 85 |
| Finance expense | 8 | 1,314 | 1,939 |
| Finance expense related to debt repayment | 8 | - | 3,113 |
| Interest income | | (5) | - |
| Risk management loss | 4 | 213 | 829 |
| Foreign exchange loss (gain), net | 7 | 328 | (687) |
| Loss | | (2,908) | (2,568) |
| Items that may be subsequently classified to earnings | | | |
| Foreign currency translation loss | 7 | (298) | (326) |
| Comprehensive loss | | (3,206) | (2,894) |
| Loss per share | 10 | | |
| Basic and diluted | | (0.07) | (0.06) |

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, 2019 | Three Months Ended March 31, 2018 |
|-----------------------------------|------|--------------------------------------|--------------------------------------|
| Share Capital | | | |
| Balance, beginning of period | | 320,999 | 320,515 |
| Issuance of share capital | | - | 239 |
| Balance, end of period | | 320,999 | 320,754 |
| Currency Reserves | | | |
| Balance, beginning of period | | 35,049 | 34,608 |
| Foreign currency translation loss | 7 | (298) | (326) |
| Balance, end of period | | 34,751 | 34,282 |
| Contributed Surplus | | | |
| Balance, beginning of period | | 477 | 635 |
| Share-based payments | 6 | 78 | (153) |
| Balance, end of period | | 555 | 482 |
| Deficit | | | |
| Balance, beginning of period | | (284,278) | (256,471) |
| Loss | | (2,908) | (2,568) |
| Balance, end of period | | (287,186) | (259,039) |

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)

| | Note | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Loss | | (2,908) | (2,568) |
| Adjustments for non-cash items: | | | |
| Depreciation, depletion and amortization | 9 | 1,799 | 3,220 |
| Impairment recovery | 9 | - | (1,475) |
| Share-based compensation | 6 | 78 | 85 |
| Unrealized risk management loss | 4 | 213 | 216 |
| Unrealized foreign exchange loss | 7 | 303 | 954 |
| Finance expense – non cash portion | 8 | 82 | 1,286 |
| Funds flow (used in) generated from operations | | (433) | 1,718 |
| Changes in working capital: | | | |
| Trade and other receivables | | (152) | 3,234 |
| Prepaid expenses | | 294 | (64) |
| Trade and other payables | | 1,513 | (3,542) |
| | | 1,655 | (372) |
| Net cash generated from operating activities | | 1,222 | 1,346 |
| Cash flows from investing activities | | | |
| Oil and gas properties | | - | (2,275) |
| Property, plant and equipment | | - | (2) |
| Disposition of oil and gas assets | 12 | 262 | 34,400 |
| Change in non-cash working capital | | (1,275) | (3,005) |
| Net cash (used in) generated from investing activities | | (1,013) | 29,118 |
| Cash flows from financing activities | | | |
| Repayment of long term debt | | - | (26,284) |
| Payments on lease obligations | 2.2 | (123) | - |
| Deferred financing charges | | - | (45) |
| Change in non-cash working capital | | - | - |
| Net cash used in financing activities | | (123) | (26,329) |
| Net increase in cash and cash equivalents | | 86 | 4,135 |
| Effects of exchange rates on cash and cash equivalents | | (27) | 37 |
| Cash at beginning of the period | | 3,411 | 4,040 |
| Cash at end of the period | | 3,470 | 8,212 |

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, 2019 and March 31, 2018

(in Canadian dollars)

1. Reporting Entity / Structure of Eagle Energy Inc.

Eagle Energy Inc. (“**Eagle**”) is an Alberta corporation. Its common shares are widely held and listed for trading on the Toronto Stock Exchange under the symbol “EGL”. Eagle is engaged in the acquisition, exploration and production of petroleum and natural gas reserves in Alberta, Canada and Texas, United States.

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’s address is: Suite 2710, 500 - 4th Avenue SW, Calgary, AB T2P 2V6.

2.1. Basis of Preparation

The foreign exchange rate at March 31, 2019 was \$US 1.00 equal to \$CA 1.34 (December 31, 2018 - \$US 1.00 equal to \$CA 1.36), and the average foreign exchange rate for the three months ended March 31, 2019 was \$US 1.00 equal to \$CA 1.33 (for the three months ended March 31, 2018 - \$US 1.00 equal to \$CA 1.26).

Going Concern

These condensed consolidated interim financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business as they become due. At March 31, 2019, Eagle had a working capital deficiency of \$40.2 million (December 31, 2018 - \$40.0 million) and negative funds flow from operations for the three months ended March 31, 2019. In addition, Eagle’s estimate of future cash flows from operating activities over the next twelve months is not sufficient to repay the loan principal which is classified as a current liability.

At March 31, 2019, Eagle was in default of two of its four financial covenants under the four year secured term loan from its U.S.-based lender (the “**Loan Agreement**”) and there is no assurance that it will not be in violation of one or more financial covenants in future quarters. Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement (refer to note 13 “Debt”) and, as a result, Eagle’s debt remained classified as a current liability.

Effective March 15, 2019, the lender finalized its borrowing base redetermination and set the borrowing base at \$CA 40.9 million (the approximate Canadian dollar equivalent of \$US 30.6 million). Eagle currently has \$US 30.4 million drawn on the \$US 30.6 million borrowing base, with no ability to draw any further funds.

These circumstances cause material uncertainties that may cast significant doubt regarding Eagle’s ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities, reported amounts of revenue and expenses, and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. Such adjustments could be material.

Eagle has undertaken several cost-cutting measures to reduce administrative and operating expenses, such as reducing its staff headcount, reducing its number of contractors, negotiating better pricing with contractors and listing its Calgary and Houston office space for sublease. Eagle continues to evaluate exposure to market risks from fluctuations in commodity prices and has entered into risk management contracts to reduce commodity price risks. Eagle has curtailed capital spending for 2019. Eagle continues to work with its financial advisors to investigate, evaluate and consider possible asset sales and restructuring alternatives.

Eagle’s ability to meet its ongoing financial liabilities, including liabilities relating to the Loan Agreement, and to continue as a going concern, is dependent upon the ongoing support from its lender and its ability to fund the

repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. There is no certainty that such initiatives will be successful.

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 9, 2019.

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. Other than the items in note 2.2 “Changes in Accounting Policy and Disclosures”, these financial statements have been prepared following the same accounting policies as the annual audited IFRS consolidated financial statements for the year ended December 31, 2018, except for income tax expense for an interim period (which is based on an estimated average annual effective income tax rate).

The condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

2.2. Changes in Accounting Policy and Disclosures

IFRS 16 - Leases

On January 1, 2019, Eagle adopted IFRS 16 *Leases*, which introduces a single lease accounting model for lessees which requires a right-of-use (“ROU”) asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Eagle has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

Practical Expedients Applied

In applying IFRS 16 for the first time, Eagle has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As well, Eagle has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, Eagle relied upon the assessment made when applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

(a) Adjustments recognized on adoption of IFRS 16

Upon the adoption of IFRS 16, Eagle recognized lease liabilities in relation to leases previously classified as “operating leases” under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The borrowing rate applied to the lease liabilities on January 1, 2019 was 11.0%.

| \$000's | |
|---|--------------|
| Operating lease commitments disclosed as at December 31, 2018 | 3,583 |
| Adjustment to commitment amount as at December 31, 2018 | 811 |
| Discounted using the lessee's borrowing rate | (1,081) |
| Less short term leases recognized on a straight-line basis as expense | (35) |
| Effects of foreign exchange | (33) |
| Lease liability recognized at January 1, 2019 | 3,245 |
| Payments on lease obligations | (123) |
| Lease liability at March 31, 2019 | 3,122 |
| Of which are: | |
| Current lease liabilities (in trade and other payables) | 534 |
| Lease liabilities (non-current) | 2,588 |
| Lease liability recognized at March 31, 2019 | 3,122 |

The ROU assets for office and vehicle leases were measured at the amount equal to the lease liability. There were no onerous lease contracts that required adjustment to the ROU assets at the date of initial application.

The ROU assets recognized are of the following types:

| | January 1, 2019 |
|--|-----------------|
| Motor vehicles | 116 |
| Office leases | 3,129 |
| Lease liability recognized at January 1, 2019 | 3,245 |

The impact on retained earnings on January 1, 2019 was \$nil.

(b) Leasing activities and how they are accounted for

Eagle leases two offices; one in Calgary, Alberta and one in Houston, Texas. In addition, Eagle leases vehicles in Alberta and Texas. The office leases are negotiated on an individual basis, contain different terms and conditions and may have extension options as described below. The vehicle leases are generally between 36 and 48 months.

Prior to January 1, 2019, the office and vehicle leases were classified as operating leases. Payments made under these operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Beginning January 1, 2019, leases are recognized as ROU assets and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

The ROU asset is initially measured at cost, which is comprised of the sum of the initial amount of the lease liability, any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease payments made at or before the commencement date.

Payments associated with short term leases and leases of low value assets are recognized on a straight line basis as an expense in profit or loss. Short term leases are leases with a lease term of twelve months or less. Low value assets comprise computer and office equipment.

Extension and termination options are included in the office leases. These terms are used to maximize operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by Eagle and not by the lessors. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Eagle has not included possible lease extensions in the calculation of the ROU assets and liabilities as it is not reasonably certain that the leases will be extended (or terminated).

3. Critical Accounting Estimates and Judgments

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, 2018.

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:

- financial assets and financial liabilities;
- 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, 2018. Eagle's ability to continue as a going concern is dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. Refer to note 2.1 "Basis of Preparation", the section titled "Going Concern".

Financial Assets and Financial Liabilities

Financial instruments are recognized when Eagle becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless Eagle has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

Credit Risk

At March 31, 2019, the maximum exposure to credit risk was as follows:

| \$000's | March 31, 2019 | December 31, 2018 |
|-----------------------------|----------------|-------------------|
| Cash | 3,470 | 3,411 |
| Trade and other receivables | 3,651 | 3,521 |
| | 7,121 | 6,932 |

Eagle applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 which permits the use of the lifetime expected loss provision for all trade receivables. Prior credit losses in the collection of accounts receivable by Eagle have been negligible and the Company does not anticipate any significant future credit losses based on forward looking information. Accordingly, no provision has been recorded for expected credit losses. At March 31, 2019, 64% of Eagle's receivables were with commodity purchasers and not considered a risk.

When determining whether past due amounts are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Eagle considers all amounts greater than 90 days to be past due. As at March 31, 2019, there were \$0.2 million of receivables greater than 90 days. Subsequent to March 31, 2019, approximately \$0.1 million has been collected.

Liquidity Risk

Eagle has in place a four year secured term loan from a U.S.-based lender.

Eagle finances its operations through a combination of cash, loans, divestitures and equity. Financing sources such as equity, debt, divestitures and project finance are reviewed by the Board when funds are required for acquisition, exploration and development projects. Eagle's ability to continue as a going concern is dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. Refer to note 2.1 "Basis of Preparation", the section titled "Going Concern".

Effective March 15, 2019, the lender finalized its borrowing base redetermination and set the borrowing base at \$CA 40.9 million (the approximate Canadian dollar equivalent of \$US 30.6 million). Eagle currently has \$US 30.4 million drawn on the \$US 30.6 million borrowing base, with no ability to draw any further funds.

At March 31, 2019, the Company had a \$0.7 million working capital surplus (excluding the debt and non-cash risk management liability) and \$40.7 million (the approximate March 31, 2019 Canadian dollar equivalent of \$US 30.4 million) drawn under the Loan Agreement. As a result of Eagle being in default of two of its four financial covenants at March 31, 2019, the debt remains classified as a current liability.

Draws under the Loan Agreement are subject to quarterly covenant calculations which are directly impacted by commodity prices, foreign exchange rate fluctuations, production levels and drilling results. The amount available under the Loan Agreement is subject to semi-annual borrowing base determinations which are directly impacted by the future value of the oil and natural gas reserves. Refer to note 13 "Debt".

The following were the contractual undiscounted maturities of financial liabilities, including estimated interest payments, as applicable, at March 31, 2019:

| \$000's | Carrying amount | Contractual cash flows | Less than one year | One - two years | Three - five years | More than five years |
|---------------------------|-----------------|------------------------|--------------------|-----------------|--------------------|----------------------|
| Trade and other payables | 6,390 | 6,390 | 6,390 | - | - | - |
| Risk management liability | 213 | 213 | 213 | - | - | - |
| Debt | 40,672 | 40,672 | 40,672 | - | - | - |
| Interest | - | 8,546 | 4,273 | 4,273 | - | - |
| Lease liability | 3,122 | 4,115 | 851 | 826 | 1,577 | 861 |
| | 50,397 | 59,936 | 52,399 | 5,099 | 1,577 | 861 |

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments, as applicable, at December 31, 2018:

| \$000's | Carrying amount | Contractual cash flows | Less than one year | One - two years | Three - five years | More than five years |
|--------------------------|-----------------|------------------------|--------------------|-----------------|--------------------|----------------------|
| Trade and other payables | 6,248 | 6,248 | 6,248 | - | - | - |
| Debt (current) | 41,521 | 41,521 | 41,521 | - | - | - |
| Interest | - | 9,450 | 4,214 | 5,236 | - | - |
| | 47,769 | 57,219 | 51,983 | 5,236 | - | - |

Market Risk

Commodity Price Risk - Summary of Unrealized Risk Management Positions

As at March 31, 2019, Eagle had entered into the following financial contracts to mitigate the effects of fluctuating prices on a portion of its production:

| | Volume | Measure | Beginning | Term | Floor \$US | Ceiling \$US | Current fair value \$CA 000's | Non- current fair value \$CA 000's |
|---|--------|---------|-----------|--------|---------------|-----------------|-------------------------------------|---|
| Oil Fixed Price | | | | | | | | |
| NYMEX ⁽¹⁾ | 450 | bbls/d | Apr-19 | Sep-19 | 57.81 | 57.81 | (213) | - |
| Commodity - unrealized risk management liability | | | | | | | (213) | - |

Note:

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

As at December 31, 2018, Eagle did not have any financial contracts in place.

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

| | Three Months Ended March 31, 2019 | | | Three Months Ended March 31, 2018 | | |
|------------------------------|-----------------------------------|--------------------|-------------------|-----------------------------------|--------------------|-------------------|
| | Realized loss | Unrealized loss | Total net loss | Realized loss | Unrealized loss | Total net loss |
| \$000's | | | | | | |
| Net effect - risk management | - | 213 | 213 | 613 | 216 | 829 |

Foreign Exchange Risk

At March 31, 2019, there was no material change in foreign exchange risk compared to the December 31, 2018 year end.

5. Segmented Information

Eagle's reportable segments are determined based on Eagle's operations and geographic locations and by sales product type 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.

Using the segmented information, Eagle's management reviews the financial performance of each segment by assessing the funds flow from operations and other key performance indicators.

Details of Eagle's reportable segments for the three months ended March 31, 2019 are as follows:

| \$000's | Three Months Ended March 31, 2019 | | | |
|---|-----------------------------------|---------------|----------------|--------------|
| | Canada | United States | Corporate | Total |
| Property dispositions | (8) | (254) | - | (262) |
| Crude oil sales | 3,270 | 2,938 | - | 6,208 |
| Natural gas sales | 68 | 118 | - | 186 |
| NGL sales | 47 | 139 | - | 186 |
| Other income | 378 | 26 | - | 404 |
| Revenue | 3,763 | 3,221 | - | 6,984 |
| Royalties | (406) | (756) | - | (1,162) |
| Operating expenses | (1,581) | (1,184) | - | (2,765) |
| Transportation and marketing expenses | (280) | (105) | - | (385) |
| Administrative expenses - cash portion | - | - | (1,853) | (1,853) |
| Risk management loss - realized | - | - | - | - |
| Finance expense - cash portion | - | - | (1,232) | (1,232) |
| Interest income | - | - | 5 | 5 |
| Foreign exchange gain - realized | - | - | (25) | (25) |
| Funds flow (used in) generated from operations | 1,496 | 1,176 | (3,105) | (433) |

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

| \$000's | Three Months Ended March 31, 2019 | | | |
|---|-----------------------------------|---------------|----------------|----------------|
| | Canada | United States | Corporate | Total |
| Funds flow (used in) generated from operations | 1,496 | 1,176 | (3,105) | (433) |
| Share-based compensation - non-cash portion | - | - | (78) | (78) |
| Risk management loss - unrealized | - | - | (213) | (213) |
| Depreciation, depletion and amortization | (683) | (1,114) | (2) | (1,799) |
| Foreign exchange loss - unrealized | - | - | (303) | (303) |
| Finance expense - non-cash portion | - | - | (82) | (82) |
| Earnings (loss) | 813 | 62 | (3,783) | (2,908) |

Details of Eagle's reportable segments for the three months ended March 31, 2018 are as follows:

| \$000's | Three Months Ended March 31, 2018 | | | |
|---|-----------------------------------|---------------|----------------|--------------|
| | Canada | United States | Corporate | Total |
| Capital expenditures | 142 | 2,133 | 2 | 2,277 |
| Crude oil sales | 6,927 | 7,345 | - | 14,272 |
| Natural gas sales | 461 | 127 | - | 588 |
| NGL sales | 393 | 175 | - | 568 |
| Other income | 41 | 65 | - | 106 |
| Revenue | 7,822 | 7,712 | - | 15,534 |
| Royalties | (1,176) | (1,897) | - | (3,073) |
| | 6,646 | 5,815 | - | 12,461 |
| Operating expenses | (2,945) | (1,605) | - | (4,550) |
| Transportation and marketing expenses | (442) | (117) | - | (559) |
| Administrative expenses - cash portion | - | - | (2,896) | (2,896) |
| Risk management loss - realized | - | - | (613) | (613) |
| Finance expense - cash portion | - | - | (3,766) | (3,766) |
| Foreign exchange gain - realized | - | - | 1,641 | 1,641 |
| Funds flow (used in) generated from operations | 3,259 | 4,093 | (5,634) | 1,718 |

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

| \$000's | Three Months Ended March 31, 2018 | | | |
|---|-----------------------------------|---------------|----------------|----------------|
| | Canada | United States | Corporate | Total |
| Funds flow (used in) generated from operations | 3,259 | 4,093 | (5,634) | 1,718 |
| Share-based compensation - non-cash portion | - | - | (85) | (85) |
| Risk management gain - unrealized | - | - | (216) | (216) |
| Depreciation, depletion and amortization | (1,494) | (1,726) | - | (3,220) |
| Impairment recovery | - | 1,475 | - | 1,475 |
| Foreign exchange loss – unrealized | - | - | (954) | (954) |
| Finance expense – non-cash portion | - | - | (1,286) | (1,286) |
| Earnings (loss) | 1,765 | 3,842 | (8,175) | (2,568) |

Total assets of Eagle's reportable segments at March 31, 2019 were as follows:

| \$000's | Three Months Ended March 31, 2019 | | | |
|---------------------|-----------------------------------|---------------|-----------|---------|
| | Canada | United States | Corporate | Total |
| Total Assets | 61,280 | 73,753 | 2,978 | 138,011 |

Total assets of Eagle's reportable segments at March 31, 2018 were as follows:

| \$000's | Three Months Ended March 31, 2018 | | | |
|---------------------|-----------------------------------|---------------|-----------|---------|
| | Canada | United States | Corporate | Total |
| Total Assets | 111,970 | 62,907 | - | 174,877 |

6. Share-based Payments

Eagle has a long-term equity compensation incentive plan (the “**Equity Incentive Plan**”) under which Restricted Share Units (“**RSUs**”) and Performance Share Units (“**PSUs**”) have been awarded.

Eagle also has outstanding cash settled Restricted Unit Rights (“**RURs**”) that were issued in 2010 under RUR Agreements.

The following table reconciles share-based compensation expense:

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|--|--------------------------------------|--------------------------------------|
| RSUs and PSUs | 78 | 85 |
| Total share-based compensation expense | 78 | 85 |

The following table shows the continuity of contributed surplus:

| \$000's | March 31, 2019 | December 31, 2018 |
|----------------------------------|----------------|-------------------|
| Balance, beginning of period | 477 | 635 |
| Share-based compensation | 78 | 325 |
| RSUs and PSUs vested and settled | - | (483) |
| Balance, end of period | 555 | 477 |

Equity Incentive Plan

As of March 31, 2019, there were 1,702,141 RSUs and 574,703 PSUs outstanding.

As at March 31, 2019, the estimated weighted average fair value for RSUs at their measurement dates (their grant dates) is \$0.42 per RSU outstanding. During the quarter, no RSUs vested and no common shares were issued from treasury.

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

| | Three Months Ended March 31, 2019 | Year Ended December 31, 2018 | Three Months Ended March 31, 2018 |
|------------------------------|---|---------------------------------|---|
| Balance, beginning of period | 1,765,141 | 1,635,668 | 1,635,668 |
| Issued | - | 1,014,801 | 505,381 |
| Vested/Settled | - | (675,354) | (318,851) |
| Forfeited | (63,000) | (209,974) | (114,989) |
| Balance, end of period | 1,702,141 | 1,765,141 | 1,707,209 |

At March 31, 2019, the estimated weighted average fair value for PSUs at their measurement date (March 31, 2019) is \$0.15 per PSU outstanding. During the quarter, no PSUs vested and no common shares were issued from treasury.

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

| | Three Months Ended March 31, 2019 | Year Ended December 31, 2018 | Three Months Ended March 31, 2018 |
|------------------------------|---|---------------------------------|---|
| Balance, beginning of period | 574,703 | 607,956 | 607,956 |
| Issued | - | 273,099 | 162,293 |
| Vested/Settled | - | (266,294) | (129,652) |
| Forfeited | - | (40,058) | (10,115) |
| Balance, end of period | 574,703 | 574,703 | 630,482 |

Cash settled RURs

For the three months ended March 31, 2019, \$nil was paid to the RUR holders (year-ended December 31, 2018 - \$nil, three months ended March 31, 2018 – \$nil).

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

| | Three Months Ended March 31, 2019 | Year Ended December 31, 2018 | Three Months Ended March 31, 2018 |
|------------------------------|---|---------------------------------|---|
| Balance, beginning of period | 632,500 | 632,500 | 632,500 |
| Issued | - | - | - |
| Forfeited | - | - | - |
| Balance, end of period | 632,500 | 632,500 | 632,500 |

The March 31, 2019 fair value of the RURs was estimated using the Black-Scholes valuation model and using the same inputs as December 31, 2018 (other than a 5-day volume weighted average share price assumption of \$0.08 per share as compared to \$0.11 per share at December 31, 2018). Based on these assumptions, the fair value at the March 31, 2019 balance sheet was \$nil per RUR (December 31, 2018 - \$nil per RUR, March 31, 2018 – \$nil per RUR).

7. Foreign Exchange

Eagle has recognized the following in the statement of loss due to foreign currency fluctuations:

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|--|---|---|
| Net loss (gain) arising on settlement of foreign currency transactions arising out of operating activities | 25 | (136) |
| Foreign exchange gain on repayment of U.S. denominated debt | - | (1,505) |
| Realized loss (gain) on foreign exchange | 25 | (1,641) |
| Foreign exchange loss on U.S. denominated debt | 1,047 | 2,791 |
| Foreign exchange gain on Canadian denominated intercompany loan | (744) | (1,878) |
| Foreign exchange loss on U.S. denominated risk management liability | - | 41 |
| Unrealized loss on foreign exchange | 303 | 954 |
| Foreign exchange loss (gain), net | 328 | (687) |

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

| \$000's | As at March 31, 2019 | As at December 31, 2018 |
|--|----------------------|-------------------------|
| Beginning balance | 35,049 | 34,608 |
| Foreign currency translation (gain) loss | (298) | 441 |
| Ending balance | 34,751 | 35,049 |

8. Finance Expense

| \$000's | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|--------------------------------------|--------------------------------------|
| Interest | 1,140 | 1,420 |
| Standby and bank fees | 4 | 4 |
| Accretion of decommissioning provision | 82 | 127 |
| Finance expense related to lease obligations | 88 | - |
| Amortization of deferred financing charges | - | 388 |
| Interest related to debt repayment and reclassification | - | 3,113 |
| Finance expense | 1,314 | 5,052 |

9. Depreciation, Depletion and Impairment

Depreciation, depletion and impairment are included with the following headings in the income statement:

| \$000's | Three Months Ended March 31, 2019 | | |
|--|-----------------------------------|--------------|-------|
| | Oil and gas properties | Other assets | Total |
| Depreciation, depletion and amortization | 1,627 | 172 | 1,799 |

| \$000's | Three Months Ended March 31, 2018 | | |
|--|-----------------------------------|--------------|---------|
| | Oil and gas properties | Other assets | Total |
| Depreciation, depletion and amortization | 3,215 | 5 | 3,220 |
| Impairment recovery | (1,475) | - | (1,475) |
| | 1,740 | 5 | 1,745 |

Impairment of Oil and Gas Properties

For the three months ended March 31, 2019, Eagle did not recognize an impairment expense or recovery as there were no indicators of impairment. In the three months ended March 31, 2018, a \$1.5 million dollar recovery was recorded related to the disposition of Salt Flat.

10. Loss per Share

| \$000's except for per share amount | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Loss attributable to shareholders | (2,908) | (2,568) |
| Weighted average number of shares outstanding – basic and diluted | 44,243 | 43,316 |
| Loss per share - basic and diluted | (0.07) | (0.06) |

Calculation

Basic income per share is calculated by dividing the income attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted income per share is calculated using the income for the period divided by the weighted average number of shares outstanding adjusted for the effects of all potentially dilutive shares. For the three months ended March 31, 2019, 1.7 million RSUs were excluded from the diluted weighted average shares calculation as they were anti-dilutive. (March 31, 2018, 1.7 million RSU's.)

11. Capital Assets

| Net book value (\$000's) | As at March 31, 2019 | As at December 31, 2018 |
|--|----------------------|-------------------------|
| Oil and gas properties | 466,602 | 471,772 |
| Other assets | 4,302 | 1,076 |
| Capital assets, at cost | 470,904 | 472,848 |
| Less: accumulated depletion, depreciation, amortization and impairment | (340,526) | (343,925) |
| Total net carrying value | 130,378 | 128,923 |

| \$000's | Oil and Gas Properties | Other Assets | Total |
|--|---------------------------|----------------|------------------|
| Cost: | | | |
| Balance at December 31, 2018 | 471,772 | 1,076 | 472,848 |
| Disposition of oil and gas assets | (264) | - | (264) |
| Decommissioning obligation additions and change in estimates | 1,794 | - | 1,794 |
| Increase in right-of-use assets | - | 3,237 | 3,237 |
| Effects of foreign exchange | (6,700) | (11) | (6,711) |
| Balance at March 31, 2019 | 466,602 | 4,302 | 470,904 |
| Depletion, depreciation, amortization and impairment: | | | |
| Balance at December 31, 2018 | (342,910) | (1,015) | (343,925) |
| Depletion, depreciation, amortization and impairment | (1,627) | (170) | (1,797) |
| Effects of foreign exchange | 5,178 | 18 | 5,196 |
| Balance at March 31, 2019 | (339,359) | (1,167) | (340,526) |
| Net book value: | | | |
| At December 31, 2018 | 128,862 | 61 | 128,923 |
| At March 31, 2019 | 127,243 | 3,135 | 130,378 |

The following table discloses the carrying balance and accumulated depreciation charge relating to ROU assets by class of underlying asset, as at and for the three months ended March 31, 2019.

| \$000's | Depreciation | Balance |
|------------------------|--------------|--------------|
| Office space | 151 | 2,970 |
| Vehicles and equipment | 14 | 102 |
| Total | 165 | 3,072 |

Eagle does not capitalize general and administrative costs. Future development costs related to proved plus probable reserves of \$96.1 million (December 31, 2018 - \$82.6 million) were included in the depletion calculation.

12. Asset Disposition

On February 8, 2018, Eagle sold its oil and gas interests in Salt Flat, located in Caldwell County, Texas for approximately \$34.4 million cash, subject to customary post-closing adjustments.

| Net assets disposed (\$000s) | March 31, 2018 |
|-------------------------------------|----------------|
| Oil and gas assets - purchase price | 33,980 |
| Closing adjustments | 420 |
| Net asset value of disposed assets | 34,400 |
| Cash | 34,400 |
| Consideration received | 34,400 |

Related transaction costs of approximately \$1.1 million were expensed in the first quarter of 2018.

13. Debt

Since March 31, 2017, Eagle has had a four year secured term loan with a U.S. based lender.

At March 31, 2019, Eagle had \$US 30.4 million drawn on its \$US 30.6 million borrowing base which was made effective March 15, 2019. The next scheduled borrowing base redetermination is September 15, 2019.

Since December 31, 2018, the loan has been classified as a current liability due to Eagle being in default of one of its four financial covenants at December 31, 2018 and two of its four financial covenants at March 31, 2019.

The details of Eagle's outstanding debt (translated into the approximate Canadian dollar equivalent) were as follows:

| \$000's | March 31, 2019 | December 31, 2018 |
|--------------|----------------|-------------------|
| Amount drawn | 40,672 | 41,521 |
| Debt | 40,672 | 41,521 |

At March 31, 2019, Eagle was in violation of two of its four financial covenants. Under the Loan Agreement, Eagle is to maintain a Consolidated Leverage ratio of not more than 3.50 to 1.00 and a Consolidated Fixed Charge Ratio of not less than 1.70 to 1.00 as at the end of each fiscal quarter. For the quarter ending March 31, 2019, the Consolidated Leverage ratio was 4.25 to 1.00 and the Consolidated Fixed Charge Ratio was 0.70 to 1.00.

Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement in which the lender may, without notice or demand, do any or all of the following: terminate the loan; declare amounts immediately due and payable; stop advancing money or extending credit; settle or adjust disputes and claims directly with debtors; or make any payments and do any acts it considers necessary or reasonable to protect its collateral (including placing a hold on deposit accounts of Eagle and demanding and receiving possession of Eagle's books and records). The lender has not waived, and has expressly retained, all of its rights and remedies to which it is

entitled under the Loan Agreement as a result of these events of default. Notwithstanding the defaults, the lender has not, as of the date hereof, exercised any of its available remedies. However, there can be no assurance that it will not do so in the future.

The limited forbearance agreement between Eagle and its lender expired on January 31, 2019. Eagle has continued to work diligently and constructively with its lender since the expiration of the forbearance agreement. Given the improvement in commodity prices from the end of 2018, and Eagle's ongoing work with its financial advisors in investigating, evaluating and considering possible asset sales and restructuring alternatives, Eagle has made the decision to forego entering into another forbearance agreement at this time. Eagle feels this affords it the maximum flexibility to manage its business and avoids incurring additional fees and conditions associated with a forbearance agreement.

The following lists the key terms of the Loan Agreement between Eagle and its lender after giving effect to all amendments and borrowing base redeterminations through May 9, 2019.

- Effective Date - March 13, 2017
- Term - 4 years
- Maturity Date - March 13, 2021
- Borrowing Base - \$US 30.6 million
- Borrowing Base Redeterminations – Scheduled borrowing base redeterminations take place semi-annually (using reserve reports with effective dates of June 30 and December 31) and become effective when the new borrowing base notice is received from the lender. Such borrowing base remains in effect until the next borrowing base redetermination. The borrowing base redeterminations are effective for Eagle and its lender on March 15 and September 15 of each year. For purposes of semi-annual borrowing base redeterminations, Eagle will provide its lender with reserve reports with effective dates of June 30 and December 31. Failure of Eagle to provide a semi-annual reserve report constitutes an immediate event of default.

Upon receipt by the lender of the semi-annual reserve report (and other reports, data and supplemental information as may be reasonably requested), the lender will evaluate the information and propose a new borrowing base based upon an advance rate of 75% of the proved developed producing reserves value, before tax, discounted at 10% (“**PDP PV10 reserves value**”). The forward pricing used to calculate the PDP PV10 reserves value is based on 48 months of NYMEX futures contracts and is defined in the Loan Agreement.

In the event that a borrowing base redetermination results in the outstanding principal of the term loan exceeding the borrowing base then in effect (“**Term Loan Excess**”), then, after receiving a new borrowing base notice of such new or adjusted borrowing base (such date of receipt of notice being the “**Borrowing Base Notification Date**”), Eagle will, no later than twenty business days from the Borrowing Base Notification Date, repay an amount equal to (A) the then applicable Term Loan Excess plus (B) 2% of the aggregate principal amount of any such repayment. If Eagle fails to pay the amount under (B), then that amount bears interest until paid in full at a rate of LIBOR plus 13% per annum. A non-payment by Eagle when and as required of amounts to be paid or repaid would constitute an immediate event of default.

- Coupon - LIBOR plus 8% (with LIBOR having a floor of 1%)
- Financial covenants - The four financial covenants in the Loan Agreement are summarized below.
 - (a) Consolidated Leverage Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter ending on or after June 30, 2018, a Consolidated Leverage Ratio of not greater than 3.50 to 1.00.

As at March 31, 2019, the Consolidated Leverage Ratio was 4.25 to 1.00 and Eagle was in violation of this covenant.

The “Consolidated Leverage Ratio” is defined in the Loan Agreement as the ratio of Consolidated Funded Debt to Consolidated Adjusted EBITDAX (as defined below) for the trailing four fiscal quarters.

(b) Consolidated Fixed Charge Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter, a Consolidated Fixed Charge Coverage Ratio of not less than 1.70 to 1.00.

As at March 31, 2019, the Consolidated Fixed Charge Ratio was 0.70 to 1.00 and Eagle was in violation of this covenant.

The "Consolidated Fixed Charge Ratio" for the fiscal quarter is defined in the Loan Agreement as the ratio that (i) Consolidated Adjusted EBITDAX plus (ii) income tax payments minus (iii) maintenance capital expenditures associated with proved developed producing reserves is to interest expense (each for the fiscal quarter and with one-time interest charges relating to the dispositions of Salt Flat and Twining being excluded from interest expense).

(c) Asset Coverage Ratio

Eagle is to maintain, as at June 30 and December 31 of each fiscal year, and based on reserve reports internally prepared by Eagle, an Asset Coverage Ratio of not less than 1.333 to 1.000.

As at December 31, 2018, the Asset Coverage Ratio was 1.343 to 1.00. No test was required or performed at March 31, 2019.

The "Asset Coverage Ratio" is defined in the Loan Agreement as the ratio of the PDP PV10 reserves value (using prices quoted on NYMEX and before tax) to the aggregate principal balance outstanding under the term loan.

(d) Consolidated Current Ratio

Eagle is to maintain, on a consolidated basis, as at the end of each fiscal quarter, a Consolidated Current Ratio in an amount not less than 1.00 to 1.00.

As at March 31, 2019, the Consolidated Current Ratio was 1.10 to 1.00.

The "Consolidated Current Ratio" is defined in the Loan Agreement as the ratio of Consolidated Current Assets to Consolidated Current Liabilities, but, in each case, excluding any risk management assets or risk management liabilities that are classified as current.

"Consolidated Adjusted EBITDAX", as defined in the Loan Agreement means:

- (a) net income; plus;
- (b) actual cash transaction costs and expenses directly incurred in connection with the disposition of Salt Flat and Twining; plus;
- (c) interest expense, accrued taxes, depreciation, depletion, amortization, exploration expense and other non-recurring expenses that do not represent a cash item in such period or any future period; plus or minus;
- (d) gains or losses attributable to write-ups or write-downs of assets; plus or minus;
- (e) unrealized foreign exchange gains or losses; plus or minus;
- (f) non-cash gains, losses or adjustments under Financial Accounting Standards Board (FASB) Statement 133 as a result of changes in the fair market value of derivatives; plus or minus; and
- (g) non-cash share based compensation or recovery amounts.

In addition, EBITDAX is calculated after giving effect on a pro-forma basis to any permitted acquisition or disposition (that is also a “material disposition”) as if such acquisition or disposition occurred at the beginning of such period, provided that the dispositions of Salt Flat and Twining have been deemed not to constitute material dispositions.

14. Decommissioning Liability

| \$000's | Three Months Ended March 31, 2019 | Year Ended December 31, 2018 |
|---|---|------------------------------------|
| Beginning balance | 16,658 | 26,234 |
| Additions | - | 94 |
| Change in estimate due to disposition (see note 12 – Asset Disposition) | - | (10,607) |
| Other changes in estimates | 1,794 | 219 |
| Accretion (unwinding of discount) | 82 | 448 |
| Effects of exchange rate | (39) | 270 |
| Ending balance | 18,495 | 16,658 |

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 of 1.62% at March 31, 2019 for the North Texas and NW Alberta properties (March 31, 2018 – 2.09%), and 1.90% for the Dixonville properties (March 31, 2018 - 2.23%).

15. Share Capital

Eagle has an unlimited number of common shares authorized for issuance. At March 31, 2019, the shares outstanding were as follows:

Shares Outstanding

| | Three Months Ended March 31, 2019 | | Year Ended December 31, 2018 | |
|--|-----------------------------------|---------------------|------------------------------|---------------------|
| | Number of shares (000's) | Amount (\$000's) | Number of shares (000's) | Amount (\$000's) |
| Beginning balance | 44,244 | 320,999 | 43,302 | 320,515 |
| Issuance of shares pursuant to the RSUs and PSUs | - | - | 942 | 484 |
| Ending balance | 44,244 | 320,999 | 44,244 | 320,999 |

16. Commitments

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases on the balance sheet. The majority of these liabilities were previously reported as commitments and are contained within this note.

Lease Commitment – Head Office Lease in Calgary, Alberta

On January 1, 2013, Eagle entered into a lease for office space in Calgary which originally had a term of 61 months, from January 8, 2013 to February 7, 2018. In May 2016, the lease was amended to extend the lease term and decrease the annual basic rental charge. The new term began August 1, 2016 and terminates February 28, 2023. Total minimum lease payments and estimated operating costs during the term of the lease from August 1, 2016 through February 28, 2023 approximate \$3.1 million and include a leasehold improvement allowance up to \$0.2 million, with 47 months and approximately \$1.8 million remaining at March 31, 2019.

Lease Commitment – Office Lease in Houston, Texas

Eagle entered into an office lease in Houston on September 22, 2017 to replace the lease expiring on December 31, 2017. The term of the lease is from February 1, 2018 to August 31, 2025, with payments beginning September 1, 2018. Total minimum lease payments and estimated operating costs during the term of the lease approximate \$CA 2.3 million (\$US 1.7 million translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to \$CA 1.34) with 77 months and approximately \$CA 2.2 million remaining (\$US 1.7 million, translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to 1.34) at March 31, 2019.

Vehicle Lease Commitments – Texas

Eagle has entered into five vehicle lease agreements in North Texas. The terms of the leases range from August 17, 2016 to October 27, 2020. Total minimum lease payments during the terms of the leases approximate \$US 0.2 million with 31 months and approximately \$US 0.05 million remaining at March 31, 2019. In \$CA, the total minimum lease payments during the term are \$0.27 million, with remaining future minimum lease payments of approximately \$CA 0.07 million (translated at the exchange rate in effect at the balance sheet date of \$US 1.00 equal to \$CA 1.36) at March 31, 2019.

Vehicle Lease Commitments – Dixonville

Eagle has entered into four vehicle lease agreements in Dixonville. The terms of the leases range from April 6, 2017 to December 31, 2021. Total minimum lease payments during the terms of the leases approximate \$0.16 million with 33 months and approximately \$0.07 million remaining at March 31, 2019.

17. Subsequent events

On April 8, 2019, Eagle entered into a fixed price financial swap on 225 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of \$US 63.23 per barrel in order to mitigate the risk that fluctuating commodity prices has on generating positive cash flows from operations.

Corporate Information

Board of Directors

Richard W. Clark
Executive Chairman

Warren D. Steckley ⁽¹⁾⁽²⁾
Lead Independent Director

Bruce K. Gibson ⁽³⁾
Director

F. Wayne McWhorter
Director

John A. Melton
Director

J. Wayne Wisniewski
Director, President and Chief Executive Officer

(1) Reserves & Governance Committee Chair

(2) Compensation Committee Chair

(3) Audit Committee Chair

Officers

J. Wayne Wisniewski
Director, President and Chief Executive Officer

Kelly A. Tomin
Chief Financial Officer

Glen D. Glass
Vice President, Operations

Brenda F. Galonski
Vice President, Finance and Controller

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.
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