



INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2011

Chinook Energy Inc. – First Quarter 2011 Report

CALGARY, ALBERTA – May 18, 2011 – Chinook Energy Inc. (“Chinook” or the “Company”) (TSX: CKE) is pleased to announce our financial and operating results for the three months ended March 31, 2011, the granting of the Bir Ben Tartar Concession in Tunisia and commencement of completion operations on our Sud Remada discovery.

We have been notified by the Tunisian authorities that our request for a production concession on our Sud Remada discovery has been approved and the Bir Ben Tartar Concession was officially granted on April 27, 2011. This is a major regulatory approval step for the future development of the field and has resulted in a 90,000 acre concession for a term of 30 years. The Sud Remada discovery has been independently estimated to contain as much as 297 million barrels of 43 degree API crude oil. The TT4 delineation well was drilled and cased in January. We have successfully mobilized the rig and fracture stimulation equipment and commenced the three-well completion program with the first hydraulic fracture pumped on April 23, 2011. We have successfully pumped six fracture stimulations in the Bir Ben Tartar and Jeffara formations and are in the process of flowing back load fluid. In addition to load water, we have recovered formation oil and gas from all three wells. We expect to be in a position to provide a directional indication of expected initial rates within 7-10 days. We expect the wells to be on production by mid June. Development drilling plans will be determined based on those results but are still planned to commence this summer. Production volumes were lower than forecast in Tunisia during the quarter due to delays in commencing the completion program at Sud Remada.

Our first quarter started slowly from an operations standpoint, but we were able to complete our Canadian program prior to break-up and saw progress in a number of areas that have us encouraged as we move forward.

Production revenue of \$55 million was generated from average company-wide production volumes of 14,646 barrels of oil equivalent per day, up from 1,705 barrels of oil equivalent per day in the first quarter of 2010. Our volumes were weighted 64 percent towards natural gas and our average gas sales price for the quarter of \$3.85 per thousand cubic feet heavily influenced the average barrel of oil equivalent sales price of \$41.86. Year-over-year, on a per share basis, production increased from 1.6 barrels of oil equivalent per million shares in the first quarter of 2010 to 6.4 barrels of oil equivalent per million shares in the first quarter of 2011. Cash flow on a per share basis was up over ten fold. Operating expenses of \$15.17 per barrel of oil equivalent were 20 percent higher than forecast for the period due to lower volumes, seasonal variances and one time maintenance expenses incurred in the quarter. On a positive note, netbacks in Tunisia averaged \$73.81 per barrel of oil equivalent supported by a Brent crude based oil price that averaged USD\$105 per barrel for the quarter. Increased oil volumes from our Sud Remada discovery are expected to begin to influence results in a more significant fashion by later this year.

Capital expenditures for the quarter totaled \$46.9 million and were funded from cash flow (\$21.1 million), disposition proceeds (\$17.3 million), and working capital. Our total debt including working capital increased to \$182 million as at March 31, 2011. We are recognizing higher volatility in our capital expenditures relative to our forecast due to a large number of smaller non-operated interests where we cannot accurately forecast activity and also due to a degree of “catch up” on facility maintenance. We drilled 14 (10.6 net) wells during the quarter, which all were cased for completion and four (3.2 net) of which were on production by the end of the quarter. April production has averaged approximately 15,000 barrels of oil equivalent per day but we expect our full second quarter production to be adversely impacted by a number of material facility turnarounds late in the quarter. We successfully delineated a Mississippian oil discovery at Winmore, in southeast Saskatchewan, and expect to drill at least six more wells on the

prospect this year. We had success with delineation of plays at Gilby and Knopcik and we have cased initial horizontal test wells on two Triassic prospects at Farmington and Red Creek that will be completed after breakup.

	Three months ended March 31	
<i>(\$ thousands, except per unit amounts)</i>	2011	2010
Sales and Prices		
Oil sales <i>(bbl/d)</i>	3,600	307
Natural gas liquids sales <i>(bbl/d)</i>	1,692	175
Natural gas sales <i>(mcf/d)</i>	55,922	7,342
Average daily sales 6:1 <i>(boe/d)</i>	14,612	1,705
Average oil price <i>(\$/bbl)</i>	82.38	76.75
Average natural gas liquids price <i>(\$/bbl)</i>	59.13	67.53
Average natural gas price <i>(\$/mcf)</i>	3.85	4.84
Production ⁽³⁾		
Oil <i>(bbl/d)</i>	3,634	307
Natural gas liquids <i>(bbl/d)</i>	1,692	175
Natural gas <i>(mcf/d)</i>	55,922	7,342
Average daily production <i>(boe/d)</i>	14,646	1,705
Financial Operations		
Oil, natural gas and natural gas liquids revenue, net of royalties	44,366	5,465
Cash flow ⁽¹⁾	21,140	(1,298)
Per share - basic ⁽¹⁾	0.10	(0.01)
Per share - diluted ⁽¹⁾	0.10	(0.01)
Net loss from continuing operations	(241)	(2,248)
Per share - basic	0.00	(0.02)
Per share - diluted	0.00	(0.02)
Capital expenditures ⁽²⁾	46,894	205,999
Net debt ⁽⁴⁾	182,414	(26,520)
Total assets	888,500	742,969
Common Shares <i>(thousands)</i>		
Weighted average during period		
- basic	214,188	93,851
- diluted	214,188	93,851
Outstanding at period end		
- basic	214,188	122,987
- diluted	227,447	128,937

⁽¹⁾ Cash flow is flow does not have a standard meaning under IFRS, see Reader Advisory.

⁽²⁾ Excludes decommissioning liability incurred during the period.

⁽³⁾ Production volumes differ from sales volumes in Tunisia where volumes of oil are stored as inventory until title, responsibility and risk of the oil transfer to a third party occurs.

⁽⁴⁾ Net debt includes bank debt, both current and long-term, and working capital deficit (surplus).

The security situation in Tunisia remains a serious concern as civil unrest is very high and military conflicts between Ghadafi loyalists and rebels in western Libya continue to destabilize the area. The Tunisian military is actively enforcing Tunisian sovereignty in the border area and is in direct regular contact with our operations. From a political stability perspective the expectations of the Tunisian population for immediate improvements in employment are very high and this has caused work stoppages in several industries across southern Tunisia and periodic demonstrations which present a risk of escalation. Our operations have continued with minor delays but it is a very fluid situation that we continue to monitor closely with safety of our personnel as the primary concern. The World Bank and International Monetary Fund have pledged funding for the stabilization of the Tunisian economy which is a positive sign of knowledgeable participants' commitment to the progress being shown and our receipt of regulatory approval on two important projects are positive signs that the "system" is working in the intervening period until interim elections in July 2011.

We completed the disposition of certain non-core properties with combined production of 136 barrels of oil equivalent per day for proceeds of \$17.3 million during the quarter and will continue to rationalize our portfolio over the balance of the year with proceeds directed initially towards debt reduction. Our current debt to annualized cash flow of 2.16 to 1 is expected to improve with a drop in seasonal activity in the second quarter, a reduction in operating expenses closer to forecast ranges, production increases and the completion of additional trimming of non-core assets. With a market valuation equal to 60 percent of our year-end 2010 estimate of After Tax Net Asset Value, we will continue to trim assets at the valuations we are realizing and will accelerate the plan to sell larger packages of assets through more formal processes later this year.

Based on our first quarter 2011's performance and current production levels, we are adjusting our guidance for the full year 2011 to average production levels of 14,500-14,800 barrels of oil equivalent per day which is forecast to generate cash flow of approximately \$100 million or \$0.40-\$0.45 per share. We expect year-end debt to be approximately \$175 million with our capital expenditure forecast unchanged at \$120 million.

We have expressed our intention to move our Canadian domestic business growth towards a resource focus and we have identified three interesting oil resource concepts that we expect to evaluate on our acreage this year. In Tunisia, we received the detailed core analysis from the Silurian Tannezuft core cut in the TT3 well at Sud Remada and it has confirmed that in a number of parameters considered critical in defining potentially productive shales, the Tannezuft at this location is within a range of commercially productive shale analogues from multi-staged horizontal applications in North America. On this basis, we intend to attempt a fracture stimulation in one of the existing vertical wells at Remada as part of the current program with the intent of demonstrating the ability to place a stimulation into the formation and induce natural flow. If this program is successful, we will have the confidence to design a multi-stage horizontal test of the commercial potential of the play.

We look forward to delivering more positive confirmation of the growth potential we expect to see over the next few quarters. Thank you for your patience and support.



Matthew J. Brister
President and Chief Executive Officer
Chinook Energy Inc.
May 18, 2011

Reader Advisory

Certain information regarding Chinook in this news release including management's assessment of the future plans and operations of Chinook and the timing thereof constitute forward-looking statements under applicable securities laws. In addition, statements relating to "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the resources described exist in the quantities predicted or estimated and be profitably produced in the future. In particular, this news release contains, without limitation, forward-looking statements pertaining to the following: management's assessment of the future plans and operations of Chinook and the timing thereof, anticipated divestiture activities and future production volumes of oil and natural gas.

With respect to the forward-looking statements contained in this news release, Chinook has made assumptions regarding, among other things: the ability of Chinook to continue to operate in Tunisia with limited logistical security and operational issues, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, Chinook's ability to obtain equipment in a timely manner to carry out development activities, the impact of increasing competition, the ability of Chinook to add production and reserves through development and exploitation activities. Although Chinook believes that the expectations reflected in the forward-looking statements contained in this news release, 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 news release, 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 Chinook's 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, political and security risk associated with Chinook's Tunisian operations, risks associated with oil and gas exploration, development, exploitation, production, marketing and

transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve and resource estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, 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 ability 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 Chinook's 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 Chinook's website (www.chinookenergyinc.com). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release and Chinook does 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.

Barrels of Oil Equivalent

Barrels of oil equivalent (boe) is calculated using the conversion factor of 6 mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Discovered Petroleum Initially-In-Place

DPIIP (equivalent to discovered resources) is defined in the Canadian Oil and Gas Evaluation Handbook as that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves, and contingent resources; the remainder is unrecoverable. There is no certainty that it will be economically viable or technically feasible to produce any portion of the DPIIP except for those portions already produced or identified as reserves.

Non-GAAP Measures

The term cash flow does not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered non-GAAP measures. Cash flow is calculated based on cash flow from continuing operating activities before changes in non-cash working capital. Cash flow per share is calculated based on cash flow from continuing operating activities before changes in non-cash working capital from continuing operations. Management believes that cash flow is a supplemental measure and utilizes it as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Cash flow as presented is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP and should not be construed as an alternative to cash flow from operations.