

Q1
2015

Condensed Consolidated Financial Statements



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

Condensed Consolidated Statements of Financial Position

(unaudited)

	March 31	December 31
(in thousands of Canadian dollars)	2015	2014
Assets		
Current		
Cash	\$ 60,274	\$ 46,018
Accounts receivable (note 3)	19,343	24,952
Prepays & deposits	1,821	2,207
Derivative contracts (note 4)	1,197	1,481
Assets held for sale (note 7)	-	23,066
	82,635	97,724
Development & production assets (note 5)	321,864	309,217
Exploration & evaluation assets (note 6)	26,586	27,377
	\$ 431,085	\$ 434,318
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other (note 8)	\$ 32,842	\$ 44,389
Liabilities held for sale (note 7)	-	752
	32,842	45,141
Provisions (note 9)	107,177	106,726
Shareholders' Equity		
Share capital	782,071	782,071
Contributed surplus	17,606	17,180
Deficit	(508,611)	(516,800)
	291,066	282,451
	\$ 431,085	\$ 434,318

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income

(unaudited)

Three months ended March 31	2015	2014
<i>(in thousands of Canadian dollars, except per share amounts)</i>		
Petroleum & natural gas revenues	\$ 16,668	\$ 40,314
Royalties	(1,428)	(4,285)
Petroleum & natural gas revenues, net of royalties	15,240	36,029
Processing & gathering revenues	1,070	1,318
Petroleum, natural gas & other revenues, net of royalties	16,310	37,347
Realized gain (loss) on derivative contracts	300	(1,174)
Unrealized loss on derivative contracts	(284)	(3,761)
Gain (loss) on derivatives	16	(4,935)
	16,326	32,412
Production & operating	12,830	13,381
General & administrative	2,761	4,621
Exploration & evaluation (note 6)	493	469
Depletion, depreciation & amortization (note 5 & 6)	10,507	12,287
Gains on disposition of properties (note 7)	(19,403)	-
Share-based compensation (note 11)	426	194
Bad debt expense	497	20
Foreign exchange gains & other	(460)	(162)
Deferred lease obligation amortization	-	(264)
	7,651	30,546
Income from continuing operations before finance expenses	8,675	1,866
Interest and financing (income) charges	(131)	710
Amortization of deferred financing cost	-	74
Accretion of decommissioning obligations (note 9)	617	672
Finance expenses	486	1,456
Net income from continuing operations	8,189	410
Discontinued operations		
Net income from discontinued operations, net of income taxes	-	5,675
Net income	8,189	6,085
Foreign currency translation gain from discontinued operations	-	4,742
Comprehensive income	\$ 8,189	\$ 10,827
Net income per share, basic & diluted (note 12)		
Continuing operations	\$ 0.04	\$ -
Discontinued operations	\$ -	\$ 0.03
Net income	\$ 0.04	\$ 0.03

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity
Balance as at December 31, 2014	215,082	\$ 782,071	\$ 17,180	\$ (516,800)	\$ -	\$ 282,451
Share options exercised	1	-	-	-	-	-
Share-based compensation (note 11)	-	-	426	-	-	426
Net income	-	-	-	8,189	-	8,189
Balance as at March 31, 2015	215,083	\$ 782,071	\$ 17,606	\$ (508,611)	\$ -	\$ 291,066
Balance as at December 31, 2013	214,188	\$ 778,070	\$ 20,846	\$ (478,400)	\$ 6,241	\$ 326,757
Share-based compensation (note 11)	-	-	194	-	-	194
Foreign currency translation gain on discontinued operations	-	-	-	-	4,742	4,742
Net income	-	-	-	6,085	-	6,085
Balance as at March 31, 2014	214,188	\$ 778,070	\$ 21,040	\$ (472,315)	\$ 10,983	\$ 337,778

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Three months ended March 31	2015	2014
(in thousands of Canadian dollars)		
Operating Activities		
Net income	\$ 8,189	\$ 6,085
Deduct: net income from discontinued operations	-	(5,675)
Net income from continuing operations	8,189	410
Add (deduct):		
Gains on disposition of properties (note 7)	(19,403)	-
Depletion, depreciation & amortization (notes 5 & 6)	10,507	12,287
Accretion of decommissioning obligations (note 9)	617	672
Bad debt expense	497	20
Exploration & evaluation	493	469
Share-based compensation (note 11)	426	194
Unrealized loss on derivative contracts	284	3,761
Foreign exchange gains & other	(390)	(27)
Amortization of deferred financing cost	-	74
Deferred lease obligation amortization	-	(264)
Funds from operations	1,220	17,596
Decommissioning obligation expenditures & other (note 9)	(453)	(590)
Change in operating non-cash working capital (note 12)	(128)	(4,816)
Cash flow from operating activities:		
Continuing operations	639	12,190
Discontinued operations	-	(3,589)
Cash flow from operating activities	639	8,601
Investing Activities		
Proceeds on property dispositions (note 7)	41,734	-
Development & production capital expenditures (note 5)	(22,044)	(23,491)
Exploration & evaluation expenditures	(542)	(592)
Change in investing non-cash working capital (note 12)	(5,835)	16,025
Cash flow from investing activities:		
Continuing operations	13,313	(8,058)
Discontinued operations	(212)	(11,160)
Cash flow from investing activities	13,101	(19,218)
Change in cash, during the period		
Continuing operations	13,952	4,132
Discontinued operations	(212)	(14,749)
Cash, beginning of period	46,018	25,979
Cash, foreign currency translation gain	516	891
Cash, end of period	\$ 60,274	\$ 16,253

Other supplementary information (note 12).

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

Three months ended March 31, 2015 and 2014

Tabular amounts in thousands of Canadian dollars, except as noted

1. Reporting Entity

Chinook Energy Inc. is a Calgary-based petroleum and natural gas production company focused on development and exploration opportunities in western Canada.

These unaudited condensed consolidated financial statements for the three months ended March 31, 2015 and 2014 (these "Financial Statements") include the accounts of Chinook Energy Inc. and its directly held wholly-owned subsidiaries (collectively, including all subsidiaries, "Chinook" or the "Company"): 1542991 Alberta Ltd. and Storm Ventures International (BVI) Limited ("SVI (BVI)").

The unaudited condensed consolidated financial statement for the three months ended March 31, 2014, also include the accounts of Storm Ventures International (Barbados) Limited ("SVI Barbados") and its wholly-owned subsidiary Storm Sahara Limited ("SSL") (combined the "Discontinued Operations") in addition to 1398216 Alberta Ltd., Cyries Wyoming, Inc. and Iteration Energy (Texas), LLC. All intercompany balances and transactions have been eliminated.

On August 19, 2014, the date control ceased, SVI (BVI) completed the sale, effective January 1, 2014, of all of the issued and outstanding shares of its wholly-owned subsidiary, SVI Barbados, in consideration for \$140.5 million, including \$15.8 million in working capital pursuant to a share purchase and sale agreement dated as of June 14, 2014. The Discontinued Operations' financial results are separately presented as such in these Financial Statements.

Cyries Wyoming, Inc. and Iteration Energy (Texas), LLC, were dissolved in December, 2014, and on January 1, 2015, 1398216 Alberta Ltd. was amalgamated with Chinook Energy Inc. to form the same.

2. Basis of Presentation

These Financial Statements have been prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements of Chinook for the years ended December 31, 2014 and 2013 (the "Audited Financial Statements"). They do not include all of the required disclosures for annual consolidated financial statements and therefore should be read in conjunction with the Audited Financial Statements and the notes thereto.

These Financial Statements have been prepared by management in accordance with International Accounting Standard 34 'Interim Financial Reporting' using accounting principles consistent with International Financial Reporting Standards issued by the International Accounting Standards Board.

These Financial Statements were approved and authorized for issuance by Chinook's Board of Directors on May 11, 2015.

3. Accounts Receivable

Chinook's accounts receivable were comprised of:

	March 31 2015	December 31 2014
Trade accounts receivable & accrued receivables	\$ 18,642	\$ 22,435
Other receivables	769	1,213
Cash call receivables	1,874	2,790
Allowance for doubtful accounts	(1,942)	(1,486)
	\$ 19,343	\$ 24,952

4. Derivative Contracts

As at March 31, 2015, Chinook had a fair value level 2 derivative contract asset of \$1.2 million (December 31, 2014 - \$1.5 million) as determined from the following price risk management contract:

Indexed Price	Notional Volumes	Chinook's Received Price	Remaining Contractual Term
AECO - 7A	5,000 GJ/d	\$3.50/GJ	April 1, 2015 to December 31, 2015

5. Development and Production Assets ("D&P Assets")

The following table reconciles Chinook's D&P Assets as at March 31, 2015:

	2015
Cost of Assets	
Beginning balance	\$ 694,361
Capital expenditures	22,044
Decommissioning asset additions (note 9)	287
Ending balance	\$ 716,692
Accumulated Depletion and Depreciation	
Beginning balance	\$ (385,144)
Depletion and depreciation	(9,684)
Ending balance	\$ (394,828)
Net book values	
Balance as at December 31, 2014	\$ 309,217
Balance as at March 31, 2015	\$ 321,864

Chinook capitalized \$0.3 million of direct general & administrative costs to its development activities during both the three months ended March 31, 2015 and 2014.

6. Exploration & Evaluation Assets ("E&E Assets")

The following table reconciles Chinook's E&E Assets as at March 31, 2015:

	2015
Cost of Assets	
Beginning balance	\$ 69,168
Capital expenditures	49
Cost of properties sold	(143)
Ending balance	\$ 69,074
Accumulated Amortization	
Beginning balance	\$ (41,791)
Amortization	(823)
Reversed on sale of properties	126
Ending balance	\$ (42,488)
Net book values	
Balance as at December 31, 2014	\$ 27,377
Balance as at March 31, 2015	\$ 26,586

7. Held for Sale

During the three months ended March 31, 2015, Chinook completed the sale of certain of its petroleum and natural gas properties including undeveloped lands located in the Karr area of northwestern Alberta and other negligible properties for net proceeds of \$41.7 million. At December 31, 2014, the Karr properties were classified as assets held for sale. This classification included carrying values of \$23.1 million for both E&E Assets and D&P Assets and \$0.8 million for decommissioning obligations. Combined, the net carrying amounts of these sold properties and undeveloped lands was less than the sales proceeds resulting in a gain of \$19.4 million for the three months ended March 31, 2015.

8. Accounts Payable, Accrued Liabilities & Other

	March 31 2015	December 31 2014
From Continuing Operations:		
Trade accounts payable	\$ 2,430	\$ 12,228
Accrued liabilities	24,189	25,870
Joint operations accounts payable	2,951	2,790
Other payables	472	619
Accrued transaction and indemnification costs on the sale of discontinued operations	2,800	2,882
	\$ 32,842	\$ 44,389

9. Provisions

The following table reconciles Chinook's provisions as at March 31, 2015:

	2015
Beginning balance	\$ 106,726
Provisions added during the period (note 5)	287
Decommissioning obligation expenditures & other	(453)
Accretion expense	617
Ending balance	\$ 107,177

10. Long-Term Debt

As at March 31, 2015 and December 31, 2014, Chinook had access to an undrawn revolving credit facility (the "Revolving Term Credit Facility") with a maximum availability \$125.0 million. The available credit from this facility at March 31, 2015 was unchanged from December 31, 2014, at \$124.7 million. Chinook has an outstanding letter of credit of \$0.3 million as secured by the lead of its banking syndicate which reduces the available credit from the maximum available. On or before June 25, 2015, this facility's revolving period and availability will be redetermined using Chinook's independent reserve engineer's reserve estimates as at December 31, 2014.

11. Long-Term Incentive Plans

Chinook grants share options, restricted awards and performance awards (collectively, "Share-Based Awards") under its long-term incentive plans to employees, officers, directors, consultants and other service providers. Share-based compensation, included in net income from continuing operations, for the three months ended March 31, 2015 and 2014, was \$0.4 million and \$0.2 million, respectively.

a) Share Option Plan

Outstanding options granted pursuant to Chinook's share option plan evenly vest over a period of three years and expire five years after the grant date. A summary of options outstanding is as follows:

	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
Balance as at December 31, 2014	10,530	\$ 1.83
Granted	1,500	\$ 1.19
Exercised for common shares	(1)	\$ (1.19)
Forfeited, cancelled or surrendered	(1,586)	\$ (1.76)
Expired	(1,058)	\$ (2.72)
Balance as at March 31, 2015	9,385	\$ 1.64
Exercisable	4,921	\$ 1.20

The following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the three months ended March 31, 2015:

Three months ended March 31	2015
Expected average life (years)	3 to 5
Risk-free interest rate (%)	1.0 - 1.2
Estimated forfeiture rate per annum (%)	13
Volatility factor (%)	52 to 56
Share option exercise price (\$/option)	1.19

The weighted average fair value determined for options granted during the three months ended March 31, 2015 was \$0.50 per option.

b) Restricted and Performance Awards Plan

A summary of restricted and performance awards outstanding are as follows:

	Number of Restricted Awards (thousands)	Number of Performance Awards (thousands)
Balance as at December 31, 2014	207	244
Forfeited	(11)	(6)
Balance as at March 31, 2015	196	238

12. Other Supplementary Information

Changes in non-cash working capital

Three months ended March 31	2015	2014
Cash provided by (used for):		
Accounts receivable	\$ 5,112	\$ (11,136)
Accounts payable, accrued liabilities & other	(11,463)	23,361
Prepays & deposits	388	(1,016)
	\$ (5,963)	\$ 11,209
Cash provided by (used for):		
Operating activities	\$ (128)	\$ (4,816)
Investing activities	(5,835)	16,025
	\$ (5,963)	\$ 11,209

Cash interest and financing fees paid

Three months ended March 31	2015	2014
Cash interest and financing fees paid	\$ 162	\$ 710

Per share amounts

The per share amounts for the three months ended March 31, 2015 and 2014, were calculated as per the following table:

Three months ended March 31	2015	2014
Weighted average shares outstanding - basic (thousands)	215,083	214,188
Dilutive impact of share options (thousands)	29	57
Weighted average shares outstanding - diluted (thousands)	215,112	214,245
Net income from continuing operations	\$ 8,189	\$ 410
Per share - basic & diluted (\$/share)	\$ 0.04	\$ -
Net income from discontinued operations	\$ -	\$ 5,675
Per share - basic & diluted (\$/share)	\$ -	\$ 0.03
Net income	\$ 8,189	\$ 6,085
Per share - basic & diluted (\$/share)	\$ 0.04	\$ 0.03

For the three months ended March 31, 2015 and 2014, diluted income per share assumes the exercise of options as if issued at the later of the date of grant or the beginning of the period. This calculation takes into account only the options that are considered to be "in-the-money".

For the three months ended March 31, 2015, restricted and performance awards were anti-dilutive because the deemed repurchased shares calculated from unamortized share-based compensation exceeded the weighted average number of outstanding awards.