Q3 2016

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("MD&A") reports on the financial condition and the results of operations of Chinook Energy Inc. ("CEI") and its subsidiaries, both wholly and partially owned, (collectively, "our", "we" or "us") for the three and nine months ended September 30, 2016 and 2015 and should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes as at and for the three and nine months ended September 30, 2016 and 2015 (the "Interim Financial Statements") and our audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2015 and 2014 (the "Annual Financial Statements"). This MD&A is based on information available as at November 9, 2016.

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

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

Additional Information

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

Basis of Presentation

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

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

Introduction to Chinook

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

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

Strategic Transaction

On June 10, 2016 (the "Closing Date"), we completed the divestiture of the majority of our Alberta oil and natural gas assets, excluding our Montney assets, and the associated decommissioning obligations in addition to $0.9 million (collectively, the "Subject Assets") to Tournament Exploration Ltd. (which subsequently changed its name to Craft Oil Ltd.), a private Calgary-based petroleum and natural gas production company, for 70% of their issued and outstanding common shares pursuant to an asset purchase and sale agreement dated and effective May 1, 2016 (the "PSA"). As we maintained control over the Subject Assets transferred to Craft after this acquisition, we continued to measure the Subject Assets at their carrying amounts immediately after the acquisition. Since this was essentially a non-cash transaction and because Craft's common shares are not publically traded, we determined the fair value of 70% of Craft's net assets at $3.6 million.

On October 17, 2016, we announced that we have undertaken to complete a plan of arrangement under the Business Corporation Act (Alberta) to effect the distribution of all the common shares of Craft acquired by us to our shareholders (the "Arrangement"). The Arrangement will be subject to, among other things, shareholder approval at the special meeting of shareholders scheduled for December 12, 2016.

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

On August 2, 2016, we announced that we have initiated a review of strategic alternatives, which may include, among other things, a review of acquisition opportunities to expand our core Montney asset base, or establish a new core of operations. We will also entertain merger, sale, joint venture or other opportunities that will result in a well-capitalized entity that can best develop our emerging Montney assets. There can be no guarantee that this review will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

Financial and Operating Highlights

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
OPERATIONS				
Production [1]				
Crude oil (bbl/d)	**1,036**	1,065	**874**	1,276
Natural gas liquids (boe/d)	**599**	395	**645**	559
Natural gas (mcf/d)	**28,972**	20,641	**25,666**	26,268
Average daily production (boe/d)	**6,464**	4,900	**5,798**	6,214
Sales Prices				
Average oil price ($/bbl)	**$ 57.31**	$ 51.34	**$ 48.55**	$ 54.33
Average natural gas liquids price ($/boe)	**$ 10.67**	$ 31.68	**$ 21.78**	$ 36.98
Average natural gas price ($/mcf)	**$ 2.22**	$ 2.56	**$ 1.71**	$ 2.58
Netback [2]				
Average commodity pricing ($/boe)	**$ 20.14**	$ 24.48	**$ 17.31**	$ 25.39
Royalties ($/boe)	**$ (0.77)**	$ (1.13)	**$ (0.74)**	$ (1.40)
Net production expenses ($/boe) [2]	**$ (12.61)**	$ (12.49)	**$ (14.07)**	$ (16.29)
G&A expense ($/boe)	**$ (4.70)**	$ (4.39)	**$ (4.25)**	$ (4.01)
Netback ($/boe) [2]	**$ 2.06**	$ 6.47	**$ (1.75)**	$ 3.69
Wells Drilled (net)				
Total natural gas wells drilled (net)	**-**	-	**-**	2.75
FINANCIAL ($ thousands, except per share amounts)				
Petroleum & natural gas revenues, net of royalties	**$ 11,518**	$ 10,527	**$ 26,312**	$ 40,701
Funds (Outflow) from operations [2]	**$ 1,894**	$ 3,299	**$ (2,717)**	$ 7,517
Per share - basic & diluted ($/share)	**$ 0.01**	$ 0.02	**$ (0.01)**	$ 0.03
Net loss	**$ (35,905)**	$ (80,669)	**$ (61,200)**	$ (78,303)
Per share - basic and diluted ($/share)	**$ (0.17)**	$ (0.37)	**$ (0.28)**	$ (0.36)
Capital expenditures	**$ 661**	$ 7,313	**$ 5,034**	$ 34,327
Net surplus [2]	**$ (7,217)**	$ (41,181)	**$ (7,217)**	$ (41,181)
Total assets	**$ 274,674**	$ 333,036	**$ 274,674**	$ 333,036
Common Shares (thousands)				
Weighted average during period - basic & diluted	**216,287**	215,274	**215,666**	215,150
Outstanding at period end	**216,443**	215,328	**216,443**	215,328

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

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

Acquisition of Craft

On the Closing Date, pursuant to the PSA, we transferred the Subject Assets to Craft in consideration of the acquisition of 70% of Craft's issued and outstanding common shares. Craft properties included Willisden Green and Ferrier, located in west central Alberta, prospective for Cardium light oil and natural gas. The Subject Asset properties included non-Montney Albright and Beaverlodge prospective for Dunvegan and Doe Creek, Gold Creek and Pipestone, in addition to Valhalla, Sinclair, Gordondale and Boundary Lake South. The Subject Assets also included primarily all of our properties located in West Central Alberta and Plains.

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

Fair Value of Craft's Net Assets

Since Craft is a private company and the fair value of this company's common shares was not available from transparent market transactions, we evaluated the fair value of Craft's net assets as at the Closing Date. This evaluation included evidence from the agreed upon consideration for those properties and associated decommissioning obligations classified as held for sale at September 30, 2016 (see "Assets Held for Sale"). As at June 30, 2016, we recorded a provisional amount for the estimated fair value of the oil and gas properties acquired on the acquisition of Craft. On October 31, 2016, Craft disposed of certain oil and gas properties, the majority of which were owned by Craft on the date it was acquired by us. We amended the preliminary Craft business combination from that initially reported in our condensed consolidated financial statements for the three and six months ended June 30, 2016 to reflect the selling price in the October 31, 2016 disposition. We updated the provisional fair value amounts of Craft's net assets as at the Closing Date as follows:

Development & production assets: this fair value was approximated using an internally prepared reserve evaluation. This evaluation uses future net revenues anticipated to be produced from Craft's proved developed producing reserves, using a discount rate of 15%. This is the same metrics obtained on the disposition of properties classified as held for sale.

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

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

Debt: was fair valued at the outstanding principal amount.

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

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

CEI's Consideration

As we maintained control over the Subject Assets transferred to Craft after this acquisition, we continued to measure the Subject Assets at the same carrying amounts immediately prior to and after the acquisition. This resulted in the Subject Assets' carrying value at the Closing Date being used to determine the 30% non-controlling interest. An evaluation of the fair value of the D&P assets' component of the Subject Assets revealed that their fair value less costs to sell was less than their carrying amount. As a result, we adjusted for the non-controlling interest portion of this loss through an adjustment to equity of $25.4 million.

Business Combination

A summary of the preliminary business combination is as follows:

	June 10, 2016
Estimated fair value of net assets acquired:	
Working capital	$ 2,081
Development and production assets	23,600
Exploration and evaluation assets	1,300
Bank debt	(17,793)
Provisions	(3,977)
Non-controlling interest	(1,563)
	$ 3,648
Estimated consideration:	
Non-controlling interest in the carrying value of the Subject Assets	$ 29,066
Equity loss	(25,418)
	$ 3,648

For the third quarter, the results of CEI and Craft were as follows:

Three months ended September 30, 2016			
OPERATIONS	**CEI**	**Craft**	**Total**
Production			
Crude oil (bbl/d)	219	817	1,036
Natural gas liquids (boe/d)	130	469	599
Natural gas (mcf/d)	12,233	16,738	28,972
Average daily production (boe/d)	2,388	4,076	6,464
Operational Netback [1]			
Average commodity pricing ($/boe)	$ 17.53	$ 21.67	$ 20.14
Royalties ($/boe)	$ 0.54	$ (1.54)	$ (0.77)
Net production expenses ($/boe) [1]	$ (11.62)	$ (13.18)	$ (12.61)
Operational Netback ($/boe) [1]	$ 6.45	$ 6.95	$ 6.76

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

Assets and Liabilities Held for Sale

On September 29, 2016, Craft entered into an agreement (the "Agreement") to sell certain of its petroleum and natural gas properties and undeveloped lands, including a portion of the Subject Assets, for gross estimated consideration of $13.5 million, as comprised of $9.0 million cash and $4.5 million in the buyers units. The units are comprised of par value 10.5% senior secured notes due in 2021 and 7.38 million purchase warrants. Each purchase warrant allows Craft to acquire one common share in the buyer at a price of $0.18/share. The purchase warrants expire November 15, 2021. At September 30, 2016, these properties and their associated decommissioning obligations were classified as held for sale as it was highly probable that their net carrying value would be received through a sales transaction rather than through continued use. We determined the net carrying value of these properties was $4.0 million higher than the estimated consideration. This resulted in the recognition of an equivalent loss applied against the carrying value of these properties immediately prior to the $55.7 million reclassification from E&E Assets and D&P Assets to assets held for sale on the consolidated statements of financial position. Decommissioning obligations of $42.1 million were reclassified to liabilities held for sale on the consolidated statements of financial position. This Agreement closed on October 31, 2016.

The held for sale properties are located in central and southern Alberta and the majority are prospective for mature Cardium light oil and natural gas in the Willisden Green and Ferrier areas, among others, with estimated production of 1,934 boe/d (68% natural gas).

Chinook Reserve Information Excluding the Subject Assets as at December 31, 2015

In light of the proposed Arrangement, the following is a summary of our oil and gas reserves and net present values of future net revenue as of December 31, 2015, excluding the Subject Assets, based on the reserve report prepared by the our independent reserves evaluator, McDaniel & Associates Consultants Ltd., effective December 31, 2015, including the forecasted prices and costs set forth therein. Please see our annual information form for the year ended December 31, 2015 located on our profile on the SEDAR website and on our website containing our reserves data and other oil and gas information. The summary does not give effect to any of our operational developments or other acquisitions or divestitures that have occurred since December 31, 2015.

All evaluations of future net production revenue set forth in the tables below are based on forecast prices and costs and are after direct lifting costs, normal allocated overhead and future capital investments. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

Summary of Remaining CEI Oil and Gas Reserves and Net Present Values of Future Net Revenue as of December 31, 2015 Forecast Prices and Costs (Excludes Craft Reserves)

	RESERVES									
	LIGHT AND MEDIUM OIL		HEAVY OIL		CONVENTIONAL NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL	
RESERVES CATEGORY	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mmcf)	Net (Mmcf)	Gross (Mbbl)	Net (Mbbl)	Gross (Mboe)	Net (Mboe)
Proved Developed										
Producing	58	49	-	-	16,237	14,263	451	363	3,215	2,790
Non-Producing	7	6	-	-	15,311	12,519	429	354	2,988	2,447
Proved Undeveloped	-	-	-	-	24,437	20,637	806	683	4,879	4,122
Total Proved	65	56	-	-	55,985	47,419	1,687	1,400	11,082	9,359
Probable	52	44	-	-	35,981	29,411	1,136	924	7,186	5,870
Total Proved plus Probable	117	99	-	-	91,966	76,830	2,823	2,324	18,268	15,229

	NET PRESENT VALUES OF FUTURE NET REVENUES										
	BEFORE INCOMETAXES DISCOUNTED AT (%/year)					AFTER INCOMETAXES DISCOUNTED AT (%/year)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/year
	0	5	10	15	20	0	5	10	15	20	Net
RESERVES CATEGORY	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	($/boe)
Proved Developed											
Producing	9,470	9,493	8,837	8,091	7,409	9,470	9,493	8,837	8,091	7,409	3.17
Non-Producing	28,449	23,593	19,878	17,060	14,898	28,449	23,593	19,878	17,060	14,898	8.12
Proved Undeveloped	27,907	17,096	9,890	4,971	1,519	27,907	17,096	9,890	4,971	1,519	2.40
Total Proved	65,826	50,183	38,605	30,122	23,826	65,826	50,183	38,605	30,122	23,826	4.13
Probable	91,905	55,223	35,421	23,940	16,835	91,905	55,223	35,421	23,940	16,835	6.03
Total Proved plus Probable	157,732	105,406	74,026	54,062	40,662	157,732	105,406	74,026	54,062	40,662	4.86

Petroleum and Natural Gas Production Volumes

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Crude oil (bbl/d)	**1,036**	1,065	**874**	1,276
Natural gas liquids (boe/d)	**599**	395	**645**	559
Natural gas (mcf/d)	**28,972**	20,641	**25,666**	26,268
Total (boe/d)	**6,464**	4,900	**5,798**	6,214

Total Production Volumes

During mid-February 2016, we brought on-stream an additional three (2.75 net) wells at our Birley/Umbach area on the commissioning of our facility expansion. Currently, we have production from five wells (4.25 net) in this area and have the capacity to add the volumes from a sixth well (0.75 net). Our production volumes during the current reporting periods from our Birley/Umbach properties were 1,734 boe/d and 1,738 boe/d. Our production volumes at Birley/Umbach were constrained by a third party plant restriction and temporary shut-ins due to depressed Station 2 pricing. In addition, since June 10, 2016, Craft's properties, excluding the Subject Assets, added an additional 2,000 boe/d of production.

In addition to increased volumes from our Birley/Umbach area and the acquired Craft production, improved commodity pricing and a new gas handling agreement enabled us to reactivate wells in Martin Creek and Black Conroy areas in northeastern BC adding 1,290 boe/d of production during the month of September, which contributed to a combined increase in production of 1,564 boe/d during the third quarter compared to the same quarter of 2015.

However, production volumes for the year to date decreased by 416 boe/d compared to the same period of 2015 due to shut-in production volumes prior to September in response to continued depressed Station 2 pricing and lower AECO pricing and third party plant shut-ins which lowered our non-operated production volumes. Also contributing to the decrease in the year to date production volumes, compared to the same period of 2015, were natural declines and last year's disposition of the predominantly crude oil Rainbow property in northeastern Alberta with associated production of 183 boe/d.

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

Natural gas production for the third quarter increased compared to the same period of 2015 as a result of higher natural gas production and its associated liquids from our recent Birley/Umbach area development program and the acquisition of Craft. The year to date production for natural gas and its associated liquids was comparable to the same period of 2015. Increases in year to date volumes as just explained for the quarter were offset by a BC Government reclassification of a well from natural gas to crude oil resulting in the reclassification of prior periods' volumes. As a result we are reporting lower volumes for NGL's as offset by higher volumes for crude oil. Had this adjustment not occurred, the NGL volumes for the current reporting periods would have been 826 boe/d and 702 boe/d.

Crude Oil Production Volumes

Our crude oil production volumes for the current reporting periods decreased by 29 bbl/d and 402 bbl/d compared to the same periods of 2015. As just explained, these decreases would have been more pronounced had there not been a reclassification of a BC well from natural gas to crude oil. Had this adjustment not occurred, the crude oil volumes for the current reporting periods would have been 877 bbl/d and 812 bbl/d. The current reporting period decreases were a consequence of the production associated with pipeline service restrictions in the Grande Prairie area and natural production declines. We also had crude oil production associated with the disposed Rainbow and Enchant properties.

Petroleum and Natural Gas Revenues and Realized Pricing

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per unit amounts)	**2016**	2015	**2016**	2015
Oil sales	**$ 5,462**	$ 5,030	**$ 11,633**	$ 18,931
$/bbl	**57.31**	51.34	**48.55**	54.33
Natural gas liquids sales	**$ 588**	$ 1,151	**$ 3,851**	$ 5,646
$/boe	**10.67**	31.68	**21.78**	36.98
Natural gas sales	**$ 5,926**	$ 4,855	**$ 12,011**	$ 18,494
$/mcf	**2.22**	2.56	**1.71**	2.58
Petroleum & natural gas revenue	**$ 11,976**	$ 11,036	**$ 27,495**	$ 43,071
$/boe	**20.14**	24.48	**17.31**	25.39

Our petroleum and natural gas revenues increased for the third quarter while decreasing for the year to date compared to the same periods of 2015. The increase in the current quarter was the result of increased volumes due to the acquisition of Craft, well reactivations and production brought on-stream as a result of our development of the Birley/Umbach area. The decrease for the year to date was caused by both lower realized commodity pricing and decreases in sales volumes. The decreases in our realized commodity pricing were mostly due to lower benchmarks pricing which substantially began their decline during the fourth quarter of 2014, before beginning to show improvement late in the third quarter. These decreased benchmark prices resulted in lower realized pricing of approximately 18% and 32% during the current reporting periods. Our ratio of petroleum relative to total sales volumes of approximately 25% during the current reporting periods decreased from 30% during the comparative periods of 2015. This resulted from decreases in the comparatively higher priced crude oil sales volumes which also contributed to lower realized weighted average commodity prices. This was despite an increase in the proportion of natural gas liquids volumes in the current reporting periods compared to the same periods of 2015 as a result of the focus on our Birley/Umbach property, which has liquid rich natural gas.

Had the BC Government not reclassified a natural gas well to crude oil, our revenue and pricing for crude oil for the current reporting periods would have been $4.1 million or $50.78/bbl and $10.3 million or $46.31/bbl. Similarly, the revenues and pricing for natural gas liquids for the current reporting periods would have been $2.0 million or $26.21/boe and $5.2 million or $27.05/boe.

Benchmark Prices

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Crude oil Canadian light sweet (1) ($/bbl)	**$ 54.19**	$ 55.10	**$ 50.14**	$ 59.09
Natural gas liquids WTI (2) ($US/bbl)	**$ 44.94**	$ 46.43	**$ 41.33**	$ 51.00
Natural gas AECO gas (3) ($/mcf)	**$ 2.36**	$ 2.72	**$ 1.87**	$ 2.58

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

Crude Oil Pricing

Our realized crude oil price, after adjusting for the well reclassification as described above, was $50.78/bbl and $46.31/bbl for the current reporting periods a decrease from $51.34/bbl and $54.33/bbl for the same periods of 2015. Our conventional crude oil production is sold at prices based on the Canadian light sweet benchmark postings adjusted for quality. This benchmark price decreased during the current reporting periods, as did our adjusted average realized crude oil prices, compared to the same periods of 2015.

NGL Pricing

Our NGL price is a blend of prices received for a range of liquids from ethane through to condensates that are produced in association with natural gas. There are various benchmarks for natural gas liquids, depending on the type sold; however, we benchmark our liquids in reference to Canadian light sweet or WTI. During the current reporting periods, after adjusting for the well reclassification as described above, and consistent with the decrease in the Canadian light sweet oil benchmark, our realized NGL price of $26.21/boe and $27.05/boe decreased compared to $31.68/boe and $36.98/boe for the same periods of 2015. The ratio of our adjusted NGL price relative to Canadian light sweet oil was approximately 48% and 54% for the current reporting periods compared to 57% and 63% for comparative periods of 2015. For the year to date, this decrease was caused by the recognition of an NGL inventory adjustment that decreased our current reported NGL revenues. Excluding this adjustment, the ratio of the year to date NGL realized price to Canadian light sweet oil compares to the comparative period of 2015.

Natural Gas Pricing

Our realized natural gas price of $2.22/mcf and $1.71/mcf for the current reporting periods decreased from $2.56/mcf and $2.58/mcf for the same periods of 2015. These decreases were due to both an increase in the ratio of our production from BC in addition to lower benchmark pricing. This downward price pressure included Station 2 pricing which decreased starting in February and continued until it started to recover in the third quarter. Also, during the year to date AECO pricing decreased for a portion of the second quarter as a result of reduced intra-Alberta demand caused by reduced natural gas consumption for oil sands production resulting from the May wildfires in Fort McMurray, Alberta. However, by the end of the third quarter this benchmark had also begun to recover.

On June 1, 2016, we started flowing firm capacity that sold at Alliance Chicago pricing. Of our BC production, approximately 40% was sold at Alliance Chicago pricing of $2.50/mcf which was a $0.28/mcf premium relative to the Station 2 pricing that we received on the remainder of our BC production.

Royalties

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Royalties	**$ 458**	$ 509	**$ 1,183**	$ 2,370
Per sales ($/boe)	**$ 0.77**	$ 1.13	**$ 0.74**	$ 1.40
Percent of revenues (%)	**3.8**	4.6	**4.3**	5.5

For the current reporting periods, our royalties decreased on an overall basis, per boe and as a percentage of revenue, compared to the same periods of 2015. The overall decreases in royalties resulted from lower commodity pricing and for the year to date lower sales volumes. The lower commodity pricing caused a decrease in royalty rates where such rates are based on a sliding pricing scale. Our focus on the development of our Montney play in the Birley/Umbach area increased the proportion of our production from BC which has relatively lower associated royalty rates in comparison to our overall rates. In addition, as a result of the BC government changing the classification of a well from natural gas to crude oil we recorded a net decrease to royalties as the royalty rate for crude oil is less than that of natural gas liquids. Finally, we realized an increase from last year's gas cost allowance.

Commodity Price Risk Management Contracts

Craft entered into financial derivative contracts to manage their funds from operations. This provides more certainty as to what Craft will receive on a portion of their crude oil and/or natural gas sales volumes. While risk management contracts may have opportunity costs when commodity benchmarks exceed the contracted prices, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. We continuously review the need to utilize such financing techniques.

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

net income (loss) as unrealized gains or losses on derivative contracts. Realized gains or losses on the derivative contracts are recognized in net income (loss) on the unwinding of the financial derivative contract term.

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

Financial AECO Natural Gas Contract			
Portion of Contractual Term	**Average Notional Volumes (GJ/d) (1)**	**Company's Received Price**	**Indexed Price**
October 1, 2016 to December 31, 2016	11,518	$2.56/GJ	AECO 7A
January 1, 2017 to December 31, 2017	10,616	$2.56/GJ	AECO 7A
January 1, 2018 to December 31, 2018	8,305	$2.56/GJ	AECO 7A
January 1, 2019 to December 31, 2019	6,518	$2.56/GJ	AECO 7A
January 1, 2020 to June 30, 2020	5,412	$2.56/GJ	AECO 7A

Financial WTI Crude Oil Contract			
Portion of Contractual Term	**Average Notional Volumes (bbl/d) (1)**	**Company's Received Price**	**Indexed Price**
October 1, 2016 to December 31, 2016	666	USD $51.20/bbl	WTI
January 1, 2017 to December 31, 2017	577	USD $51.20/bbl	WTI
January 1, 2018 to December 31, 2018	462	USD $51.20/bbl	WTI
January 1, 2019 to December 31, 2019	383	USD $51.20/bbl	WTI
January 1, 2020 to May 31, 2020	323	USD $51.20/bbl	WTI

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

At September 30, 2016, the natural gas and crude oil derivative contracts had a combined fair value liability of $1.9 million. We had no derivative contracts outstanding at December 31, 2015. Realized gains on the crude oil contract and unrealized gains and losses from the crude oil and natural gas contracts for the current reporting periods and the same periods of 2015 were as follows:

	Three months ended September 30		**Nine months ended September 30**	
($ thousands)	**2016**	2015	**2016**	2015
Realized gains on derivative contracts	**$ (1,093)**	$ (391)	**$ (1,161)**	$ (1,132)
Unrealized (gains) losses on derivative contracts	**(1,647)**	406	**1,929**	1,090
Total	**$ (2,740)**	$ 15	**$ 768**	$ (42)

In late October, 2016, as a result of anticipating lower production volumes associated to the properties held for sale (see "Assets and Liabilities Held for Sale"), Craft settled 31.5% of the outstanding price risk contracts for a payment of $1.6 million to its counterparty. As a result, the remaining notional volumes are now 68.5% of those reported in the above table. Concurrent with the closing of the Agreement, the third party buyer paid $1.4 million to Craft for 50% of the net increase in the mark-to-market liability from September 30, 2016 through to the closing of this Agreement but prior to any effect from Craft's settlement.

Production and Operating Expense

	Three months ended September 30		**Nine months ended September 30**	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Production & operating	**$ 8,050**	$ 6,243	**$ 24,362**	$ 30,099
Less:				
Processing & gathering revenues	**(553)**	(610)	**(2,010)**	(2,466)
Net production & operating expense (1)	**$ 7,497**	$ 5,633	**$ 22,352**	$ 27,633
Per sales net production & operating expenses ($/boe) (1)	**$ 12.61**	$ 12.49	**$ 14.07**	$ 16.29
Per sales production & operating expenses ($/boe)	**$ 13.54**	$ 13.85	**$ 15.34**	$ 17.74

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

Production and operating expense of $8.1 million for the third quarter increased compared to the same quarter of 2015 primarily due to our increase in Birley/Umbach volumes and the acquisition of Craft and its associated production and operating expenses. Despite our acquisition of Craft late during the second quarter of 2016, the year to date's production and operating expenses of $24.4 million decreased compared to the same period of 2015. This decrease partially resulted from the disposition of properties during 2015, most notably Rainbow. Also contributing to this decrease was last year's voluntary shut-in of relatively higher operating cost/lower netback wells, which began early in the second quarter of 2015 and mostly continued through the third quarter of 2016. These wells are mostly located on our BC properties at Hoffard, Boundary Lake North and Rigel, and the non-Montney Gold Creek properties which were sold in the second quarter of 2016, as well as the Pouce Coupe properties which were included in the Subject Assets. Production from these areas decreased by approximately 320 boe/d and resulted in a reduction in production and operating costs of $2.1 million during the year to date compared to the comparative period. We also realized cost saving initiatives implemented in 2015 principally through optimization of field staff and lower costs for hauling, chemicals, repairs and maintenance without compromising our commitment to health and safety. During the comparative year to date, we also incurred one-time field staff cost increases.

On a per boe basis, for the same reasons as just discussed, operating costs decreased during the year to date compared to the same period of 2015. The Rainbow property disposition had higher average operating costs per boe. Through this disposition, we lowered our per boe average operating costs. In addition, we increased our volumes at Birley/Umbach and although this added to our total operating costs, the synergies achieved through these incremental volumes had the effect of decreasing our operating costs in this area. During the third quarter, operating costs for Craft as estimated at $14.63/boe, relative to Chinooks at $11.68/boe, caused an increase in our average reported operating cost compared to the same quarter of 2015.

During the third quarter, we executed a gas handling agreement impacting the majority of our BC natural gas production. It will significantly improve go-forward drilling economics, bring base production back online and provide gas handling capacity for growth volumes as well as reduce operating costs by approximately $2.70/boe on CEI properties. With the distribution of the Craft shares, we expect a decrease in operating costs during 2017 to under $10/boe.

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

General & Administrative ("G&A") Expense

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
G&A expense	**$ 2,794**	$ 1,981	**$ 6,751**	$ 6,795
Per sales ($/boe)	**$ 4.70**	$ 4.39	**$ 4.25**	$ 4.01

We have continued to focus on improving our G&A cost structure through cost cutting initiatives and we continue to assess our G&A expenses and make reductions where we can. Despite lower staffing costs caused by reductions in headcount, a planned temporary work week reduction, reduced officers' and directors' compensation, reduced employee benefits and less reliance on consultants, our year to date G&A expense is comparable to the same period of 2015. Offsetting these decreases were $0.9 million of Craft G&A costs since June 10, 2016, and an operating cost adjustment on our leased office space of $0.1 million.

During the third quarter, compared to the same quarter of 2015, our G&A cost increased as a result of $0.8 million of Craft G&A costs. Although personnel were transferred to Craft on conveyances of the Subject Assets, we will not report this significant G&A cost reduction until such time that the Craft shares are distributed to our shareholders.

On a boe basis, the Craft G&A reported in the current reporting periods also caused an increase in G&A compared to the same periods of 2015. The increase in the third quarter was partially offset by higher production volumes.

Netback

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

	Three months ended September 30		Nine months ended September 30	
Per sales ($/boe)	**2016**	2015	**2016**	2015
Realized sales price	**$ 20.14**	$ 24.48	**$ 17.31**	$ 25.39
Less:				
Royalties	**(0.77)**	(1.13)	**(0.74)**	(1.40)
Net production expense [1]	**(12.61)**	(12.49)	**(14.07)**	(16.29)
G&A expense	**(4.70)**	(4.39)	**(4.25)**	(4.01)
Netback [1]	**$ 2.06**	$ 6.47	**$ (1.75)**	$ 3.69

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

The netback for the current reporting periods significantly decreased compared to the same periods of 2015. These decreases were caused by lower commodity benchmark prices. As a result, our current reporting periods realized sales prices were only approximately 82% and 68% of the realized sales prices that we reported during the same periods of 2015.

For the current reporting periods, the decreases in the proportion of crude oil sales, after removing the prior period effect of the reclassification of a BC well from natural gas to crude oil, relative to our total volumes were caused by higher natural gas production, with an increase in associated liquids, from our recent development program at our Birley/Umbach area. Generally, crude oil sales have had a higher netback than on an equivalent volume of natural gas as determined from its heating value. This change in the proportion of crude oil sales partly caused decreases to our realized prices, which then resulted in an unfavorable netback. Fortunately, the lower year to date commodity pricing was partially offset by a $2.64/boe decrease in combined expenses.

Transaction and Distribution Costs

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Transaction & distribution costs	**$ 120**	$ -	**$ 1,740**	$ -

Expensed transaction costs incurred on the Craft acquisition include legal and other professional fees in addition to CEI's severance costs. When combined with the third quarter's costs for the distribution of Craft's shares (see "Outlook" section) the total transaction and distribution costs were $0.1 million and $1.7 million for the current reporting periods. Transaction costs incurred by Craft prior to June 10, 2016, were estimated at $0.6 million and included in Craft's accrued liabilities.

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Exploration & evaluation expenditures	**$ 151**	$ -	**$ 968**	$ 917

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

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

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Depletion, depreciation & amortization	**$ 7,672**	$ 7,458	**$ 21,460**	$ 26,948
Depletion per sales ($/boe)	**$ 11.21**	$ 14.50	**$ 11.69**	$ 14.28

Overall DD&A expense for the third quarter was comparable to the same quarter of 2015 as higher production volumes were offset by a lower depletion rate. During the year to date, DD&A expense decreased on an overall basis compared to the same period of 2015 as a result of both a lower depletion rate and production volumes. The decreases in our depletion rate were due to the impact of lowering the 2016 carrying value of our development and production assets (“D&P Assets”) to their recoverable value through recognizing last year’s impairment charge of $75.0 million.

(Gains) Loss on Disposition of Properties

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
(Gains) loss on disposition of properties	**$ (161)**	$ 6	**$ (6,020)**	$ (21,787)

During the year to date, we completed the sale of certain petroleum and natural gas properties located in the Gold Creek area of northeastern Alberta and the Enchant area of southcentral Alberta for proceeds of $8.1 million. The comparative period’s gain was from the sale of the Karr properties in northwestern Alberta as well as three swap transactions. Aggregate proceeds associated with the comparative period’s gain were $42.0 million, including adjustments.

Impairment of Development and Production Assets

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Impairment of development & production assets	**$ 48,000**	$ 75,000	**$ 48,000**	$ 75,000

On contribution of the Subject Assets from CEI to Craft on the Closing Date, we continued to measure these properties at their carrying value. In evaluating the consideration received on October 31, 2016, for those properties classified as held for sale at September 30, 2016, we concluded that this was evidence that there was a decrease in the fair value of the D&P Assets as included in the Subject Assets contributed from CEI to Craft. This evidence warranted conducting an impairment test in the Craft CGU. It did not warrant testing the CEI CGUs where its associated properties have significantly different characteristics such as geographical location and being prospective for Montney reserves. During the Craft CGU impairment testing, management considered its intention to distribute the shares of Craft to our shareholders as announced on October 17, 2016. We concluded the recoverable amount to be the fair value less costs to sell. As the consideration for the held for sale properties approximated the future net revenues anticipated to be produced from proved developed producing reserves, using a before income tax discount rate of 15 percent and forward commodity price estimates, we applied these same metrics to estimate the fair value less costs to sell of the Craft CGU. This test resulted in an impairment charge of $48.0 million during the current reporting periods.

The September 30, 2016, proved producing reserves of the Craft CGU were estimated by us based on a December 31, 2015 independent reserve reports and operational events to September 30, 2016. Assumptions that are valid at the time of the reserve estimates may change significantly when new information becomes available. Additional changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in changes in the fair value less costs to sell.

The calculation of the Craft CGU's fair value less costs to sell used the following forward commodity prices, as estimated by us, at September 30, 2016:

As at September 30, 2016	Edmonton light ($/bbl)	AECO Gas ($/mmbtu)
2016 (3 months)	$ 50.74	$ 2.56
2017	$ 66.40	$ 3.20
2018	$ 72.80	$ 3.55
2019	$ 80.90	$ 3.85
2020	$ 83.20	$ 3.95
Thereafter	1.94% to 2.07%/yr	1.6% to 3.77%/yr

Loss on Assets Held for Sale

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Loss on assets held for sale	**$ 4,000**	$ -	**$ 4,000**	$ -

At September 30, 2016, the properties and associated decommissioning obligations associated with the Agreement were reclassified on the statements of financial position as held for sale. Immediately prior to this reclassification, a comparison of the held for sale carrying value to the $13.5 million consideration resulted in a loss of $4.0 million for the current reporting periods. This loss resulted from those Subject Assets now held for sale as transferred from Chinook to Craft at their carrying value.

Share-Based Compensation

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Share-based compensation	**$ 333**	$ 722	**$ 1,685**	$ 1,771

Late in the second quarter of 2016, the first tranche of the 2015 restricted and performance awards vested resulting in a decrease in the third quarter share-based compensation. In addition during the third quarter, we recaptured the share-based compensation on the unvested awards that had previously been granted to employees who were recently severed. As a result the share-based compensation for the current reporting periods decreased compared to the same periods of 2015.

On September 1, 2016, Craft granted 15,050,000 share options and 20,070,000 performance warrants which will be settled through Craft share issuances once vested and "in-the-money". These share options and performance awards had a fair value of $0.8 million and $0.6 million, respectively, which will be expensed over their three year vesting periods.

Bad Debt Expense

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Bad debt expense	**$ -**	$ -	**$ 458**	$ 554

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

Foreign Exchange Losses (Gains) & Other

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Foreign exchange losses (gains) & other	**$ 34**	$ (251)	**$ 636**	$ (541)

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

The year-to-date also includes a negligible foreign exchange loss against our US dollar cash position resulting from the strengthening of the Canadian dollar. This compares to the $0.5 million foreign exchange gain we reported during the same period of 2015.

Financing Expenses

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Interest & financing charges (income)	**$ 381**	$ 6	**$ 493**	$ (109)
Accretion of decommissioning obligation	**688**	626	**1,818**	1,865
Total	**$ 1,069**	$ 632	**$ 2,311**	$ 1,756

Interest & financing charges increased $0.4 million and $0.6 million during the current reporting periods compared to the same periods of 2015. These increases were caused by less interest income resulting from a decrease in our cash position in addition to interest expense on the Craft acquired debt (see "Credit Facilities").

The current reporting periods accretion charges are comparable to the same periods of 2015. Accretion related to Craft's decommissioning obligation was offset by applying a lower discount rate to our consolidated obligations. We updated for a lower risk-free discount rate as first applied to the December 31, 2015 carrying value of this obligation.

Income Tax

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Deferred income tax recovery	**$ (7,100)**	$ -	**$ -**	$ -

As a result of recognizing impairment expense (see "Impairment Expense"), this reduced the carrying value of Craft's D&P Assets causing a deferred income tax recovery of $7.1 million during the third quarter. This income tax recovery eliminated the deferred income tax liability that was reported at June 30, 2016. This liability arose as a result of moving the Subject Assets, excluding cash, at their carrying values to Craft. At that time, we determined that this liability was an indirect tax consequence arising from CEI's consideration to Craft.

At December 31, 2015, in addition to the tax pools we reported within our December 31, 2015 MD&A, Craft had the following adjusted tax pools prior to its change of control tax return:

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

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

Non-Controlling Interest

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Net loss attributable to non-controlling interest	**$ (14,246)**	$ -	**$ (17,597)**	$ -

The net loss of Craft since June 10, 2016, resulting from the impairment of the Subject Assets and the loss on assets held for sale caused recoveries resulting from the net loss attributable to the non-controlling interest for the current reporting periods.

Net and Comprehensive Loss

	Three months ended September 30		Nine months ended September 30	
($ thousands, except where noted)	**2016**	2015	**2016**	2015
Weighted average shares outstanding - basic & diluted (thousands)	**216,287**	215,274	**215,666**	215,150
Net & comprehensive loss	**$ (35,905)**	$ (80,669)	**$ (61,200)**	$ (78,303)
Per share - basic & diluted ($/share)	**$ (0.17)**	$ (0.37)	**$ (0.28)**	$ (0.36)

We are reporting decreases in the net losses from operations for the current reporting periods compared to the same periods of 2015. These decreases primarily resulted from impairment expense of $48.0 million in the current reporting periods compared to $75.0 million recognized during the comparative periods in addition to a net loss attributable to non-controlling interest during the current reporting periods of $14.2 million and $17.6 million.

Capital Resources, Capital Expenditures and Liquidity

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

Given our strong positive cash position, (CEI had a net surplus of $19.5 million at September 30, 2016), we elected to voluntarily reduce the amount available under our CEI credit facility from $50.0 million to $nil, thereby temporary eliminating the requirement to pay standby fees on a borrowing base not forecasted to be needed and to allow for our lender to release security against the Subject Assets. The Subject Assets are now secured by the Craft credit facility agreement. We are in discussions to re-determine the borrowing base under CEI’s credit facility once our lender has had an opportunity to re-determine the borrowing base to be established from the value of both our Alberta and BC Montney proved developed properties.

At September 30, 2016, we had a consolidated net surplus of $7.2 million. This significant decrease from December 31, 2015 resulted from the $17.2 million of debt we acquired, net of a subsequent repayment, from the Craft acquisition in addition to cash outflows combined with capital, decommissioning and exploration and evaluation expenditures. Craft was drawn on Tranche A of its credit facility to its maximum availability of $17.2 million at September 30, 2016. This facility’s Tranche B borrowing base is currently unavailable as Craft’s management negotiate with their lender for an amended lower availability to reflect the proved developed reserves associated with the properties sold on October 31, 2016, classified on our statements of financial position as held for sale.

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

Funds (Outflow) from Operations

($ thousands, except where noted)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Cash flow from operating activities	**$ (1,838)**	$ 742	**$ (7,803)**	$ 4,249
Add back (deduct):				
Change in operating non-cash working capital	**3,337**	1,696	**(1,422)**	450
Decommissioning obligation expenditures & other	**124**	861	**3,800**	1,901
Exploration & evaluation expenses	**151**	-	**968**	917
Transaction costs	**120**	-	**1,740**	-
Funds (outflow) from operations [(1)]	**$ 1,894**	$ 3,299	**$ (2,717)**	$ 7,517
Per share - basic & diluted	**$ 0.01**	$ 0.02	**$ (0.01)**	$ 0.03

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

During the current reporting periods, we are reporting funds from operations of $1.9 million and an outflow of $2.7 million, decreases compared to funds from operations of $3.3 million and $7.5 million in the same periods of 2015. Although sales volumes increased during the third quarter compared to the same quarter of 2015, for the current reporting periods lower corporate netbacks resulted in lower funds flow from operations. These lower corporate netbacks were due to significantly lower realized commodity pricing.

Credit Facilities

($ thousands)	September 30 2016	December 31 2015
Long-term debt	**$ -**	$ -
Add:		
Current portion of long-term debt	**17,230**	-
Accounts payable, accrued liabilities & other	**13,113**	21,607
Less:		
Cash and restricted cash	**(24,511)**	(37,947)
Accounts receivable	**(8,993)**	(11,173)
Prepaids & deposits	**(4,056)**	(2,101)
Net surplus [(1)]	**$ (7,217)**	$ (29,614)

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

We had a net surplus of $7.2 million at September 30, 2016 compared to $29.6 million at December 31, 2015 (CEI had a net surplus of $19.5 million at September 30, 2016). This decrease of $22.4 million was due in part to the Craft acquired debt of $17.2 million net of a subsequent repayment, an outflow from operations and capital, decommissioning, exploration and evaluation expenditures, net of disposition proceeds.

CEI Credit Facility

During the year to date, we voluntarily reduced the CEI borrowing base of our undrawn, reserve-based credit facility (the "CEI Credit Facility"), with a Canadian bank, from $50.0 million to $nil, as a result of the transfer of the Subject Assets to Craft. There were no outstanding draws at the time of this voluntary reduction in the borrowing base (undrawn with a borrowing base of $50.0 million - December 31, 2015). We are currently in discussions with our lender to determine the re-evaluated borrowing base. The CEI Credit Facility does not include any financial covenants and is collateralized by floating charges and security interests over all present and future properties and other assets of CEI.

We increased our outstanding letters during the year to date from $0.3 million to $1.3 million. This increase of $1.0 million secured firm pipeline capacity that sells at Chicago Alliance pricing. As a result of the voluntary reduction in the borrowing base to $nil, we were required to secure our outstanding letters of credit through depositing an equivalent amount in cash with our lender. This cash is not accessible until such time that the letters of credit expire, the beneficiaries agree to release their guarantees or there is a sufficient

increase in the borrowing base of the CEI Credit Facility to provide adequate security against these guarantees. As at September 30, 2016, each letter of credit expires within one year.

Craft Credit Facility

On June 10, 2016, as a result of the Craft acquisition, we acquired $17.8 million of outstanding debt pursuant to a credit facility agreement (the "Craft Credit Facility") that Craft had with an international lender. Since then and through to September 30, 2016, Craft's net repayment was $0.6 million bringing the total borrowings to $17.2 million. The Craft Credit Facility is collateralized by floating charges and security interests over all present and future properties and other assets of Craft. Borrowings from the Craft Credit Facility will incur interest at a variable per annum rate equal to 8.00% plus the Canadian Deposit Offered Rate and then 1% on all draws. Borrowings under the Craft Credit Facility are available in two tranches as follows:

> *Tranche A:* This tranche is $17.2 million. It was fully drawn at September 30, 2016. Repayments reduce the availability of this tranche by an equivalent amount. Drawings on Tranche A are to be repaid according to a quarterly minimum repayment schedule.
>
> *Tranche B:* The borrowing base of $81.8 million under Tranche B does not contemplate a reduction resulting from the Agreement, as a result the full amount of Tranche B is not available. All drawings under this tranche require lender approval and may be used for lender approved acquisition and development activities, closing costs, Craft Credit Facility fees, expenses and fees of the lender and other uses as approved by the lender. The availability of Tranche B ceases on June 10, 2018. There were no drawings under this tranche at September 30, 2016.

The lender is entitled to all Craft's net operating cash flows until all borrowings are repaid. These Craft net operating cash flows, as defined by the Craft Credit Facility, are first used to meet the quarterly minimum repayment schedule. Cash flows in excess of this minimum repayment schedule are then applied to the remaining outstanding debt. The Craft Credit Facility matures on June 10, 2019, at which time all outstanding borrowings are due.

As at September 30, 2016, Craft was not in compliance with a Craft Credit Facility covenant requiring that GAAP compliant financial statements be filed within 60 days of the end of an interim quarter. Craft is nearing the completion of the compilation of their second quarter of 2016 financial statements that will then be immediately filed with their lender. As a result of not filing these financial statements, at September 30, 2016, the full amount of the outstanding drawings was classified as current portion of long-term debt on the condensed consolidated statement of financial position. The Craft Credit Facility covenants also require that the ratio of Craft's working capital, defined as the ratio of Craft's current assets to current liabilities but excluding marked-to-market derivative assets and/or liabilities and the current portion of long-term debt, is no less than 1.0:1.0 at each quarter end. Craft was in compliance with this ratio at September 30, 2016.

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

Capital Expenditures

Our capital expenditures were as follows:

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2016**	2015	**2016**	2015
Land & lease	**$ 2**	$ 457	**$ 149**	$ 586
Drilling & completions	**-**	4,789	**-**	17,453
Facilities & equipment	**473**	1,668	**4,083**	15,272
Field expenditures	**475**	6,914	**4,232**	33,311
Capitalized G&A	**186**	399	**802**	956
Furniture & equipment	**-**	-	**-**	60
Total	**$ 661**	$ 7,313	**$ 5,034**	$ 34,327
Business combination & other price adjustments	**$ -**	$ 898	**$ -**	$ 898
Proceeds from dispositions	**$ 162**	$ -	**$ 8,074**	$ 42,935

During the year to date, our capital expenditures were incurred on the commissioning of our expanded Birley/Umbach compressor capacity.

Rationalization of Properties

We may from time to time, dispose of properties so that we can focus on the development of Montney liquids rich natural gas on our Birley/Umbach BC properties and in the near future our Montney light crude oil in Grande Prairie, Alberta. As a result, during the year to date we completed the sale of petroleum and natural gas properties located in the Enchant areas of southcentral Alberta and Gold Creek area of northeastern Alberta, for net proceeds of $8.1 million.

Provisions

Our provisions balance primarily relates to the future abandonment and reclamation of our properties. At September 30, 2016, we had provisions of $70.8 million, which was a decrease from $98.7 million at December 31, 2015. This decrease resulted from the reclassification of $42.1 million to liabilities held for sale pursuant to the Agreement entered into by Craft and as closed on October 31, 2016. Further decreasing our provision was the sale of approximately $3.0 million of decommissioning obligations related to our Enchant area disposition in southcentral Alberta and Gold Creek area disposition in northwestern Alberta as well as decommissioning obligation expenditures of $3.4 million in addition to $0.4 million of expenditures related to other provisions. Partially offsetting the decrease was a $4.0 million fair value estimate of decommissioning obligations acquired from Craft immediately followed by a $15.2 million change in estimate in these same obligations caused by applying risk-free discount rates from those rates used to measure fair value in addition to $1.8 million of accretion charges.

At September 30, 2016, the provision associated with assets owned by Craft, excluding those classified as held for sale but including those transferred to it as part of the PSA was $39.3 million.

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

Outstanding Share Data

Authorized:

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

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

	September 30 2016	December 31 2015
Common shares outstanding	**216,442,834**	215,349,412
Share options	**7,689,396**	9,465,617
Restricted awards	**352,821**	1,084,226
Performance awards	**383,938**	1,006,996
Weighted average common shares - basic and diluted	**215,665,622**	215,196,938

As at November 8, 2016, we had 216,442,834 common shares, 7,415,951 share options, 352,821 restricted awards and 383,938 performance awards outstanding.

Off Balance Sheet Arrangements

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

Outlook

We intend to complete a plan of arrangement under the Business Corporation Act (Alberta) to effect the distribution of all the common shares of Craft acquired by us to our shareholders. The Arrangement will be subject to, among other things, shareholder approval at the special meeting of shareholders scheduled for December 12, 2016.

Upon completion of the Arrangement anticipated to occur on or about December 13, 2016, we will be a company focused on pure play Montney liquids rich natural gas. Our Board of Directors has approved a $5.5 million capital program for the remainder of 2016 focusing on the development of liquids rich natural gas at Birley/Umbach, British Columbia. This capital budget will allow us to drill 3 (2.67 net) wells prior to December 31, 2016. Additionally, our Board has approved a first quarter 2017 capital program of $9.7 million to complete and tie-in these wells and to prepare a lease for further 2017 drilling. Our pace of Montney development will continue to be prudently managed to demonstrate growth from our Montney assets while maintaining a strong balance sheet.

Our guidance for the Chinook 2016 fourth quarter and the 2017 first quarter pro-forma the Arrangement (assuming such Arrangement was effective October 1, 2016) and the three well Birley/Umbach capital program is as follows:

($ millions, except boe/d)		**Q4 2016 Guidance**
Production (boe/d)		**2,983**
Exit production (boe/d)		**3,482**
Capital expenditures	**$**	**5.5**
Net surplus as at December 31, 2016	**$**	**13.0**

($ millions, except boe/d)		**Q1 2017 Guidance**
Exit production (boe/d)		**5,357**
Capital expenditures	**$**	**9.7**
Net surplus as at March 31, 2017	**$**	**4.8**

Quarterly Information from Operations

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

	Sept. 30 2016	Jun. 30 2016	Mar. 31 2016	Dec. 31 2015	Sept. 30 2015	Jun. 30 2015	Mar. 31 2015	Dec. 31 2014
Production Volumes								
Crude oil (bbl/d)	**1,036**	769	817	922	1,065	1,284	1,485	1,981
Natural gas liquids (boe/d)	**599**	604	733	364	395	604	682	778
Natural gas (mcf/d)	**28,972**	22,776	25,215	15,851	20,641	25,290	33,007	34,879
Average daily production (boe/d)	**6,464**	5,169	5,753	3,928	4,900	6,103	7,668	8,572
Sales Prices								
Average oil price ($/bbl)	**$ 57.31**	$ 50.59	$ 35.41	$ 47.93	$ 51.34	$ 62.90	$ 49.03	$ 70.84
Average natural gas liquids price ($/boe)	**$ 10.67**	$ 25.78	$ 27.65	$ 30.59	$ 31.68	$ 41.06	$ 36.47	$ 48.05
Average natural gas price ($/mcf)	**$ 2.22**	$ 1.35	$ 1.43	$ 2.09	$ 2.56	$ 2.50	$ 2.65	$ 3.57
Netback [1]								
Average commodity pricing ($/boe)	**$ 20.14**	$ 16.50	$ 14.82	$ 22.51	$ 24.48	$ 27.67	$ 24.15	$ 35.26
Royalties ($/boe)	**$ (0.77)**	$ (0.44)	$ (0.99)	$ 2.39	$ (1.13)	$ (0.78)	$ (2.07)	$ (4.74)
Net production expenses ($/boe) [1]	**$ (12.61)**	$ (14.75)	$ (15.12)	$ (14.17)	$ (12.49)	$ (18.36)	$ (17.04)	$ (18.89)
G&A expense ($/boe)	**$ (4.70)**	$ (4.40)	$ (3.61)	$ (8.31)	$ (4.39)	$ (3.70)	$ (4.00)	$ (4.26)
Netback ($/boe) [1]	**$ 2.06**	$ (3.09)	$ (4.90)	$ 2.42	$ 6.47	$ 4.83	$ 1.04	$ 7.37
Wells Drilled (net)								
Oil	**-**	-	-	-	-	-	-	1.62
Gas	**-**	-	-	-	-	-	2.75	0.83
Disposal/injection	**-**	-	-	-	-	-	-	-
Total wells drilled (net)	**-**	-	-	-	-	-	2.75	2.45
FINANCIAL *($ thousands, except per share amounts)*								
Petroleum & natural gas revenues, net of royalties	**$ 11,518**	$ 7,550	$ 7,244	$ 9,000	$ 10,527	$ 14,934	$ 15,240	$ 24,065
Funds (outflow) from operations [1]	**$ 1,894**	$ (1,721)	$ (2,890)	$ 1,516	$ 3,299	$ 2,995	$ 1,220	$ 6,069
Per share - basic & diluted ($/share)	**$ 0.01**	$ (0.01)	$ (0.01)	$ 0.01	$ 0.02	$ 0.01	$ 0.01	$ 0.03
Net (loss) income from continuing operations [2]	**$ (35,905)**	$ (12,520)	$ (12,775)	$ (5,303)	$ (80,669)	$ (5,822)	$ 8,189	$ (58,311)
Per share - basic & diluted ($/share)	**$ (0.17)**	$ (0.06)	$ (0.06)	$ (0.02)	$ (0.37)	$ (0.03)	$ 0.04	$ (0.27)
Net (loss) income [2][3]	**$ (35,905)**	$ (12,520)	$ (12,775)	$ (5,303)	$ (80,669)	$ (5,822)	$ 8,189	$ (60,348)
Per share - basic & diluted ($/share)	**$ (0.17)**	$ (0.06)	$ (0.06)	$ (0.02)	$ (0.37)	$ (0.03)	$ 0.04	$ (0.28)
Capital expenditures	**$ 661**	$ 1,347	$ 3,026	$ 9,998	$ 7,313	$ 4,921	$ 22,093	$ 23,821
Net surplus [1]	**$ (7,217)**	$ (6,207)	$ (20,180)	$ (29,614)	$ (41,181)	$ (46,705)	$ (48,596)	$ (28,788)
Total assets	**$ 274,674**	$ 366,586	$ 299,623	$ 321,564	$ 333,036	$ 414,280	$ 431,085	$ 434,318
Common Shares (thousands)								
Weighted average during period - basic	**216,287**	215,350	215,349	215,337	215,274	215,089	215,083	215,081
Weighted average during period - diluted	**216,287**	215,350	215,349	215,337	215,274	215,089	215,112	215,081
Outstanding at period end	**216,443**	215,350	215,350	215,349	215,328	215,236	215,083	215,082

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

(2) Includes $48.0 million, $63.5 million and $75.0 million in impairment charges against properties for the three months ended September 31, 2016, December 31, 2014 and September 30, 2015, respectively.

(3) The quarter ended December 31, 2014 includes net income or loss from a discontinued operation.

Factors That Have Caused Variations over the Quarters

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

Generally, our shutting-in of properties in response to lower prices has resulted in a lower trend of natural gas and natural gas liquids production volumes. This trend was offset during the first quarter of 2015 when we began to realize continuous production from our drilling program at Birley/Umbach. During the first quarter of 2015 our crude oil production volumes decreased reflecting the impact of significant dispositions in our Gilby and Karr areas and have since fallen in subsequent quarters due ongoing pipeline service restrictions and reduced system capacity.

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

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

Risk Factors

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

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

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

Management Judgment and Estimation Uncertainty

The preparation of the Financial Statements requires judgments and estimation uncertainty that affect the reported amounts at the date of the Financial Statements of assets, liabilities, shareholders' equity, revenues and expenses in addition to the disclosure of contingencies. Actual results could differ from those estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Judgments that management has made through applying accounting policies that have the most significant effect on the Financial Statements are discussed below:

Cash Generating Units

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors our operations.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

Key estimates that management has made that affect the measurement of balances and transactions are discussed below:

Reserve estimates

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. We expect that over time our reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, testing and production levels and changes to forward petroleum and natural prices and production costs.

Decommissioning obligation

Decommissioning obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which we operate are subject to change. The deferred tax asset and/or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized from future taxable earnings.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

Our CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls associated to the Craft acquisition could materially affect, or are reasonably likely to materially affect our internal controls over financial reporting. We have reviewed the design of Craft's internal controls over financial reporting from July 1, 2016 and ended September 30, 2016, and determined that design provides reasonable assurance regarding the reliability of their financial reporting.

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

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

Non-GAAP Measures

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

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

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

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

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

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

Forward-Looking Statements

In the interest of providing our shareholders and readers with information regarding our company, including management's assessment of our future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, this MD&A contains, without limitation, forward-looking statements pertaining to: our intention to distribute all of the Craft shares to our shareholders and the method of completing the same; the anticipated benefits to us from completing the transaction with Craft and the distribution of Craft shares to our shareholders; post Craft transaction strategy, plans and operations including our intention to concentrate on our Montney assets subsequent to the completion of the Arrangement; that we will implement future cost savings initiatives; our intention to carry out a strategic review and the assessment of future plans regarding the strategic review; expectations regarding future reductions in operating and G&A costs, future Chinook operating costs, excluding consolidated volumes from Craft, future exploration and development activities and the timing thereof and how we intend to manage our company as well as our Q4 2016 and Q1 2017 guidance regarding production, capital expenditures and net surplus set out in the table under the heading “Outlook”. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to the forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things: the distribution of the Craft shares to our shareholders will be completed on the terms disclosed herein; opportunities that may result from the strategic review; that we will continue to conduct our operations in a manner consistent with that expressed herein, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, future currency, exchange and interest rates, our ability to obtain equipment in a timely manner to carry out exploration and development activities, the ability of the operator of the projects of which we have an interest in to operate in the field in a safe, efficient and effective manner, the impact of increasing competition, field production rates and decline rates, anticipated production volumes, our ability to replace and expand production and reserves through exploration and development activities, certain commodity price and cost assumptions, the results of negotiations and the plans of our partners in certain of our areas; that the budgeted Q4 2016 and Q1 2017 amounts and expenditures set forth herein, which are subject to the discretion of our Board of Directors, will not be amended in the future and the continued availability of adequate cash, debt and cash flow to fund our planned expenditures. Although we believe that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this MD&A, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that predictions, forecasts, projections and other forward-looking statements will not occur, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, that the distribution of the Craft shares to our shareholders may not be completed on the terms disclosed herein; the strategic review may not result in any opportunities for our company; risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices and currency fluctuations, our Board of Directors may amend the Q4 2016 and Q1 2017 capital program based on its discretion; environmental risks, competition from other producers, inability to retain drilling rigs and other services, unanticipated increased or unforeseen capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, delays in projects and/or operations resulting from surface conditions, wells not performing as expected, delays resulting from or inability to obtain the required regulatory approvals and inability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the forgoing list of factors is not exhaustive. Additional information on these and other factors that could affect our operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) and at our website (www.chinookenergyinc.com). Furthermore, the forward-looking statements contained in this MD&A are made as at the

date of this MD&A and we do not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Reserves

The recovery and reserves estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

Future Oriented Financial Information

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

Selected Definitions and Abbreviations

Oil and Natural Gas Liquids

bbl	barrels
Mbbl	thousand barrels
bbl/d	barrels per day
NGLs	natural gas liquids

Natural Gas

mcf	thousand cubic feet
Mmcf	million cubic feet
Mcf/d	thousand cubic feet per day
GJ	gigajoule
GJs	gigajoules
GJs/d	gigajoules per day
MM	Million

Other

boe	barrel of oil equivalent on the basis of 6 Mcf/1 BOE for natural gas and 1 Bbl/1 BOE for crude oil and natural gas liquids (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
boe/d	barrel of oil equivalent per day
Mboe	1,000 barrels of oil equivalent
Canadian light sweet	Central market point for Canadian crude oil
AECO	Central market point for Canadian natural gas
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
MM$	millions of dollars

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