

Q1

2016

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)	2016	2015
Assets		
Current		
Cash	\$ 24,385	\$ 37,947
Accounts receivable	10,110	11,173
Prepays & deposits	2,259	2,101
	36,754	51,221
Development & production assets (note 3)	239,481	246,036
Exploration & evaluation assets (note 4)	23,388	24,307
	\$ 299,623	\$ 321,564
Liabilities & Shareholders' Equity		
Current		
Accounts payable, accrued liabilities & other	\$ 16,574	\$ 21,607
Current portion of provision (note 5)	300	2,700
	16,874	24,307
Provisions (note 5)	93,629	96,042
Shareholders' Equity		
Share capital	782,708	782,705
Contributed surplus	19,593	18,916
Deficit	(613,181)	(600,406)
	189,120	201,215
	\$ 299,623	\$ 321,564

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(unaudited)

Three months ended March 31	2016	2015
<i>(in thousands of Canadian dollars, except per share amounts)</i>		
Petroleum & natural gas revenues	\$ 7,761	\$ 16,668
Royalties	(517)	(1,428)
Petroleum & natural gas revenues, net of royalties	7,244	15,240
Processing & gathering revenues	860	1,070
Petroleum, natural gas & other revenues, net of royalties	8,104	16,310
Realized gain on derivative contract	-	300
Unrealized loss on derivative contract	-	(284)
Gain on derivatives	-	16
	8,104	16,326
Production & operating	8,778	12,830
General & administrative	1,890	2,761
Exploration & evaluation	496	493
Depletion, depreciation & amortization (notes 3 & 4)	7,146	10,507
Losses (gains) on disposition of properties (note 3)	855	(19,403)
Share-based compensation	680	426
Bad debt expense	79	497
Foreign exchange losses (gains) & other	390	(460)
	20,314	7,651
(Loss) income before finance expenses	(12,210)	8,675
Interest & financing charges (income)	13	(131)
Accretion of decommissioning obligations (note 5)	552	617
Finance expenses	565	486
Net and comprehensive (loss) income	\$ (12,775)	\$ 8,189
Net (loss) income per share, basic & diluted (note 7)	\$ (0.06)	\$ 0.04

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	Shareholders' Equity
Balance as at December 31, 2015	215,349	\$ 782,705	\$ 18,916	\$ (600,406)	\$ 201,215
Settlement of restricted share awards	1	3	(3)	-	-
Share-based compensation	-	-	680	-	680
Net loss	-	-	-	(12,775)	(12,775)
Balance as at March 31, 2016	215,350	\$ 782,708	\$ 19,593	\$ (613,181)	\$ 189,120
Balance as at December 31, 2014	215,082	\$ 782,071	\$ 17,180	\$ (516,800)	\$ 282,451
Share options exercised	1	-	-	-	-
Share-based compensation	-	-	426	-	426
Net income	-	-	-	8,189	8,189
Balance as at March 31, 2015	215,083	\$ 782,071	\$ 17,606	\$ (508,611)	\$ 291,066

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Three months ended March 31	2016	2015
(in thousands of Canadian dollars)		
Operating Activities		
Net (loss) income	\$ (12,775)	\$ 8,189
Add (deduct):		
Depletion, depreciation & amortization (notes 3 & 4)	7,146	10,507
Losses (gains) on disposition of properties (note 3)	855	(19,403)
Share-based compensation	680	426
Accretion of decommissioning obligations (note 5)	552	617
Bad debt expense	79	497
Foreign exchange loss (gain)	77	(390)
Unrealized loss on derivative contract	-	284
Decommissioning obligation expenditures & other	(3,165)	(453)
Change in operating non-cash working capital (note 7)	2,216	(128)
Cash flow from operating activities	(4,335)	146
Investing Activities		
Proceeds on property dispositions (note 3)	299	41,734
Development & exploration expenditures (notes 3 & 4)	(3,026)	(22,093)
Change in investing non-cash working capital (note 7)	(6,367)	(5,835)
Cash flow from investing activities:		
Continuing operations	(9,094)	13,806
Discontinued operations	-	(212)
Cash flow from investing activities	(9,094)	13,594
Change in cash, during the period		
Continuing operations	(13,429)	13,952
Discontinued operations	-	(212)
Cash, beginning of period	37,947	46,018
Cash, foreign currency translation (loss) gain	(133)	516
Cash, end of period	\$ 24,385	\$ 60,274

Other supplementary information (note 7).

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2016 and 2015

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, 2016 and 2015 (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)”).

All intercompany balances and transactions have been eliminated.

2. Basis of Presentation

These Financial Statements have been prepared following the same accounting policies as summarized in note 3 in the audited consolidated financial statements of Chinook for the years ended December 31, 2015 and 2014 (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.

Certain comparative amounts have been reclassified to conform to the current year’s presentation.

These Financial Statements were approved and authorized for issuance by Chinook’s Board of Directors on May 10, 2016.

3. Development and Production Assets (“D&P Assets”)

The following table reconciles Chinook’s D&P Assets for the three months ended March 31, 2016:

Cost of Assets		2016
Beginning balance	\$	719,199
Capital expenditures		2,997
Cost of properties sold		(9,804)
Ending balance	\$	712,392
Accumulated Depletion & Depreciation		
Beginning balance	\$	(473,163)
Depletion & depreciation		(6,198)
Reversed on sale of properties		6,450
Ending balance	\$	(472,911)
Net book values		
Balance as at December 31, 2015	\$	246,036
Balance as at March 31, 2016	\$	239,481

Chinook capitalized \$0.3 million of direct general and administrative costs related to its development activity during each of the three months ended March 31, 2016 and 2015.

During the three months ended March 31, 2016, Chinook completed a sale of petroleum and natural gas properties for \$0.3 million (three months ended March 31, 2015 - \$41.7 million) resulting in a loss of \$0.9 million (three months ended March 31, 2015 – a \$19.4 million gain related to disposition of assets held for sale).

4. Exploration & Evaluation Assets (“E&E Assets”)

The following table reconciles Chinook’s E&E Assets for the three months ended March 31, 2016:

	2016
Cost of Assets	
Beginning balance	\$ 68,622
Capital expenditures	29
Ending balance	\$ 68,651
Accumulated Amortization	
Beginning balance	\$ (44,315)
Amortization	(948)
Ending balance	\$ (45,263)
Net book values	
Balance as at December 31, 2015	\$ 24,307
Balance as at March 31, 2016	\$ 23,388

5. Provisions

The following table reconciles Chinook’s provisions for the three months ended March 31, 2016:

	2016
Beginning balance	\$ 98,742
Properties disposition	(2,200)
Decommissioning obligation expenditures	(2,989)
Accretion expense	552
Decrease related to other provisions	(176)
Total provisions	\$ 93,929

As reported on the statements of financial position, Chinook’s provision balance consists of:

	March 31 2016	December 31 2015
Short-term portion of provisions	\$ 300	\$ 2,700
Long-term portion of provisions	93,629	96,042
Total provisions	\$ 93,929	\$ 98,742

6. Long-Term Debt

At March 31, 2016 and December 31, 2015, Chinook’s reserve-based 364 day revolving credit facility (the “Revolving Term Credit Facility”), which it holds with a syndicate of Canadian banks, had a borrowing base of \$50.0 million. The Revolving Term Credit Facility is subject to re-determination on a semi-annual basis, with a maturity date of June 23, 2016, subject to further extension, and does not include any financial covenants. In the event that the revolving period is not extended at the next redetermination date, all amounts then outstanding under the facility must be repaid before June 23, 2017. Changes in the availability in the Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming payable within 60 days. The Revolving Term Credit Facility is collateralized by floating charges and security interests over all present and future properties and other assets of Chinook. At March 31, 2016, Chinook was undrawn on the Revolving Term Credit Facility, but had an outstanding letter of credit of \$0.3 million which reduced the available credit to \$49.7 million. At December 31, 2015, Chinook was undrawn on the Revolving Term Credit Facility and had available credit of \$50.0 million.

7. Other Supplementary Information

Changes in non-cash working capital

Three months ended March 31	2016	2015
Cash provided by (used for):		
Accounts receivable	\$ 984	\$ 5,112
Accounts payable, accrued liabilities & other	(4,977)	(11,463)
Prepays & deposits	(158)	388
	\$ (4,151)	\$ (5,963)
Cash provided by (used for):		
Operating activities	\$ 2,216	\$ (128)
Investing activities	(6,367)	(5,835)
	\$ (4,151)	\$ (5,963)

Cash interest and financing fees paid

Three months ended March 31	2016	2015
Cash interest & financing fees paid	\$ 116	\$ 162

Per share amounts

The per share amounts for the three months ended March 31, 2016 and 2015, were calculated as per the following table:

Three months ended March 31	2016	2015
Weighted average shares outstanding - basic (thousands)	215,349	215,083
Dilutive impact of Share-Based Awards (thousands)	-	29
Weighted average shares outstanding - diluted (thousands)	215,349	215,112
Net (loss) income	\$ (12,775)	\$ 8,189
Net (loss) income per share - basic & diluted (\$/share)	\$ (0.06)	\$ 0.04

For the three months ended March 31, 2016, because Chinook reported a net loss, the effect of share options, restricted awards and performance awards (collectively, "Share-Based Awards"), would have been anti-dilutive resulting in them being excluded in the calculation of diluted weighted average shares outstanding. For the three months ended March 31, 2015, the calculation of diluted income per share assumes the exercise of Share-Based Awards 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" in accordance with the treasury method.