Q1 2018 News Release

CHINOOK energy inc

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CHINOOK ENERGY INC. ANNOUNCES FIRST QUARTER 2018 RESULTS

CALGARY, ALBERTA – May 10, 2018 – Chinook Energy Inc. ("our", "we", or "us") (TSX: CKE) is pleased to announce its first quarter of 2018 financial and operating results.

Our operational and financial highlights for the three months ended March 31, 2018 are noted below and should be read in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2018 and 2017 and our related management's discussion and analysis which have been posted on the SEDAR website (www.sedar.com) and our website (www.chinookenergyinc.com).

First Quarter of 2018 Financial and Operating Highlights

Three months ended March 31	2018	2017
OPERATIONS		
Production Volumes		
Natural gas liquids (boe/d)	**468**	482
Natural gas (mcf/d)	**13,806**	18,022
Crude oil (bbl/d)	**19**	29
Average daily production (boe/d) (1)	**2,788**	3,514
Sales Prices		
Average natural gas liquids price ($/boe)	**$ 58.35**	$ 51.39
Average natural gas price ($/mcf)	**$ 2.64**	$ 2.71
Average oil price ($/bbl)	**$ 68.34**	$ 60.32
Netback (2)		
Average commodity pricing ($/boe)	**$ 23.35**	$ 21.42
Royalty (expense) recovery ($/boe)	**$ (0.17)**	$ 0.20
Realized (loss) gain on commodity price contracts ($/boe)	**$ (1.18)**	$ 1.38
Net production expense ($/boe) (2)	**$ (14.84)**	$ (11.27)
Operating Netback ($/boe) (1) (2)	**$ 7.16**	$ 11.73
Wells Drilled (net)		
Exploration wells drilled (net)	**2.00**	-

Three months ended March 31		2018		2017
FINANCIAL ($ thousands, except per share amounts)				
Petroleum & natural gas revenues, net of royalties	**$**	**5,815**	$	6,838
Adjusted funds flow (2)	**$**	**471**	$	2,036
Per share - basic and diluted ($/share)	**$**	**-**	$	0.01
Net (loss) income	**$**	**(2,098)**	$	10,422
Per share - basic and diluted ($/share)	**$**	**(0.01)**	$	0.05
Capital expenditures	**$**	**2,497**	$	8,823
Net (debt) surplus (2)	**$**	**(3,961)**	$	25,622
Total assets	**$**	**127,227**	$	148,665
Common Shares (thousands)				
Weighted average during period				
- basic		**223,565**		216,443
- diluted		**223,565**		216,900
Outstanding at period end		**223,565**		216,443

(1) Amounts may not be additive due to rounding.

(2) Adjusted funds flow, adjusted funds flow per share, net (debt) surplus, operating netback, and net production expense are non-GAAP measures. These terms do not have any standardized meanings as prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies. See headings entitled "Adjusted Funds Flow", "Net (Debt) Surplus", "Operational Netback" and "Net Production Expense" in the Reader Advisory below for further information on such terms.

Highlights for the three months ended March 31, 2018

- During the first quarter of 2018 ("first quarter"), we drilled two (2.0 net) vertical exploratory wells in the Birley/Umbach area for $2.1 million. These wells further delineated 19 undrilled contiguous sections of 100% owned Montney rights which are located three kilometres north of our main Montney land block and eight kilometres from the nearest well drilled into the Montney. The reservoir quality throughout the entire 235 metre thick Montney zone was evaluated with these wells.
- We secured two sections of Montney mineral rights (included in the 19 sections discussed above) to reinforce our land position adjacent to the two (2.0 net) aforementioned exploratory Birley/Umbach vertical wells.
- During the first quarter, we entered into a commodity price contract to fix the Chicago City Gate index price of 6,000 mmbtu/d of natural gas at US$2.68/mmbtu from February 1, 2018 to March 31, 2019.
- Our average realized price during the first quarter increased 79% from the $13.02 boe/d reported during the fourth quarter. This significant increase was due to higher benchmark pricing but most notably higher Station 2 pricing which increased 218% through the winter season.
- Our realized NGL price increased 12% during the first quarter compared to the $51.87/boe realized price reported during the fourth quarter. This increase was due to an increase in the Canadian light sweet oil benchmark.
- Our realized natural gas price increased 167% during the first quarter compared to the $0.99/mcf realized price reported during the fourth quarter due to the aforementioned higher Station 2 benchmark pricing.
- With the easing of third party pipeline restrictions, our total production was approximately 5,400 boe/d during April.

First Quarter 2018 Financial Results

Our production during the first quarter averaged 2,788 boe/d, a decrease of approximately 20% from the same quarter of 2017. This production decrease was primarily due to an unforeseen pipeline integrity issue on Enbridge's Oak 16" gathering line (the "Oak Pipeline") which restricted our Birley/Umbach and Martin Creek production starting in November 2017 and through to early April 2017 when a temporary pipeline was put in place. With this third party restriction eased, our total production was approximately 5,400 boe/d during April. We achieved these volumes because of the fourth quarter's commissioning of our Birley facility expansion from 25 mmcf/d to 50 mmcf/d of raw natural gas. We are currently producing from 12 of 13 (10.29 net) of our Birley/Umbach horizontal wells.

For the first quarter, our operating netback decreased almost 40% to $7.16/boe compared to the same quarter of 2017. This decrease was caused by the effect of the third party volume restriction on our reported net production expense and a realized loss on our commodity price contract. However, our first quarter operating netback increased 25% from the fourth quarter of 2017 as a result of a 79% increase in our realized price due to higher benchmark pricing but most notably higher Station 2 pricing which increased 218% through the winter season. This increase in our first quarter operating netback compared to fourth quarter of 2017 was despite an increase in net production expense per boe resulting primarily from the aforementioned production volume restriction as well as reporting a realized loss on our commodity price contracts compared to a gain for the fourth quarter of 2017.

For the first quarter, our adjusted funds flow of $0.5 million decreased compared to $2.0 million during the same quarter of 2017, for the same reasons that resulted in the decrease in our operating netback. Despite these factors, our first quarter adjusted funds flow is the seventh consecutive quarter we have reported positive adjusted funds flow which corresponds to when we started our transition to a Montney focused play.

For the first quarter, we realized lower G&A expenses implemented throughout 2017 including lower staffing costs due to reductions in headcount, a lower number of directors, reduced employee benefits and reduced information system costs. Also, during the first quarter we reduced our headcount by 25% and suspended an employee benefit program. We estimate this will result in additional G&A cost savings of approximately $1.0 million per year.

For the first quarter, we reported a net loss of $2.1 million compared to net income of $10.4 million during the same quarter of 2017. This decrease resulted from the absence during the first quarter, but as reported in the comparative quarter, of the $10.9 million gain on property dispositions and a $1.7 million gain from commodity price contracts. This decrease also reflects the first quarter's lower netback, restricted volumes and higher severance costs.

First Quarter 2018 Operational Results

During the first quarter, we drilled two (2.0 net) vertical exploratory wells in the Birley/Umbach area for $2.1 million. These wells further delineated 19 undrilled contiguous sections of 100% owned Montney rights (located three kilometres north of our main Montney land block and eight kilometres from the nearest well drilled into the Montney), as we evaluated the pay thickness and reservoir quality throughout the entire 235 metre thick Montney zone. These vertical wells were funded by the proceeds from our December 2017 flow-through share issuance. These 19 sections of Montney mineral rights north of our main Montney land block include the two sections we secured during the first quarter to reinforce our land position adjacent to the two (2.0 net) aforementioned exploratory Birley/Umbach vertical wells.

Outlook

We believe that our capital program during the last few years which saw us drill and complete 13 (11.23 net) wells on our Birley/Umbach property as well as our on-time completion of our Birley facility expansion to 50 mmcf/d puts us in an excellent position to accelerate activity when commodity prices recover. We have confirmed the resources are there, now our objective will be to extract them efficiently and profitably. To that effect, although we are encouraged about the results of our exploitation program in 2017 and additional delineation work during the first quarter, we remain cautious on making further capital expenditures until such time as commodity prices improve to a more constructive level. Our capital program for the balance of 2018 will be minimal and continuously reviewed by our management and board of directors with adjustments made in response to changing market conditions.

We continue to prudently manage our production volumes and will continue to monitor commodity prices throughout the year and shut-in production where warranted.

We also believe that consolidation is required and would increase efficiencies among producers and streamline operations. We will continue to pursue opportunities that have the potential to generate additional value to our shareholders.

About Chinook Energy Inc.

Chinook is a Calgary-based public oil and natural gas exploration and development company which is focused on realizing per share growth from its large contiguous Montney liquids-rich natural gas position at Birley/Umbach, British Columbia.

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Reader Advisory

Abbreviations

Oil and Natural Gas Liquids	
bbl	barrels
bbl/d	barrels per day
NGLs	Natural gas liquids

Natural Gas	
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
mmbtu	million British Thermal Units
mmbtu/d	million British Thermal Units per day
GJ	gigajoules
GJ/d	gigajoules per day

Other	
boe	barrel of oil equivalent on the basis of 6 mcf/1 boe for natural gas and 1 bbl/1 boe for crude oil and natural gas liquids (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
boe/d	barrel of oil equivalent per day
Station 2	Market point for BC natural gas
Chicago City Gate	Market point for eastern US natural gas

Forward-Looking Statements

In the interest of providing our shareholders and readers with information regarding our company, including management's assessment of our future plans and operations, certain statements contained in this news release constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, this news release contains, without limitation, forward-looking statements pertaining to: the anticipated reduction in expenses resulting from head- count reductions and the suspension of an employee benefit program, that our previous capital program has put us in an excellent position to accelerate activity when commodity prices recover, that our capital plan for the remainder of 2018 will be minimal and will be continuously reviewed by our management and board of directors with adjustments made in response to changing market conditions, that we believe that consolidation would increase efficiencies among producers and streamline operations and that we will pursue opportunities that have potential to generate additional value to our shareholders, future exploration and development activities and the timing thereof and how we intend to manage our company.

With respect to the forward-looking statements contained in this news release, we have made assumptions regarding, among other things: that we will continue to conduct our operations in a manner consistent with that expressed herein, that we will not make significant future capital expenditures in 2018, future oil and natural gas prices, anticipated oil and natural gas production levels, future currency, exchange and interest rates, our ability to obtain equipment in a timely manner to carry out exploration and development activities, the ability of the operator of the projects in which we have an interest in to operate in the field in a safe, efficient and effective manner, the impact of increasing competition, field production rates and decline rates, our ability to replace and expand production and reserves through exploration and development activities, certain cost assumptions, that the budgeted capital program for the remainder of 2018, which is subject to the discretion of our Board of Directors, will not be amended in the future, and the continued availability of adequate debt and cash flow to fund our planned expenditures. Although we believe 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 our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices and currency fluctuations, our Board of Directors may amend the capital program for the remainder of 2018 based on its discretion; environmental risks, competition from other producers, inability to retain drilling rigs and other services, unanticipated increases in or unforeseen capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, delays in projects and/or operations resulting from surface conditions, wells not performing as expected, delays resulting from or inability to obtain the required regulatory approvals and inability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the forgoing list of factors is not exhaustive. Additional information on these and other factors that could affect our operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) and at our website (www.chinookenergyinc.com). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release and we do not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Operating Netback

The reader is cautioned that this news release contains the term operating netback, which is not a recognized measure under IFRS and is calculated as a period’s sales of petroleum and natural gas, net of realized gains or losses on commodity price contracts, royalties and net production expenses, divided by the period’s sales volumes. We use this non-GAAP measure to assist us in understanding our production profitability relative to current and fixed commodity prices and it provides an analytical tool to benchmark changes in field operational performance against prior periods. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as net income determined in accordance with IFRS as a measure of performance. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

Net Production Expense

The reader is cautioned that this news release contains the term net production expense, which is not a recognized measure under IFRS and is calculated as production and operating expense less processing and gathering income. We use net production expense to determine the current periods' cash cost of operating expenses and net production and operating expense per boe is used to measure operating efficiency on a comparative basis. This measure approximates our operating costs relative to only our volumes by excluding the approximated operating costs resulting from third party processing and gathering services. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

Adjusted Funds Flow

The reader is cautioned that this news release contains the term adjusted funds flow, which is not a recognized measure under IFRS and is calculated from cash flow from operations adjusted for changes in non-cash working capital related to operations, exploration and evaluation expenses related to operations, provision expenditures related to operations and severance/transaction costs. We believe that adjusted funds flow is a key measure to assess our ability to finance capital expenditures and when debt is drawn, debt repayments. Adjusted funds flow is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS and should not be construed as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of our financial performance. Our method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies. Adjustments to cash flow from operations are for changes in non-cash operating working capital which are expected to reverse and for those costs that are not directly caused by lifting production volumes.

Net (Debt) Surplus

The reader is cautioned that this news release contains the term net (debt) surplus, which is not a recognized measure under IFRS and is calculated as bank debt adjusted for current assets less current liabilities as they appear on the balance sheets, both of which exclude mark-to-market derivative contracts and assets and liabilities held for sale and current liabilities excludes any current portion of debt, deferred customer obligations and provisions. We use net (debt) surplus to assist us in understanding our liquidity at specific points in time. We exclude the current portion of provisions and the deferred customer obligation as they are not financial instruments. Mark-to-market derivative contracts and assets and liabilities held for sale are excluded as they are unrealized.

Future Oriented Financial Information

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

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. Boes 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. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.