Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") of Rooster Energy Ltd. ("Rooster" or, the "Company") reflects its June 30, 2016 financial results and operations This MD&A, dated August 30 2016, should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes as at and for the three and six months ended June 30, 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standards Board ("IASB"), and with the Company's audited consolidated financial statements and related notes at and for the year ended December 31, 2015. All dollar amounts are stated in U.S. dollars, unless otherwise noted. Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.roosterenergyltd.com.

Overview

The Company was incorporated in British Columbia in 1988. On April 30, 2012 the Company completed the acquisition of all of the membership interest in Rooster Energy, LLC. The transaction was treated as a reverse acquisition of the Company by Rooster Energy, LLC.   On November 17, 2014, the Company completed the acquisitions of all of the membership interests of Cochon Properties, LLC ("Cochon"), and Morrison Well Services, LLC ("Well Services"). Because all three entities had a common controlling shareholder, the acquisitions were accounted for using the "continuity of interest" method; as such, all historical financials have been adjusted to incorporate the two wholly-owned subsidiaries. The Company conducts business through its wholly owned subsidiaries, Rooster Energy, LLC, Rooster Petroleum, LLC, Rooster Oil & Gas, LLC, and Probe Resources US Ltd., Cochon Properties, LLC and Morrison Well Services, LLC.

Our common stock trades on the TSX Venture Exchange under the ticker symbol "COQ". The terms "the Company", "we", "us", "our" and similar terms, when used in the present tense, prospectively or for historical periods since April 30, 2012 refer to Rooster and its wholly owned subsidiaries, and for historical periods prior to May 1, 2012 refer to Rooster Energy, LLC, and its wholly owned subsidiaries during that time period, Rooster Petroleum, LLC, and Rooster Oil & Gas, LLC, unless the context indicates otherwise.

We are an integrated oil and gas production company and leading downhole well intervention and decommissioning service provider. The acquisitions of Cochon and Well Services enables us to operate and manage the entire lifecycle of a well from drilling through abandonment and provides us with a significant advantage in exploiting offshore reserves and resources in the Gulf of Mexico. Our oil and gas operations and reserves are located in the state waters of Louisiana and the shallow waters of the Gulf of Mexico, mature regions that have produced since 1936.

Oil & Gas Production Segment

Finding and economically developing oil and natural gas reserves is critical to our financial success. Key drivers of performance in the business for the Company are the: (i) ability to successfully discover, develop, and exploit commercial oil and natural gas reserves on our properties; and (ii) the ability to optimize profitability from the operation of our properties. Further, our ability to successfully discover, develop, and exploit properties is a function of, among other things: (i) our ability, or the ability of our partners that operate wells in which the Company is a non-operating interest owner, to obtain and retain drilling rigs, personnel and supplies to carry out drilling and other operations in a safe and cost effective manner; (ii) the ultimate results of such drilling or other operations; (iii) the availability, on commercially reasonable terms, of transportation, storage, handling, processing and other facilities to service producing wells; and (iv) our ability to finance the costs of such operations. Our ability to optimize profitability from the operation of producing properties is a function of, among other things: (i) lease operating expenses, which may be beyond our control, particularly on wells operated by third parties; (ii) volumes of oil and natural gas produced; and (iii) prevailing prices for oil and natural gas.

At June 30, 2016, our oil & gas production segment consisted of 19 gross wells capable of producing, some of which are on leases that have been producing since the 1950s. We have six (6) primary term leases and the remaining leases that we have interest in are held by production. We believe that the quality of our properties and our field acquisition strategy reduces our development risk and promotes operating efficiencies.

Well Services Segment

Our Well Services segment primarily provides plugging & abandonment ("P&A") services in the shallow waters of the Gulf of Mexico with 16 rigless complementary sets of P&A equipment, or "spreads". A spread consists of a pump powered by a diesel engine, wireline units, cement blenders, tanks and assorted tools. The combined expertise of our oil & gas production and P&A engineers allows us to provide our customers with extensive technical support, exceptional safety performance and high quality customer service. Our customers include many of the largest operators of wells in the Gulf of Mexico.

In addition to our work for third party customers, our Well Services business is strategic to our oil & gas production business, as we are able to utilize our Well Services business to evaluate and acquire mature fields with exploitable upside for minimal costs. Through the utilization of our in-house P&A expertise, we are able to cost effectively manage our own asset retirement obligations.

See note 17 to the unaudited condensed interim consolidated financial statements for the period ended June 30, 2016 for segment information pertaining to the Oil and Gas Production business and the Well Services business.

Non-IFRS Measures

This report contains financial terms that are not considered measures under IFRS, such as funds flow from operations, funds flow per share, EBITDA, EBITDAX, net debt, operating netback and working capital. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities and repay debt. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization adjusted for non-cash items such as unrealized gains and losses on risk management contracts, and share based Compensation. EBITDAX is an industry measure equivalent to EBITDA but for the fact that it neutralizes the impact of some companies expensing rather than capitalizing exploration costs. Net debt includes short term and revolving credit facilities less cash and cash equivalents and restricted cash, and is used to evaluate the Company's financial leverage. Profitability relative to commodity prices per unit of production is demonstrated by an operating netback. Working capital represents current assets less current liabilities.

Funds flow from operations, funds flow per share, EBITDA, EBITDAX, net debt, operating netbacks and working capital are not defined by IFRS, and consequently are referred to as non-IFRS measures. Accordingly, these amounts may not be directly comparable to those reported by other companies using similar terminology, nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with IFRS.

Financial and Operating Highlights

	Three months ended June 30,		Six months ended June 30,	
Financial Highlights	2016	2015	2016	2015
Total BOE Volumes [a]	172,231	284,111	354,304	565,568
Average BOEPD Volumes [a]	1,893	3,122	1,947	3,125
Total revenue	$ 8,208,483	$ 10,625,832	$ 14,758,202	$ 25,099,352
Net Loss	$ (1,124,731)	$ (3,527,701)	$ (4,454,107)	$ (4,445,955)
Net income Loss per share				
Basic	$0.00	($0.01)	($0.01)	($0.01)
Diluted	$0.00	($0.01)	($0.01)	($0.01)
Weighted average shares outstanding				
Basic	324,099,502	324,099,502	324,099,502	324,099,502
Diluted	324,099,502	324,099,502	324,099,502	324,099,502
EBITDAX [b]				
Oil & Gas	$ 159,472	$ 2,626,773	6,911,414	$ 7,256,848
Well Services	4,647,074	4,607,962	4,791,542	4,674,205
Corporate allocation & eliminations	(1,154,458)	(1,455,890)	(1,491,986)	(2,319,001)
Total EBITDAX	$ 3,652,089	$ 5,778,845	$ 10,210,971	$ 9,612,052
Capital expenditures	$ 701,557	$ 2,149,098	$ 838,332	$ 3,793,262

(a) Natural gas volumes are converted to BOE on the basis of 6 Mcf per 1 barrel

(b) This is non-IFRS measures commonly used in the oil and natural gas industry.

The following table provides reconciliation from net loss to EBITDAX.

EBITDAX [a] Calculation	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net loss	$ (1,124,731)	$ (3,527,701)	$ (4,454,107)	$ (4,445,955)
Unrealized loss on Commodity Contracts	1,157,923	4,139,789	8,173,165	4,837,654
Depreciation and depletion	865,846	1,958,081	1,910,256	3,725,768
Bad debt	10,942	-	63,817	17,174
Stock-based compensation	51,966	934,966	78,597	1,121,029
Asset retirement expense	-	555,641	-	-
Unrealized gain on financing warrants	-	-	-	(1,000)
Finance expense	3,267,741	3,114,069	6,795,243	6,148,382
Deferred income tax recovery	(577,599)	(1,396,000)	(2,356,000)	(1,791,000)
EBITDAX	$ 3,652,089	$ 5,778,845	$ 10,210,971	$ 9,612,052

Review of Second Quarter Ended June 30, 2016

At June 30, 2016, the Company's interests in oil and natural gas leases consisted of ownership in 15 oil and gas leases or blocks, all of which are located in the shallow waters of the Gulf of Mexico. In Q2 2016, the Company's net crude oil sales averaged 303 barrels oil per day (BOPD), net natural gas liquids (NGL) sales averaged 223 barrels of oil equivalent per day (BOEPD), and net natural gas sales averaged 8,199 thousand cubic feet per day (MCFPD) (or 1,367 BOEPD). In aggregate, total crude oil, NGL, and natural gas sales averaged 1,893 BOEPD in Q2 2016. The Company's operated properties comprised 93% of Q2 2016 sale volumes.

The Company produced 172,231 BOE in Q2 2016, compared to 284,111 BOE produced in Q2 2015, a 39% decrease. The decline in sales volumes, combined with lower commodity prices, resulted in a 54% drop in oil and gas revenues in Q2 2016 to $3.1 million; this was partially offset by a 26% drop in lease operating expenses. The Oil and Gas segment reported EBITDAX of $0.2 million in Q2 2016 compared to $2.6 million in Q2 2015.

Utilization at the Well Services segment averaged 25% in Q2 2016, compared to 42% in Q2 2015, a decline of 17%, as lower commodity prices continued to weigh on activity levels. As a result, Well Services revenues declined 49% in Q2 2016 to $1.8 million. However, lower revenues were offset by a 48% drop in operating expenses and a 61% drop in repair & maintenance expenses. Decommissioning Contracts revenues increased 14% to $3.1 million from the prior year period. The Well Services segment reported EBITDAX of $4.6 million in Q2 2016 compared to $4.6 million in Q2 2015.

In Q2 2016, the Company's consolidated EBITDAX totaled $3.7 million compared to $5.8 million in Q2 2015. However, the Company recorded a net loss of $1.1 million in Q2 2016, as all of the EBITDAX recorded was offset by unrealized losses on commodity contracts, depreciation and depletion, and finance expenses.

In June, 2016, the Company entered into a $21.8 million turnkey decommissioning contract in the Gulf of Mexico. The work, which commenced in August, 2016, is expected to be completed by the end of the year.

Results of Operations

The following tables are an analysis of the line items in the Company's Condensed Interim Consolidated Statement of Loss and Comprehensive Loss and are comparisons of the current quarter activities vs. the same quarter in the prior year, unless otherwise noted.

	Three months ended June 30,			Six months ended June 30,		
Petroleum & Natural Gas Volumes	2016	2015	Change	2016	2015	Change
Crude Oil (Bbls)	27,614	75,873	-64%	60,706	138,115	-56%
Natural Gas Liquids ("NGL") (BOE)	20,272	11,498	76%	46,205	25,165	84%
Natural Gas (mcf)	746,064	1,180,441	-37%	1,484,356	2,413,729	-39%
Total (BOE) [a]	172,231	284,111	-39%	354,304	565,568	-37%
Average Crude Oil (BOPD)	303	834	-64%	334	763	-56%
Average NGL (BOEPD)	223	126	76%	254	139	83%
Average Natural Gas (MCFPD)	8,199	12,972	-37%	8,156	13,336	-39%
Average Total (BOEPD) [a]	1,893	3,122	-39%	1,947	3,125	-38%

(a) Gas volumes are converted to BOE on the basis of 6 Mcf per 1 Bbl

Lower crude sales in Q2 2016 primarily resulted from lower production at West Delta 44/45 and Eugene Island 18, which were shut in for abandonment, as well as lower production at Vermilion 376; these were partially offset by higher production at Ship Shoal 79. Lower natural gas sales primarily resulted from lower production at Vermillion 67, partially offset by higher production at Grand Isle 70. Higher NGL sales primarily resulted from utilizing a different gas processing facility for Vermillion 67, which has resulted in a higher NGL yield. In aggregate, production averaged 1,893 BOE per day in Q2 2016 compared to 3,122 BOE per day in Q2 2015, a 39% decline.

Sales volumes in Q2 2016 were comprised of 16% crude oil, 12% NGLs, and 72% natural gas.

Petroleum & Natural Gas Sales, Average Benchmark and Realized Prices	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Crude Oil Sales	$ 1,218,892	$ 3,717,726	-67%	$ 2,163,566	$ 6,425,673	-66%
NGL Sales	296,682	91,140	226%	530,889	121,969	335%
Natural Gas Sales	1,538,019	2,841,284	-46%	3,092,701	6,012,661	-49%
Total Petroleum & Natural Gas Revenues	$ 3,053,592	$ 6,650,151	-54%	$ 5,787,156	$ 12,560,303	-54%
Realized Crude Oil Prices ($/Bbl)	$44.14	$49.00	-10%	$35.64	$46.52	-23%
West TX Intermediate (Benchmark - $/Bbl)	$45.41	$57.85	-22%	$39.30	$53.19	-26%
Sales Price as a percent of Benchmark	97%	85%		91%	87%	
Realized NGL prices ($/Bbl)	$14.63	$7.93	84%	$11.49	$4.85	137%
EIA NGL Index (Benchmark - $/Bbl)	$4.96	$5.20	-5%	$4.49	$5.32	-16%
Sales Price as a percent of Benchmark	295%	152%		256%	91%	
Realized Natural Gas prices ($/mcf)	$2.06	$2.41	-15%	$2.08	$2.49	-16%
Henry Hub (Benchmark - $/mcf)	$2.14	$2.75	-22%	$2.07	$2.82	-27%
Sales Price as a percent of Benchmark	96%	88%		100%	88%	

The decline in crude oil revenue for the three months ended June 30, 2016, reflects a 10% drop in average realized price combined with a 64% decline in sale volumes. Most of the Company's crude oil pricing is derived from a combination of West Texas Intermediate (WTI) crude prices and the Louisiana Light Sweet (LLS) spread relative to WTI prices. The decline in the realized price in Q2 2016 was largely the result of a 22% decline in WTI crude prices.

The increase in NGL revenues for the three months ended June 30, 2016, reflects a 76% increase in sale volumes, combined with an 84% increase in the average realized price.

The decline in natural gas revenues reflect a 37% decrease in sale volumes combined with a 15% decrease in average realized prices. Lower realized natural gas prices primarily reflect lower domestic natural gas prices; prices at the Henry Hub were down 22% in Q2 2016 from year-ago levels.

Total revenues related to the sale of oil, NGLs, and natural gas fell 54% in Q2 2016, as a 39% decrease in sale volumes was compounded by lower realized prices. Oil & gas revenues in Q2 2016 were comprised of 40% crude oil, 10% NGLs, and 50% natural gas.

Production Handling Revenues	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Production Handling	$ 252,296	$ 45,755	451%	$ 278,676	$ 87,811	217%

The increase in production handling revenues reflects higher third-party volumes being processed through the Company's platforms.

Well Services & Decommissioning Contracts Revenue	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Well Services	$ 1,846,072	$ 3,640,590	-49%	$ 3,223,251	$ 7,311,817	-56%
Decommissioning Contracts	$ 3,056,523	$ 2,677,236	14%	$ 4,685,915	$ 5,863,625	-20%

The decrease in well services revenues reflects an 18 percentage point drop in utilization. Utilization in Q2 2016 continued to be hindered by lower spending on P&A operations by external clients.

The increase in decommissioning contracts revenues for the three months ended June 30, 2016, reflects reductions in asset retirement obligation estimates at year-end 2015 to better reflect the current market. Rooster abandoned nine wells in Q2 2016, compared 13 wells in Q2 2015, and initiated its platform removal program at Eugene Island 18, flushing residual oil & gas and severing the piping and electrical connections at six platforms. The remaining inventory at June 30, 2016 included 19 wells to be plugged and abandoned and the removal of 22 platforms.

Gain on Commodity Contracts	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Realized Gain on Commodity Contracts	$ 1,157,923	$ 1,751,890	-34%	$ 8,956,369	$ 4,113,450	118%
Unrealized Loss on Commodity Contracts	$ (1,157,923)	$ (4,139,789)	-72%	$ (8,173,165)	$ (4,837,654)	69%

Realized gains on commodity contracts of $1,157,923 in Q2 2016 resulted from declines in oil and natural gas prices since the contracts were initiated in June, 2015; note, however, that the realized gain was completely offset by a corresponding unrealized loss. As a condition to the First Amendment (see "Liquidity"), on March 16, 2016, the Company terminated all derivative commodity contracts with settlement dates on or after July 1, 2016, resulting in net proceeds of approximately $5.6 million. The realized gain on commodity contracts recorded for the six months ended June 30, 2016, was augmented by the termination of such commodity contracts.

Total Revenue	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Total Revenue	$ 8,208,483	$ 10,625,832	-23%	$ 14,758,202	$ 25,099,352	-41%

Lower revenues in Q2 2016 resulted from lower oil & gas and well services revenues, partially offset by higher decommissioning contracts revenues.

Expenses	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Lease Operating	$ 4,001,532	$ 5,384,030	-26%	$ 7,431,391	$ 11,595,654	-36%
Cost of Well Services	1,186,575	2,295,030	-48%	2,251,123	5,241,869	-57%
Depreciation and Depletion	865,846	1,958,081	-56%	1,910,256	3,725,768	-49%
Repairs and Maintenance	136,973	352,813	-61%	190,268	528,029	-64%
General and administrative	2,196,721	3,263,560	-33%	4,594,015	6,318,501	-27%
Bad debt	10,942	-	-	63,817	17,174	272%
Stock-based compensation	51,966	934,966	-94%	78,597	1,121,029	-93%
Total Expenses	$8,450,556	$14,744,121	-43%	$16,519,468	$28,548,024	-42%

Lower lease operating costs were driven primarily by lower expenses at West Delta 44/45, Eugene Island 18 and Eugene Island 28, which were shut in for abandonment. In addition, the Company has successfully reduced lease operating expenses at most of its leases owing to a combination of lower service costs and lower production rates. However, lower recurring expenses were partially offset by higher repair and maintenance expenses at Vermilion 67 and High Island A494. Lease operating expenses averaged $23 per BOE in Q2 2016 compared to $19 per BOE in Q2 2015, which represents a 23% increase in per unit operating expenses.

Lower well service expenses were primarily related to lower labor, consumables, and pass-through expenditures resulting from a combination of lower activity levels and cost-cutting efforts initiated in 2015 and 2016.

Lower general and administrative expenses were primarily attributable to cost-cutting efforts initiated in 2016, which resulted in lower employee compensation.

Lower depreciation and depletion expenses were primarily driven by a lower cost base for the oil and gas properties due to the 2015 impairments, and some Well Services segment equipment being fully depreciated.

Repair and maintenance expenses reflect non-capitalized costs associated with Well Services segment equipment. Lower repair and maintenance expenses resulted from cost-cutting initiatives following the drop in utilization.

Bad debt expense reflects the non-payment of operating and abandonment expenses by joint operation partners on non-producing leases.

Stock-based compensation expenses relate to the amortization of costs associated with employee, officer and director stock options granted since June 2012. The decrease in stock-based compensation expenses in Q2 2016 resulted from a combination of forfeitures and lower amortization, as some of the options issued in prior years have fully vested.

Gain on Settlement of Asset Retirement Obligations	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Gain on Settlement of Asset Retirement Obligations	$ 1,807,484	$ 2,308,657	22%	$ 1,746,401	$ 3,359,099	48%

The gains on settlement of the Company's asset retirement obligations ("ARO") in Q2 2016 relates to actual costs coming in below estimates.

Unrealized Gain on Financing Warrants	Three months ended June 30, 2016	2015	Change	Six months ended June 30, 2016	2015	Change
Unrealized Gain on Financing Warrants	$ -	$ -	-	$ -	$ 1,000	-100%

The Company recorded no unrealized gains or losses on financing warrants in Q2 2016. The unrealized gain recorded in Q1 2015 relate to the financing warrants issued in 2012. The decline in the Company's publicly-traded stock price reduced the liability associated with the financing warrants, which required the Company to record an unrealized (non-cash) gain in Q1 2015.

	Three months ended June 30,			Six months ended June 30,		
Finance Expense, net	2016	2015	Change	2016	2015	Change
Finance Expense, net	$ 3,267,741	$ 3,114,069	5%	$ 6,795,243	$ 6,148,382	11%

Finance expense is primarily comprised of: 1) interest and accretion of debt discounts associated with the Company's secured loans; and 2) accretion of the Company's ARO. A detailed schedule is provided in note 12 to the unaudited condensed interim consolidated financial statements for the period ended June 30, 2016.

	Three months ended June 30,			Six months ended June 30,		
Deferred Income Tax Recovery	2016	2015	Change	2016	2015	Change
Deferred Income Tax Recovery	$ (577,599)	$ (1,396,000)	-59%	$ (2,356,000)	$ (1,791,000)	32%

Deferred taxes reflect 35% (corporate tax rate) of the Company's pretax income, excluding non-taxable deductions for stock-based compensation, and unrealized gains or losses on financing warrants.

	Three months ended June 30,			Six months ended June 30,		
Net Loss	2016	2015	Change	2016	2015	Change
Net Loss	$ (1,124,731)	$ (3,527,701)	68%	$ (4,454,107)	$ (4,445,955)	0%

The decrease in net loss recorded in Q2 2016 was primarily the result of lower expenses, partially offset by lower revenues and lower gain on settlement of ARO, as discussed above.

Summary Quarterly Results

The following is a summary of selected quarterly information that has been derived from both the unaudited quarterly financial statements and the audited annual financial statements of the Company. This summary should be read in conjunction with the respective financial statements for the periods indicated.

	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014
Financial								
Total revenue	$8,208,483	6,549,719	23,407,421	18,953,043	10,625,832	14,473,520	28,393,494	23,883,429
Net income (loss)	($1,124,731)	(3,329,377)	(14,884,853)	145,533	(3,527,701)	(918,254)	(8,757,554)	405,717
Net income (loss) per share								
Basic	(0.00)	(0.01)	(0.05)	0.00	(0.01)	0.00	(0.03)	0.00
Diluted	(0.00)	(0.01)	(0.05)	0.00	(0.01)	0.00	(0.03)	0.00
Oil & Gas Operations								
Sale volumes								
Crude oil (Bbls)	27,614	33,092	18,215	43,334	75,873	62,242	85,686	82,641
NGLs (Bbls)	20,272	25,933	29,658	17,682	11,498	13,667	13,182	10,595
Natural gas (Mcf)	746,064	738,292	942,826	864,596	1,180,441	1,233,287	826,837	1,075,481
Total (BOE) [1]	172,231	182,073	205,010	205,115	284,111	281,457	236,674	272,483
Daily (BOE per day) [1]	1,893	2,001	2,228	2,230	3,122	3,127	2,573	2,962
Realized prices								
Crude oil (per Bbl)	$ 44.14	$ 28.55	$ 57.53	$ 43.00	$ 49.00	$ 43.51	$ 70.50	$ 98.72
NGLs (per BOE)	14.63	9.03	13.32	7.05	7.93	2.26	16.96	27.84
Natural gas (per Mcf)	2.06	2.11	2.06	2.62	2.41	2.57	3.35	3.64
Total (per BOE)	$ 17.73	$ 15.01	$ 16.49	$ 20.74	$ 23.41	$ 21.00	$ 38.16	$ 45.41
Revenue								
Crude oil	$ 1,218,892	$ 944,675	$ 1,047,808	$ 1,863,322	$ 3,717,726	$ 2,707,947	$ 6,040,663	$ 8,158,200
NGLs	296,682	234,207	395,027	124,690	91,140	30,828	223,601	295,009
Natural gas	1,538,019	1,554,683	1,937,979	2,265,621	2,841,284	3,171,378	2,766,254	3,919,860
Production handling	252,296	26,379	59,663	59,402	45,755	42,056	118,747	163,881
Realized gain on commodity contracts	1,157,923	7,798,445	2,261,549	1,912,583	1,751,890	2,361,560	270,742	0
Unrealized gain on commodity contracts	(1,157,923)	(7,015,242)	1,547,950	4,292,899	(4,139,789)	(697,865)	7,169,970	0
Total	$ 3,305,888	$ 3,543,147	$ 7,249,976	$ 10,518,517	$ 4,308,006	$ 7,615,904	$ 16,589,977	$ 12,536,950
Expenses								
Lease operating expenses	$ 4,001,532	$ 3,429,859	$ 4,542,968	$ 4,593,980	$ 5,384,030	$ 6,211,624	$ 6,686,265	$ 8,229,623
Lease operating expenses per BOE [1]	$ 23.23	$ 18.84	$ 22.16	$ 22.40	$ 18.95	$ 22.07	$ 28.25	$ 30.20
Well Services Operations								
Average spreads	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Days worked	362	67	437	716	618	392	611	815
Average utilization	25%	5%	30%	49%	42%	27%	42%	55%
Revenue								
Well services	$ 1,846,072	$ 1,377,179	$ 5,699,567	$ 7,714,705	$ 3,640,590	$ 3,671,227	$ 7,134,422	$ 9,728,895
Decommissioning contract revenue	3,056,523	1,629,392	10,457,878	719,821	2,677,236	3,186,389	4,669,095	1,617,584
Total	$ 4,902,595	$ 3,006,572	$ 16,157,445	$ 8,434,526	$ 6,317,826	$ 6,857,616	$ 11,803,517	$ 11,346,479
Expenses								
Cost of well services	$ 1,186,575	$ 1,064,548	$ 3,693,459	$ 4,036,739	$ 2,295,030	$ 2,946,839	$ 5,137,607	$ 6,081,906
Repairs and maintenance	136,973	53,295	179,712	287,241	352,813	175,216	393,063	469,537
Total	$ 1,323,548	$ 1,117,843	$ 3,873,171	$ 4,323,980	$ 2,647,843	$ 3,122,055	$ 5,530,670	$ 6,551,443
Gain (loss) on asset retirement obligations	$ 1,807,484	$ (61,083)	$ 1,029,255	$ 427,574	$ 2,308,657	$ 1,050,442	$ (1,176,314)	$ (404,818)

Seasonality

In general, the Company's oil & gas production business is not subject to seasonal factors and trends, although adverse weather conditions may result in temporary declines in production volumes and revenues and resulting decreases in profitability. In particular, operations in the Gulf of Mexico expose the Company to hurricane and tropical storm risks in the late summer/early fall (which are insured by the Company) and, less often, cold weather risks that may result in declines in production associated with temporary cessations of production during such weather events and extended cessations of production associated with damage to facilities and/or pipelines arising from such risks. The Company's production and profitability were not affected by adverse weather conditions in Q2 2016.

The Well Services business is subject to seasonal factors and trends. In particular, due to adverse weather and sea conditions in the Gulf of Mexico, we have historically seen the utilization of spreads decrease from November through March. Also, since all oil and gas operations in the Gulf of Mexico and coastal waters of Louisiana and Texas are exposed to hurricane and tropical storm risks in the late summer/early fall, the Well Services business could see one or more temporary interruptions of work should one of these weather events occur. In Q2 2016, the Well Services segment was not affected by any tropical storm or hurricane.

Liquidity

On November 17, 2014, the Company entered a note purchase agreement ("NPA") pursuant to which the Company issued senior secured notes in the amount of $45.0 million due on February 14, 2016, as amended. The proceeds of the senior secured notes were used to: 1) repay existing senior debt; 2) fund the $10 million cash portion of the purchase price for Well Services; and 3) payment towards trade accounts payable over sixty days and provide for other general corporate purposes.

On June 25, 2015, the Company expanded and extended the term of the NPA by entering into an amendment and restatement of the NPA (the "A&R NPA") and issuing new notes in the amount of $60 million that are due on June 25, 2018 (the "Senior Secured Notes"). A portion of the proceeds were used to repay existing senior secured debt in the principal amount of $45 million. As part of the A&R NPA, the Company granted the note holders certain overriding royalty interests in all of the Company's oil & gas leases which were valued by the Company at approximately $2.4 million.

On March 14, 2016, the Company entered into the First Amendment and Waiver to the A&R NPA (the "First Amendment"), effective December 31, 2015. Pursuant to the First Amendment, all of the financial and performance covenants of the A&R NPA and scheduled loan amortization are waived for the fiscal quarters ending March 31, 2016 and June 30, 2016. In exchange for the waiver, the Company paid a waiver fee in the amount of $493,333 on March 14, 2016. The Senior Secured Notes bear interest at a rate equal to Libor + 11.5% per annum with interest payments due monthly; the minimum interest rate will be 13.0% per annum. Additionally, from and after March 14, 2016 until June 30, 2016, an 8.0% interest shall be paid in kind ("PIK Interest"). All PIK Interest will be capitalized and compounded by increasing the outstanding principal amount of the Senior Secured Notes. Principal payments will start on the 10th business day following the end of each calendar month occurring on or after July 31, 2016.

The principal payments will be based upon excess cash generated after lender-approved operating and capital expenditures.

Subsequent to June 30, 2016, the Company entered into the Second Amendment, which extended the waiver for the financial and performance covenants of the A&R NPA for the third and fourth fiscal quarters of 2016 (see "Subsequent Events").

If the Company is unable to restructure the financial and performance covenants of the A&R NPA or extend the term of the Second Amendment on or before the end of the fiscal quarter ending December 31, 2016, then the Company may be in default of one or more of the covenants and the balance of Senior Secured Notes will become current; in that event the holders of the Senior Secured Notes may exercise their remedies against the Company. No assurances can be given that the Company will be able to reach agreement with the holders of the Senior Secured Notes on the consequences of any possible default at that time and in that event the Company may not be able to continue as a going concern.

On March 16, 2016, the Company fixed the price on derivative commodity contracts with settlement dates in April, May, and June 2016, and terminated all derivative commodity contracts with settlement dates on or after July 1, 2016. The Company then applied $4.0 million of the proceeds to reduce the principal balance of the Senior Secured Notes.

On April 26, 2012, the Company entered into secured credit facilities (the "Subordinated Note #1") with The K2 Principal Fund, L.P. for the principal sum of $6,463,000; effective November 17, 2014, the interest rate was set at 15.5%.

On October 11, 2013, the Company entered into another secured credit facility (the "Subordinated Note #2") with The K2 Principal Fund, L.P., and Chester F. Morrison, Jr. (a significant shareholder) that provided for borrowing up to CAD $8.0 million. The interest rate is 9% per annum on all advances, and the only advance under the credit facility was CAD $4.0 million.

On March 7, 2014, the Company entered into an additional secured credit facility with Chester F. Morrison, Jr. (the "Subordinated Note #3") which provides for borrowing up to $10 million. The interest rate is 14% per annum on all advances. The initial advance in March, 2014, was $4.4 million; in May, 2014, the Company drew an additional $2.8 million.

In connection with the Senior Secured Notes, the holders, the Company and each of the parties to the Subordinated Note #1, Subordinated Note #2 and Subordinated Note #3 (see the Company's December 31, 2015 financial statement notes 10(ii), (iii) and (iv)) entered into intercreditor and subordination agreements that prohibit any payments on the subordinated indebtedness until the Senior Secured Notes are fully satisfied. Additionally, the Subordinated Note #1, Subordinated Note #2 and Subordinated Note #3 were amended to extend the maturity date of each of those loans to no earlier than one year following the maturity date of the Senior Secured Notes.

As a result of the extension of maturity dates on the Subordinated Note #1, Subordinated Note #2 and Subordinated Note #3 until after satisfaction of obligations of the Company owed on the Senior Secured Notes, the maturity dates for all secured indebtedness is extended to June 25, 2019.

At June 30, 2016, the Company had a working capital deficit of $21,963,279. This working capital deficiency includes the following:

- The *decommissioning contracts receivable* booked in current assets totals $40.1 million. However, under IFRS the decommissioning contacts receivable has been recorded to match the ARO liability. The Company expects to invoice $52.5 million related to its decommissioning contracts within the next twelve months (excluding $7.0 million that has been accrued as of June 30, 2016). As a result, the Company includes the incremental $12.4 million as part of its internal analysis of working capital.

- The *deferred revenues* booked in current liabilities total $5.6 million, which is expected to be recognized as revenues within the next twelve months rather than repaid with cash. As a result, the Company adds back the $5.6 million as part of its internal analysis of working capital.

The Company's internal analysis of working capital at June 30, 2016 is improved by $18.0 million to a deficit of $3.9 million. However, there can be no assurance that the costs associated with the decommissioning contracts will be at or below the revenues that still remain to be invoiced.

The Company currently has an aggregate of approximately $47 million posted in surety bonds in favor of Bureau of Ocean Energy Management (BOEM) and third parties (predecessors in lease title) to secure the performance of lease obligations including satisfaction of asset retirement obligations. BOEM recently ordered the Company to post additional supplemental bonds of approximately $5 million covering certain specific leases. The Company is of the opinion that the leases at issue are sufficiently bonded. The Company has been in negotiations with BOEM in an attempt to reduce the amounts and/or waive the requirement, however we have been unsuccessful to date and there can be no assurance that we will be able to secure additional bonds. In that event, BOEM may take additional actions against the Company that could negatively impact oil and gas operations and the ability of the Company to continue as a going concern.

Asset Retirement Obligations

In addition to the amounts owed at June 30, 2016, the Company has an ongoing liability with respect to the plugging and abandonment of wells and decommissioning of platforms/facilities totaling $64,415,480 on a discounted basis. However, $48.9 million of this liability is covered by turnkey decommissioning contracts with two third parties, and $2.0 million requires reimbursement by prior owners of certain leases. The timing and amount of settling such ARO are based on management's best estimate at this time. In the event of unforeseen developments, the Company may be required to incur ARO costs sooner than otherwise anticipated and in amounts exceeding the ARO recorded on the balance sheet.

Contractual Obligations

At June 30, 2016, principal contractual obligations requiring fixed payments consisted of the following:

		Payments Due By Period				
	Current Balance	Total	Less Than 1 Yr	1 - 2 Years	2 - 5 Years	Over 5 Years
Senior Secured Notes (1)	$ 52,897,979	$ 57,790,105	$ 11,144,000	$ 46,646,105	$ -	$ -
Subordinated Note #1 (2)	5,466,038	6,463,000	-	-	6,463,000	-
Subordinated Note #2 (3)	2,155,403	3,074,800	-	-	3,074,800	-
Subordinated Note #3 (4)	5,782,719	7,150,000	-	-	7,150,000	-
Promissory Note (5)	521,217	521,217	521,217	-	-	-
Promissory Note (6)	1,601,713	1,601,713	1,601,713	-	-	-
	$ 68,425,069	$ 76,600,835	$ 13,266,930	$ 46,646,105	$ 16,687,800	$ -

(1) $56,000,000 payable plus PIK interest and waiver fee accrued as at June 30, 2016, with first principal payment on or after July 31, 2016, based on excess cash generated after lender-approved operating and capital expenditures. Refer to subsequent events for discussion of the waiver pursuant to the Second Amendment.

(2) $6,463,000 payable on June 25, 2019 with interest at 15.5% per annum payable at maturity

(3) Cdn$4,000,000 payable on June 25, 2019 with interest at 9% per annum payable at maturity

(4) $7,150,000 payable on June 25, 2019 with interest at 14% per annum payable at maturity

(5) Payable in monthly installments of $58,775, including interest at 3.50% per annum, through March 16, 2017.

(5) Payable in monthly installments of $148,240, including interest at 3.50% per annum, through May 25, 2017.

Additionally, the Company leases its corporate headquarters located at 16285 Park Ten Place, Suite 120, Houston, Texas 77084 pursuant to a lease agreement with a five (5) year term beginning July 1, 2012 through June 30, 2017. For the period beginning July 1, 2016 through June 30, 2017, the base rental rate is $17,328 per month.

Capital Expenditures

Capital expenditures totaled $701,557 in Q2 2016 and $2,149,098 in Q2 2015. Decrease in expenditures is consistent with cost cutting measures.

Off-Balance Sheet Arrangements

At June 30, 2016, the Company has no off-balance sheet arrangements and is not a party to any off-balance sheet arrangements.

Financial Instruments and Other Instruments

At June 30, 2016, the Company has no outstanding derivative commodity contracts.

Transactions with Related Parties

During the six months ended June 30, 2016, the Company had the following transactions and balances with related parties:

- At June 30, 2016, the Company had accounts payable in the amount of $11,854,698 (of which $8,253,057 is current) primarily due and owing to Chet Morrison Contractors, LLC, which is indirectly owned and controlled by Chester F. Morrison, Jr., who is a director and significant shareholder of the Company.

- In October, 2013, the Company entered into a subordinated secured credit facility ("Subordinated Note #2") which provides for borrowing up to CAD $8.0 million, with an initial advance of CAD $4.0 million (see "Liquidity"). Chester F. Morrison, Jr., funded 40% of the credit facility. At June 30, 2016, accrued interest related to the 40% of the credit facility funded by Chester F. Morrison, Jr. totaled $302,501 and the liability due to Chester F. Morrison Jr. on the financial statements was $862,161.

- In March, 2014, the Company entered into a secured credit facility ("Subordinated Note #3") with Chester F. Morrison, Jr., which provides for borrowing up to $10 million, with an initial advance of $4.4 million (see "Liquidity"). In May 2014, the Company drew an additional $2.8 million from the credit facility. At June 30, 2016, accrued interest related to the credit facility totaled $2,225,195 and the liability on the financial statements was $5,782,719. Mr. Morrison is a director and significant shareholder of the Company.

- In March, 2014, the Company received a promissory note from Chester F. Morrison, Jr., in the principal amount of $4.0 million, with an interest rate of 3.25% per annum. Accrued interest receivable on this note totaled $229,534 at June 30, 2016. This note will mature on June 25, 2019.

Equity Capital

Share Capital

The Company is authorized to issue an unlimited number of common shares (that may be converted to proportionate voting shares) and an unlimited number of preferred shares issuable in series with no par value.

As at June 30, 2016, there were 60,989 proportionate voting shares (each convertible to 1,000 common shares) and 263,110,502 common shares issued and outstanding, or the issued share capital on a fully diluted basis is the equivalent of 324,099,502 common shares. No preferred shares are issued or outstanding.

Warrants

As at June 30, 2016, the Company had 13,429,813 of warrants outstanding with an exercise price of USD$0.67 per share; the warrants expire in October, 2017. During the first six months of 2016 no warrants were exercised.

Options

During the six months ended June 30, 2016, the Company did not grant stock options, had no options exercised, and 325,354 options were forfeited. As at June 30, 2016, the following stock options were outstanding:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jun. 05, 2012	3,275,114	6.00 years	US $0.50	Jun. 05, 2022	3,275,114
Sep. 11, 2013	3,632,759	7.25 years	US $0.82	Sep. 11, 2023	2,421,839
May 16, 2014	300,000	8.00 years	US $0.61	May. 16, 2024	200,000
May 06, 2015	10,245,963	8.75 years	US $0.14	May. 06, 2025	10,245,963
	17,453,836				16,142,916

At June 30, 2016, the maximum number of common shares reserved for issuance under the Company's stock option plan was 64,819,900 shares with 47,366,064 shares remaining available for issue under the terms of the stock option plan.

Legal Proceedings

We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, at June 30, 2016, there were no lawsuits threatened or pending legal matters that could have a material impact on our consolidated results of operations, financial position or cash flows.

Subsequent Events

Second Amendment and Waiver to the A&R NPA

On July 14, 2016, the Company entered into the Second Amendment and Waiver to the A&R NPA (the "Second Amendment"), effective June 30, 2016. The Second Amendment has waived (i) all defaults under the Approved Budget as stipulated in the First Amendment, (ii) the minimum EBITDAX and leverage ratio covenants of the A&R NPA for the fiscal quarter ending September 30, 2016, and (iii) the asset coverage ratio covenant for the fiscal quarter ending December 31, 2016. The scheduled loan amortization has been replaced with a requirement for principal repayments summing to no less than $7,532,000 for the six months ending December 31, 2016. The Senior Secured Notes will continue to bear interest at a rate equal to Libor + 11.5% per annum (minimum of 13.0%) with interest payments due monthly. The Senior Secured Notes will also continue to bear additional PIK interest until December

31, 2016 at a rate of 8.0%. A payable-in-kind waiver fee in the amount of $431,433 will be capitalized and compounded by automatically increasing the principal amount of the Senior Secured Notes effective June 30, 2016.

As a condition to the Second Amendment, on July 14, 2016, the Company entered into fixed price commodity swap agreements for 2,815,896 MMBTUs of natural gas production over a two-year period from August, 2016, through August, 2018; the fixed price is $3.0125 per MMBTU, and the monthly floating prices will be based on the NYMEX final settlements.

If the Company is unable to restructure the financial and performance covenants of the A&R NPA or extend the term of the Second Amendment on or before the end of the fiscal quarter ending December 31, 2016, then the Company may be in default of one or more of the covenants and in that event the holders of the Senior Secured Notes may exercise their remedies against the Company. No assurances can be given that the Company will be able to reach agreement with the holders of the Senior Secured Notes on the consequences of any possible default at that time and in that event the Company may not be able to continue as a going concern.

Forward Looking Information and Statements

This MD&A may contain forward looking information related to planned drilling, workovers, production, revenue, commodity prices, royalties, capital expenditures and commitments, operating costs, general and administrative expenses, funds flow from operations, financing plans, liquidity and capital resources and debt settlement. Forward-looking information is based on expectations and estimates as of the date of this document, and is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, “should”, “could” “may”, “objective”, “projection”, “forecast”, “continue”, “strategy”, “position” or the negative of those terms or other variations of them or comparable terminology.

Further examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions, which may prove to be incorrect including: the amounts of profit or loss to be derived or recognized from any contracts, the amounts recorded for depletion, depreciation and accretion, the provision for ARO and the ceiling test, which are based on estimates of reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Stock-based compensation expense is based upon estimates using the Black-Scholes option pricing model.

Critical Accounting Policies, Estimates and New Accounting Pronouncements

A detailed summary of the Company’s critical accounting policies and estimates is included in notes 2 and 3 to the audited financial statements for the year ended December 31, 2015. Any changes to these policies and estimates are included in note 3 to the unaudited condensed interim consolidated financial statements for the period ended June 30, 2016.

Risks and Uncertainties

Risks include, but are not limited to, the availability and costs of financing, general economic conditions, storm/weather risks, and risks associated with the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the financial health of joint venture partners; health, safety and environmental risks; and the uncertainty of dealing with government and obtaining regulatory approvals).

At this time, the most significant risk relates to the uncertainty of the Company's ability to restructure the terms of the A&R NPA or pay the full amounts owing on the Senior Secured Notes, finance development plans and ongoing operations, the results of any such development operations and future oil and gas prices and the current volatility in these markets. Revenues and funds flow from operations will be impacted positively or negatively depending on the ultimate variance to our forecast assumptions. Furthermore, the outcome of commodity price changes are expected to impact our capital spending plans and the ability of joint venture partners and other sources of capital funding to provide financing for oil and gas projects and will almost certainly indirectly affect the revenues of the Well Services business.

Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain employees on a cost effective basis, commodity and marketing risk and seasonality. The Company is subject to significant drilling risk and uncertainties including the ability to find oil and gas reserves on an economic basis, and the Company is also exposed to risks relating to the inability to obtain timely regulatory approvals or meet other regulatory demands, including demands to provide supplemental financial assurances to the Bureau of Ocean Energy Management for liabilities associated with leases, obtain surface access to wells and to access to third party gathering and processing facilities, transportation and other third party related operational risks over with the Company has no control.

Financial risks that the Company is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and to some extent the Canadian/US dollar exchange rate.

It is anticipated that subsequent events and developments may cause a change to the assumptions made by us. The Company does not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents the Company's views as of the date of this document and such information should not be relied upon as representing its views as of any date subsequent to the date of this document. Highlighted here are important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of factors that could affect the Company.

Management's Report on Internal Control Over Financial Reporting

In connection with National Instrument 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and the respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Other Information

Abbreviations Commonly Used in the Oil & Natural Gas Industry

bbl	barrel
bblpd	barrels of oil per day
boe	barrel of oil equivalent – see note
boepd	barrels of oil equivalent per day
mbbls	thousand barrels
mcf	thousand cubic feet
mcfpd	thousand cubic feet per day

Note: The boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 boe is based on the energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead

Directors

Chester F. Morrison, Jr., Chairman
Robert P. Murphy
J. Munro M. Sutherland
Steven A. Weyel

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Chief Executive Officer and President
Tod J. Darcey
Sr. Vice President – Operations
Kenneth F. Tamplain, Jr.
Sr. Vice President, General Counsel & Secretary
Gary L. Nuschler, Jr.
Chief Financial Officer

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Netherland, Sewell & Associates, Inc.

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Collins Barrow Calgary LLP

Legal Counselors:
Stikeman Elliott LLP (Canada)
Baker, Donelson, Bearman, Caldwell & Berkowitz, PC (United States)

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