2017 Consolidated Financial Statements

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

Management's Report

The management of Chinook Energy Inc. ("Chinook") is responsible for the preparation of the consolidated financial statements. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments. Management has determined amounts in accordance with the significant accounting policies summarized in the notes to the consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP (the "Auditor") was appointed by Chinook's shareholders to express an audit opinion on the consolidated financial statements. The Auditor's examination included such tests and procedures, as the Auditor considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Audit Committee, with the assistance from the Reserves, Safety and Environmental Committee regarding the annual review of Chinook's petroleum and natural gas reserves. The Audit Committee, composed of independent directors, meets regularly with management and the Auditor to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the Auditor and reviews its fees. The Auditor has access to the Audit Committee without the presence of management.

"signed"

Walter J. Vrataric
President & Chief Executive Officer

"signed"

Jason Dranchuk
Vice President, Finance & Chief Financial Officer

Calgary, Alberta

March 8, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chinook Energy Inc.

We have audited the accompanying consolidated financial statements of Chinook Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chinook Energy Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 8, 2018
Calgary, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	**December 31 2017**	December 31 2016
Assets		
Current		
Cash	**$ 4,341**	$ 14,821
Accounts receivable (note 16)	**3,490**	6,658
Restricted cash (note 17)	**-**	1,308
Prepaids & deposits	**1,373**	3,569
Assets held for sale (note 9)	**-**	7,148
	9,204	33,504
Development & production assets (note 7)	**110,078**	92,959
Exploration & evaluation assets (note 8)	**11,289**	13,512
	$ 130,571	$ 139,975
Liabilities & Equity		
Current		
Accounts payable, accrued liabilities & other	**$ 9,915**	$ 11,218
Fair value of commodity price contract	**-**	154
Deferred customer obligation (note 7)	**775**	-
Provisions (note 10)	**1,655**	1,300
Liabilities held for sale (note 9)	**-**	236
	12,345	12,908
Deferred customer obligation (note 7)	**1,427**	-
Provisions (note 10)	**31,627**	27,767
Flow-through common shares premium (note 13)	**323**	-
Shareholders' Equity		
Share capital	**786,492**	784,105
Contributed surplus	**19,835**	19,759
Deficit	**(721,478)**	(704,564)
	84,849	99,300
	$ 130,571	$ 139,975

Subsequent event (note 16)
Commitments and guarantees (notes 10 & 17)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

"signed"	*"signed"*
Jill T. Angevine	Robert J. Herdman
Chairman of the Board of Directors and Director	Chairman of the Audit Committee and Director

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of Canadian dollars, except per share amounts)	Year ended December 31 2017	2016
Petroleum & natural gas revenues	**$ 21,214**	$ 39,344
Royalty recovery (expense)	**57**	(2,401)
Petroleum & natural gas revenues, net of royalties	**21,271**	36,943
Processing & gathering revenues	**1,006**	2,178
Take or pay contract revenue	**2,974**	-
Petroleum, natural gas & other revenues, net of royalties	**25,251**	39,121
Realized gain on commodity price contracts	**3,770**	1,010
Unrealized gain (loss) on commodity price contracts	**154**	(4,695)
Gain (loss) on commodity price contracts	**3,924**	(3,685)
Total revenues, net of royalties and commodity price contracts	**29,175**	35,436
Production & operating	**15,476**	29,618
General & administrative	**5,244**	9,235
Depletion, depreciation & amortization (notes 7 & 8)	**11,622**	25,649
Take or pay contract expense	**3,500**	-
Transaction, distribution & severance costs (note 6)	**705**	3,162
Exploration & evaluation (note 8)	**272**	729
Impairment of development & production and exploration & evaluation assets, net of reversal (note 7 & 8)	**17,100**	41,100
Gain on dispositions of properties (note 9)	**(10,926)**	(5,796)
Realized loss on sale of third party's notes (note 9)	**-**	648
Share-based compensation	**906**	2,243
Bad debt expense (note 16)	**300**	635
Onerous contract and indemnifications (note 10b)	**1,837**	-
Deferred customer obligation amortization (note 7)	**(583)**	-
Other losses	**105**	617
Total expenses, net of gains on dispositions of properties, excluding finance expenses	**45,558**	107,840
Loss including non-controlling interest before finance expenses	**(16,383)**	(72,404)
Interest & financing (income) charges	**(161)**	802
Accretion of provisions (notes 10a & 10b)	**692**	2,192
Finance expenses	**531**	2,994
Net loss including non-controlling interest	**(16,914)**	(75,398)
Net loss attributable to non-controlling interest (note 5)	**-**	20,625
Net & comprehensive loss	**$ (16,914)**	$ (54,773)
Net loss per share, basic and diluted (note 18)	**$ (0.08)**	$ (0.25)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Non-controlling interest	Equity
Balance as at December 31, 2015	**215,349**	**$ 782,705**	**$ 18,916**	**$ (600,406)**	**$ -**	**$ 201,215**
Non-controlling interest on acquisition (note 5)	-	-	-	-	1,563	1,563
Non-controlling interest in Subject Assets (note 5)	-	-	-	-	29,066	29,066
Equity loss (note 5)	-	-	-	(25,418)	-	(25,418)
Net loss attributable to non-controlling interest (note 5)	-	-	-	-	(20,625)	(20,625)
Distribution of Craft shares (note 6)	-	-	-	(23,967)	(10,004)	(33,971)
Settlement of restricted and performance share awards	1,094	1,400	(1,400)	-	-	-
Share-based compensation	-	-	2,243	-	-	2,243
Net loss	-	-	-	(54,773)	-	(54,773)
Balance as at December 31, 2016	**216,443**	**$ 784,105**	**$ 19,759**	**$ (704,564)**	**$ -**	**$ 99,300**
Settlement of restricted and performance share awards	672	830	(830)	-	-	-
Share-based compensation (note 14)	-	-	906	-	-	906
Issuance of flow-through common shares, net of costs (note 13)	6,450	1,880	-	-	-	1,880
Flow-through common shares premium (note 13)	-	(323)	-	-	-	(323)
Net loss	-	-	-	(16,914)	-	(16,914)
Balance as at December 31, 2017	**223,565**	**$ 786,492**	**$ 19,835**	**$ (721,478)**	**$ -**	**$ 84,849**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended December 31	
(in thousands of Canadian dollars)	**2017**	2016
Operating Activities		
Net loss	**$ (16,914)**	$ (54,773)
Add (deduct):		
Depletion, depreciation & amortization (notes 7 & 8)	**11,622**	25,649
Impairment of development & production and exploration & evaluation assets, net of reversal (note 7 & 8)	**17,100**	41,100
Gain on dispositions of properties (note 9)	**(10,926)**	(5,796)
Unrealized (gain) loss on commodity price contracts	**(154)**	4,695
Share-based compensation	**906**	2,243
Accretion of provisions (notes 10a & 10b)	**692**	2,192
Onerous contract and indemnifications (note 10b)	**1,837**	-
Deferred customer obligation amortization (note 7)	**(583)**	-
Foreign exchange losses (gains) & other	**121**	(215)
Bad debt expense (note 16)	**300**	635
Net loss attributable to non-controlling interest (note 5)	**-**	(20,625)
Provision expenditures (notes 10a & 10b)	**(1,167)**	(3,914)
Change in operating non-cash working capital (note 18)	**3,284**	(511)
Cash inflow (outflow) flow from operating activities	**6,118**	(9,320)
Financing Activities		
Issuance of flow-through common shares, net of issue costs (note 13)	**1,880**	-
Debt repayments of a former subsidiary, net	**-**	(11,506)
Change in financing non-cash working capital (note 18)	**20**	-
Cash inflow (outflow) from financing activities	**1,900**	(11,506)
Investing Activities		
Proceeds on property dispositions (note 9)	**17,838**	21,410
Development & exploration expenditures (notes 7 & 8)	**(39,044)**	(9,211)
Restricted cash release (investment) (note 17)	**1,308**	(1,308)
Cash acquired on business acquisition (note 5)	**-**	867
Cash relinquished on distribution of a former subsidiary's shares (note 6)	**-**	(8,220)
Change in investing non-cash working capital (note 18)	**1,521**	(5,767)
Cash outflow from investing activities	**(18,377)**	(2,229)
Change in cash, during the year	**(10,359)**	(23,055)
Cash, beginning of year	**14,821**	37,947
Cash, foreign currency loss	**(121)**	(71)
Cash, end of year	**$ 4,341**	$ 14,821

Other supplementary information (note 18)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

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 consolidated financial statements for the years ended December 31, 2017 and 2016 (these "Financial Statements") include the accounts of Chinook Energy Inc. ("CEI") and two directly held wholly-owned subsidiaries: 1542991 Alberta Ltd. ("WOGH GP") and Storm Ventures International (BVI) Limited ("Storm (BVI)").

From June 10, 2016 to December 12, 2016, the consolidated statements of operations and comprehensive loss and consolidated statements of cash flow also include the accounts of Tournament Exploration Ltd., which subsequently changed its name to Craft Oil Ltd. and then Craft Oil Inc. ("Craft"), a privately owned Calgary-based petroleum and natural gas production company (collectively, including all three subsidiaries, "Chinook").

On June 10, 2016 (the "Closing Date"), CEI completed the acquisition of 70% of Craft's issued and outstanding common shares pursuant to an asset purchase and sale agreement (the "PSA") dated and effective May 1, 2016 (see note 5). As a result, Craft became a partially-owned but controlled subsidiary of CEI. In consideration, CEI transferred most of its non-Montney producing and undeveloped properties in Alberta, Canada, and the associated decommissioning obligations, in addition to $0.9 million of cash to Craft (the "Subject Assets"). Since CEI maintained control over the Subject Assets, the measure of its consideration for Craft's common shares on the Closing Date was calculated at $29.1 million based on the 30% non-controlling interest in the carrying values of the Subject Assets. Exclusive of the Subject Assets consideration, the fair value evaluated for Craft's net assets on the Closing Date was used to determine a $1.6 million non-controlling interest in Craft's common shares. These measures are initially reported as non-controlling interest on the consolidated statements of financial position. The non-controlling interest portion in Craft's financial results from June 10, 2016 as included in these Financial Statements is removed from Chinook's consolidated results through the net loss attributable to non-controlling interest account on the consolidated statements of operations and comprehensive loss.

On December 12, 2016, Chinook completed a plan of arrangement under the Business Corporations Act (Alberta), whereby all of CEI's shareholdings in Craft were distributed to Chinook's shareholders (the "Craft Share Distribution") (see note 6). On completion of the Craft Share Distribution, CEI's control over Craft's operations ceased. As a result, for the periods subsequent to December 12, 2016, the accounts of Craft are not reflected in these Financial Statements.

All intercompany balances and transactions have been eliminated.

2. Basis of Presentation

Statement of Compliance

These Financial Statements have been prepared by management using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). A summary of Chinook's significant IFRS accounting policies are presented in note 3. These Financial Statements were approved and authorized for issuance by Chinook's Board of Directors on March 8, 2018.

Basis of Measurement

These Financial Statements have been prepared on the historical cost basis with the exception of cash and commodity price contracts which are measured at fair value with the changes in their fair values recorded in net loss. The methods used to measure fair values are discussed in note 3.

Functional and Presentation Currency

These Financial Statements and the notes thereto are presented in thousands of Canadian dollars, unless otherwise noted. Chinook's functional currency is the Canadian dollar.

Management Judgments and Estimation Uncertainty

The preparation of these Financial Statements requires management judgments and estimation uncertainty that affect the reported amounts at the date of these Financial Statements of assets, liabilities, shareholders' equity, revenues and expenses in addition to the disclosure of contingencies. Actual results could differ from those estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Judgments that management has made through applying accounting policies that have the most significant effect on the Financial Statements are discussed below:

Cash Generating Units

Cash Generating Units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors Chinook's operations.

Impairment (reversal) indicators

Judgments are required to assess when impairment (reversal) indicators exist and impairment (reversal) testing is required. When assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. In determining the recoverable amount of assets, in the absence of quoted market prices or observed market transactions, impairment tests are based on reserve estimates, market value of undeveloped lands and other relevant assumptions.

Key estimates that management has made that affect the measurement of balances and transactions in the Financial Statements:

Reserve estimates

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and/or impairment reversals. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretation. Management expects that over time Chinook's reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

Decommissioning obligation

Decommissioning obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

Deferred taxes

Tax interpretations, regulations and legislation in the jurisdiction in which Chinook operates are subject to change. The deferred tax asset and/or liability is based on estimates as to the timing of the reversal of temporary differences, enacted or substantively enacted tax rates and the likelihood of assets being realized from future taxable earnings.

3. **Summary of Significant Accounting Policies**

Basis of Consolidation

Subsidiaries:

Subsidiaries are entities controlled by Chinook. Chinook controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases.

Joint Arrangements:

Chinook conducts many of its petroleum and natural gas production activities through joint operations and the Financial Statements reflect only its proportionate interest in such operations. Contractual arrangements for Chinook's jointly controlled operations, whereby it does not have a 100% working interest, govern that the partners have rights to the assets and obligations for the liabilities. It is possible that at some future date allocation adjustments to revenues or expenditures could result from revised billings, audit or litigation with these other participants. Where the final outcome of these matters is different from the amounts initially recorded, such differences will affect the revenue or expenditures in the period in which such determination is made. Chinook does not have any joint venture arrangements.

Transactions eliminated on consolidation:

Intercompany balances and transactions are eliminated in preparing the Financial Statements.

Cash

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have a maturity date of 90 days from the date of purchase.

Financial Instruments

Financial assets and liabilities are initially measured at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Initial determination and subsequent measurements of fair values are described below:

Held to maturity loans and receivables and other financial liabilities:

Chinook classifies accounts receivable as loans and receivables and accounts payable and accrued liabilities and debt as other financial liabilities.

Initial determination of fair values

The fair value of these financial instruments' classification is estimated using the present value of future cash flows, discounted at the market rate of interest at the reporting date. Attributable transaction costs incurred on initially acquiring these financial instruments are included in the recognized amount of the related financial instrument and are reported over that instrument's life using the effective interest rate method.

Subsequent determination of fair value

These financial instruments are subsequently measured at amortized cost using the effective interest method.

Fair value through profit or loss:

Chinook's commodity price contracts, in addition to cash, restricted cash and third party notes, are classified as fair value through profit and loss.

Initial determination of fair values

The fair value of each commodity price contract is determined by discounting the difference between the contracted price and the published forward price curve as at the reporting date, using the remaining contracted crude oil or natural gas notional volumes at a risk-free interest rate (based on published government rates). The fair value of commodity price contracts contractually combined into costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

The fair value of cash and restricted cash approximates its carrying amount.

Subsequent determination of fair value

Financial instruments designated as fair value through profit and loss are subsequently measured at fair value using the same methodology as initially used to measure their fair values with any changes charged immediately to earnings.

Inputs

Chinook classifies these financial instruments according to the following hierarchy on the basis of the lowest level observable input that is significant to the fair value measurement of each instrument in its entirety:

- Level 1 – Quoted prices are available in active markets for identical financial instruments as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs that are not based on observable market data.

Exploration and Evaluation Assets (“E&E Assets”)

Exploration and evaluation expenditures

Exploration and evaluation expenditures are initially capitalized within E&E Assets until the technical feasibility and commercial viability of the project has been determined. Such exploration and evaluation expenditures may include undeveloped land license acquisitions, exploration drilling and testing and directly attributable general and administrative costs. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. All other exploration and evaluation expenses, including geological, geophysical and annual lease costs for undeveloped lands, are expensed as incurred.

Amortization

Undeveloped land license acquisition costs for continuing operations are amortized over a term of ten years, which is based on the license term assuming capital requirements are met. All other E&E Assets are not amortized.

Impairment

E&E Asset expenditures are accumulated by well and are carried forward until the existence of commercial reserves are established. Chinook defines commercial reserves as the existence of proved and probable reserves which are determined to be technically feasible and commercially viable to extract. On discovering commercial reserves, the specific exploration and evaluation expenditures are tested for impairment. The carrying value, after any impairment loss, of the relevant exploration and evaluation expenditures are then reclassified as developed and producing assets. If specific exploration and evaluation expenditures, or a portion thereof, are determined to be unsuccessful, the relevant costs are charged through exploration and evaluation expense.

In the absence of establishing commercial reserves, E&E Assets are assessed for impairment at the operating segment level. These assets are assessed for impairment if:

- Sufficient data exists to determine technical feasibility and commercial viability; and
- Facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

D&P Assets, which include petroleum and natural gas development and production assets, in addition to administrative assets, are measured at cost less accumulated depletion and impairment. These costs are accumulated on an area-by-area basis and represent the cost of developing commercial reserves and bringing them into production, together with the exploration and evaluation expenditures incurred in finding commercial reserves transferred from E&E Assets as outlined above.

Development and production expenditures

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts are recognized as D&P Assets only when they are expected to increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including costs of the day-to-day servicing of such assets, are expensed as incurred. Such capitalized costs generally represent expenditures incurred in the development of proved undeveloped or probable reserves in addition to enhancing production from proved producing reserves.

Depletion

D&P Assets with similar useful lives are grouped together for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

- Total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
- Total capitalized costs plus estimated future development costs of proved plus probable reserves, which are reviewed annually by an independent reserve engineer; and
- Relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

Management reviews these estimates, and changes, if any, are prospectively applied.

Impairment or reversal of previously reported impairment

Chinook's D&P Assets are grouped into CGUs for the purpose of assessing impairment or recovery of prior periods' reported impairments. An impairment test is performed whenever events and circumstances arising during the development and production phase indicate that the carrying value of a CGU may exceed its recoverable amount. On a CGU basis, each carrying amount is compared against its expected recoverable amount, defined as the greater of fair value less costs to sell or its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell of a CGU can also be determined by using assumptions that an independent market participant may take into account. This evaluation could use discounted future net cash flows of proved and probable reserves using forecast prices and costs including the development of prospective lands. Chinook's management determines fair value in use for each CGU by estimating the present value of future net cash flows from continued production through exploitation of its proved and probable reserves. Management applies a present value to these cash flows using a discount rate range depending on the category of reserves being discounted. When it is determined that any CGU's carrying value exceeds its recoverable amount, that CGU is considered impaired and an impairment expense is reported that equals this excess.

If there are indicators that a previously recognized impairment charge may no longer be valid, the recoverable amount of the relevant CGU is determined and compared against its carrying amount. An impairment charge is reversed to the extent that the CGU's carrying amount does not exceed the value that would have been determined, net of depletion, if no impairment loss had been recognized.

Capitalized overhead costs

Overhead costs which are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management are capitalized. These costs include directly attributable compensation costs paid to Chinook personnel.

Held for Sale

Assets and their associated liabilities are classified as “assets and liabilities held for sale” if their carrying amounts will be recovered through sale transactions rather than through their continued use. Assets held for sale are measured at the lower of their carrying amounts and fair value less costs to sell and presented as current on the consolidated statements of financial position. Conditions which must be met in order to classify an asset as held for sale are:

- The sale is highly probable;
- The asset is available for immediate sale in its present condition;
- Management must be committed to a plan to sell;
- The sale should be expected to take place within one year of the date of classification as held for sale.

Assets held for sale are not depleted or amortized.

Business Combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries or assets that meet the IFRS definition of a business. Determination if an acquisition meets the IFRS definition requires judgment and is assessed on a case by case basis. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their acquisition date fair values. Any excess cost over the fair value of the acquired identifiable net assets is recorded as goodwill. If the cost is less than the fair value of the acquired identifiable net assets, the difference is immediately recognized in the consolidated statements of operations and comprehensive loss. Transaction costs that Chinook incurs in connection with a business combination are expensed as incurred.

Provisions

Chinook recognizes a provision in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, management reviews these estimates, and changes, if any, are prospectively applied. Decommissioning obligation provisions are recorded as a liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. Other provisions are expensed on initial recognition. Periodic revisions to the liability specific discount rates, estimated timing of cash flows and/or to the original estimated undiscounted costs can also result in changes to provisions. Provisions are increased each reporting period with the passage of time as reported in accretion expense. Actual costs incurred upon settlement are recorded against provisions.

Decommissioning obligations for Chinook’s pipelines is not measured because it is considered indeterminable. There is no data or information that can be derived from past practice, industry practice or management intentions to allow management to reasonably estimate the timing and scope of pipeline retirements.

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If a grant is received but compliance with any attached condition is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item, it is recognized as income in the period in which the costs are incurred. Where the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in net income (loss) over the expected useful life of the related asset through lower charges to impairment and/or depletion, depreciation and amortization.

Deferred Taxes

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are not recognized unless it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets and tax liabilities are offset to the extent there is a legally enforceable right to offset the recognized amounts and the intent is to either settle on a net basis or to simultaneously realize the asset and settle the liability.

Deferred income tax expense is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, share options, and share awards are recognized as a deduction from equity, net of any tax effects.

Revenue Recognition

Revenue from the sale of petroleum and natural gas produced by Chinook is recognized when title is transferred from Chinook to its customers. Revenue is measured at the fair value of the consideration received or receivable.

This revenue is recognized when all of the following conditions have been satisfied:

- Chinook has transferred the significant risks and rewards of ownership of the production to the buyer which usually occurs at the time petroleum or natural gas passes through a terminal point;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Chinook; and
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Share-based Compensation

Chinook has the following two types of share-based incentive plans pursuant to which, share awards and share options may be granted to directors, officers, employees and other service providers of Chinook:

Share award incentive plan

The Company has a restricted and performance award incentive plan (the “Share Award Incentive Plan”). Chinook began to grant restricted awards (RSUs) and performance awards (PSUs) on June 26, 2014. Subject to the terms and conditions of the Share Award Incentive Plan, restricted awards and performance awards will entitle the holder to a sum (the "Award Value") to be paid in equal tranches on the first and second anniversaries of the date of grant (the “Payment Date”) of such restricted awards or performance awards, as applicable.

On the applicable Payment Date, Chinook, at its sole and absolute discretion, shall have the option of settling the Award Value to which a holder of restricted awards or performance awards is entitled in the form of either cash or in common shares which may either be acquired by Chinook on the stock exchange on which the common shares may be listed from time to time or issued from the treasury of Chinook, or some combination thereof. Chinook’s current non-binding intention is to settle the Award Value in common shares and it has therefore accounted for the fair value of the restricted awards and performance awards as though they will be equity-settled. Provided Chinook maintains this intention and settles the Award Value through the issuance of common shares, it will continue to account for the restricted awards and performance awards as equity-settled throughout their vesting period. The fair value of the restricted awards and performance awards is determined as of their grant date based on the market price of Chinook’s common shares adjusted for an estimated forfeiture rate.

The fair value of the performance awards is further adjusted by an estimated payout multiplier. Share-based compensation expense is recorded over the period that the restricted awards and performance awards vest, with a corresponding increase to contributed surplus, on the basis that the award is expected to be equity settled. Forfeitures are re-estimated throughout the vesting period based on past experience and future expectations with a final adjustment upon actual vesting. The expected life of these granted awards is adjusted based on Chinook’s best estimate for the effects of non-transferability and exercise restrictions. When either the restricted awards or performance awards vest they are immediately settled, at which time the related fair value amounts previously recorded in contributed surplus are reclassified to share capital.

In the case of restricted awards, the Award Value is calculated at the Payment Date(s) by multiplying the number of restricted awards by the fair market value of the Chinook common shares. The fair market value is determined on the applicable Payment Date as the volume weighted average trading price of the common shares on the Toronto Stock Exchange (or other stock exchange on which the common shares may be listed) for the five trading days immediately preceding such date.

With respect to performance awards, on each Payment Date, or such other dates as may be determined by the Compensation, Nominating and Corporate Governance Committee (the "Committee") of the Board of Directors, the holder will be entitled to an amount equal to one-half of the Award Value underlying such performance awards multiplied by a payout multiplier. The payout multiplier is determined by the Committee based on an assessment of the achievement of the pre-defined corporate performance measures in respect of the applicable period. The payout multiplier for a particular period can range from one-half to two depending on the point within the target range that Chinook satisfies the corporate performance measures. Annually, prior to the Payment Date in respect of any performance award, the Committee assesses the performance of Chinook for the applicable period.

When a restricted award or performance award vests on a Payment Date, it is immediately settled by Chinook. As a result, the reported outstanding awards will always be unvested.

Share option plan

Share options granted pursuant to Chinook's share option plan are intended to be settled through the issuance of common shares from treasury of Chinook. The fair value of share options is determined on their grant date using the Black-Scholes option pricing model. Share-based compensation expense is recorded over the period that the share options vest, with a corresponding increase to contributed surplus. Forfeitures are re-estimated throughout the vesting period based on past experience and future expectations with a final adjustment upon actual vesting. When share options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital. The cashless exercise of share options results in a portion of the optionee's share options being forfeited in consideration for the share option exercise price. Upon exercise, the consideration received plus the amount previously recorded as contributed surplus are recognized as share capital.

Gains or Losses on Disposition of Properties

Gains and losses on the disposition of properties are determined by comparing the proceeds from each sale with the specific E&E and/or D&P Assets' carrying amounts and disposed decommissioning obligations.

Exchanges of properties are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired property is measured at the fair value of the property given up, unless the fair value of the property received is more clearly evident. Chinook will report a gain or loss equal to the difference between the fair value determined for the property acquired relative to the carrying amount of the property given up.

Income (Loss) per Share

Basic income (loss) per share is calculated by dividing the net income or loss attributable to Chinook's common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by the same calculation as basic income (loss) per share except diluted income per share increases the reporting periods' weighted average number of outstanding common shares by the weighted average number of outstanding RSUs and PSUs in addition to "in-the-money" options.

4. New Accounting Standards and Amendments

In July 2014, the IASB issued IFRS 9 "Financial Instruments" to replace IAS 39, "Financial Instruments Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets with a single model that has only two classifications categories: amortized cost and fair value. Additional amendments include a single "expected loss" impairment method and a substantially reformed approach to hedge accounting. Chinook has substantially completed the analysis of the impact of adoption of this standard. Because Chinook's financial assets are already carried at amortized cost or fair value, this standard will not affect Chinook's measure of these financial instruments. Chinook does not currently apply, nor does it intend to apply, hedge accounting to its financial instrument commodity price contracts on adoption of IFRS 9. Chinook does anticipate changes to disclosures in the notes to the financial statements as a result of the adoption of this standard.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” to replace International Accounting Standard (‘IAS”) 18, Revenue, IAS 11 “Construction Contracts”, and related interpretations. Chinook enters into non-complex and routine revenue contracts with customers whose terms allow for the daily physical delivery of produced volumes that are priced at daily or monthly average spot prices. Performance obligations are met upon delivery of the volumes at third parties’ plant gates or terminals and the transaction price is established based on the date of delivery. Management has completed reviewing its various revenue streams and underlying contracts with customers and has concluded that the adoption of this standard will not affect its net income (loss). However, Chinook will expand the disclosures in the notes to its financial statements as outlined in IFRS 15, including disclosing disaggregated revenue streams by commodity type.

As of January 1, 2018, Chinook will retroactively adopt the above two standards.

In January 2016, the IASB issued IFRS 16 “Leases”. The standard requires entities to recognize lease assets and lease obligations on the statements of financial position. For lessees, there will be a single lease accounting model for all leases. There will no longer be a classification test between finance and operating leases. The lessee will recognize a Right of Use (“ROU”) asset and a lease liability, and the lease will be treated as an asset on a financed basis. There will be an optional exemption from the above for short term leases and leases of low value assets, defined at 12 months or less and an option for portfolio accounting on leases that have similar criteria. From the lessor’s perspective, there will still be a dual lease accounting model that follows the criteria set out in IAS 17. As of January 1, 2019, Chinook will be required to adopt this standard. Chinook is currently assessing all major leases including firm commitment contracts, which are expensed as operating leases for reclassification to the statements of financial position.

5. Business Acquisition

On the Closing Date, CEI completed the acquisition of 70% of Tournament’s (as subsequently changed to Craft) issued and outstanding common shares, pursuant to the PSA dated and effective May 1, 2016. In consideration for 70% of the issued and outstanding common shares, CEI transferred the Subject Assets to Craft.

Fair Value of Craft’s Net Assets

Since Craft was a private company and the fair value of this company’s common shares was not available from transparent market transactions, Chinook evaluated the fair value of Craft’s net assets as at the Closing Date. This evaluation included the agreed upon consideration for those properties and associated decommissioning obligations.

CEI’s Consideration

As Chinook maintained control over the Subject Assets transferred to Craft after this acquisition, it continued to measure the Subject Assets at the same carrying amounts immediately prior to and after the acquisition. This resulted in the Subject Assets’ carrying value at the Closing Date being used to determine the 30% non-controlling interest. An evaluation of the fair value of the D&P assets’ component of the Subject Assets revealed that their fair value less costs to sell was less than their carrying amount. As a result, Chinook adjusted for the non-controlling interest portion of this loss through an adjustment to equity of $25.4 million.

Business Combination

A summary of the business combination is as follows:

		June 10 2016
Estimated fair value of net assets acquired:		
Cash	$	867
Non-cash working capital		1,214
Development and production assets (note 7)		23,600
Exploration and evaluation assets (note 8)		1,300
Debt		(17,793)
Decommissioning obligation (note 10b)		(3,977)
Non-controlling interest		(1,563)
	$	3,648
Estimated consideration:		
Non-controlling interest in the carrying value of the Subject Assets	$	29,066
Equity loss		(25,418)
	$	3,648

Since June 10, 2016, included in Chinook's year ended December 31, 2016 consolidated statements of operations and comprehensive loss was approximately $5.0 million of petroleum and natural gas revenue and a $0.4 million net loss recognized from Craft's petroleum and natural gas production. These measures exclude the operating results from the Subject Assets since the Closing Date. Had this business acquisition been effective January 1, 2016, management estimated the approximate consolidated pro forma revenues and net losses at $44 million and $80 million, respectively, for the period ended December 12, 2016.

Net Loss Attributable to Non-controlling Interest

The net loss of Craft from June 10, 2016 to December 12, 2016 resulted in a net loss attributable to the non-controlling interest of $20.6 million.

6. Distribution of Craft Shares to Chinook Shareholders

To measure the distribution of Craft shares, management estimated the fair value of each line item that comprised Craft's net assets as at December 12, 2016. Subsequent to December 12, 2016, Craft entered into purchase and sale agreements to dispose of substantially all of its petroleum and natural gas properties. The selling price in these agreements was used as a basis to estimate the fair value of Craft's petroleum and natural gas properties, net of decommissioning obligations.

A summary of the estimated fair value of Craft's net assets distributed to Chinook's shareholders was as follows:

		December 12 2016
Estimated fair value of Craft's net assets distributed to Chinook's shareholders:		
Cash	$	8,220
Non-cash working capital, excluding the fair value of commodity price contracts and third party warrants		(711)
Commodity price contracts and third party warrants		(4,254)
Debt		(6,287)
Development & production and exploration & evaluation assets, net of decommissioning obligation		37,003
Non-controlling interest		(10,004)
	$	23,967

Chinook recognized the fair value of the Craft shares it distributed to Chinook shareholders on December 12, 2016, through a charge directly to Chinook's deficit of $24.0 million.

Transaction, distribution & severance costs

Severance costs incurred during the years ended December 31, 2017 and 2016 related to staffing reductions. Transaction and distribution costs incurred on the acquisition of Craft (see note 5) and the Craft Share Distribution during the year ended December 31, 2016 include legal and other professional fees. These combined costs of $0.7 million and $3.2 million for the years ended December 31, 2017 and 2016, respectively, were expensed on the consolidated statements of operations and comprehensive loss.

7. Development and Production Assets

The following table reconciles Chinook's D&P Assets for the years ended December 31, 2017 and 2016:

Cost of Assets		**2017**		2016
Beginning balance	**$**	**237,868**	$	719,199
Capital expenditures		**38,662**		9,047
Business acquisition non-cash consideration (note 5)		**-**		23,600
Removed on distribution of Craft shares (note 6)		**-**		(384,293)
Cost of properties sold (note 9)		**-**		(135,430)
Assets held for sale (note 9)		**-**		(6,397)
Transfer from exploration & evaluation assets (note 8)		**800**		300
Transfer of pipeline from customer		**2,785**		-
Decommissioning asset additions and change in estimate (note 10a)		**1,789**		11,842
Ending balance	**$**	**281,904**	$	237,868
Accumulated Depletion & Depreciation				
Beginning balance	**$**	**(144,909)**	$	(473,163)
Depletion & depreciation		**(9,817)**		(21,911)
Impairment		**(17,100)**		(57,780)
Reversal of prior years' impairment		**-**		17,000
Removed on distribution of Craft shares (note 6)		**-**		311,878
Reversal on sale of properties (note 9)		**-**		74,858
Reversed on assets held for sale (note 9)		**-**		4,209
Ending balance	**$**	**(171,826)**	$	(144,909)
Net book values	**$**	**110,078**	$	92,959

Capitalized general and administrative expenses

Chinook capitalized $0.7 million and $1.0 million of direct general and administrative costs related to its development activity during the years ended December 31, 2017 and 2016, respectively.

Transfer of pipeline from customer

During 2017, a customer transferred to Chinook a section of pipeline which connected Chinook's Martin Creek Sales Line, located in northeast BC, to a third party pipeline. Management initially estimated the fair value of this connecting pipeline at $2.8 million using both contracted and interruptible transportation toll revenues discounted using a range from 15% to 30%. The corresponding deferred customer obligation is being amortized over the term of the agreement, which expires October 31, 2020, pursuant to which Chinook is contractually obligated to provide this customer with access to a portion of the Martin Creek Sales Line. As a result, for the year ended December 31, 2017, $0.6 million was recognized through the line item deferred customer obligation amortization as included on the consolidated statements of operations and comprehensive loss. The remaining deferred customer obligation was $0.8 million current and $1.4 million long-term at December 31, 2017.

Evaluation of composition of CGUs

Management reviewed and adjusted its CGUs as a result of changes to both Chinook's property mix achieved through core area development, significant property dispositions and the distribution of Craft shares to Chinook's shareholders on December 12, 2016. Chinook's petroleum and natural gas properties are located in the *Peace River Arch* area with a commodity mix weighted to natural gas and its associated liquids. Management concluded that Chinook had one CGU, the *Peace Arch River* area, as at December 31, 2017 and 2016. Prior to the Craft Share Distribution completed on December 12, 2016, Chinook also had the *Craft CGU*.

Impairment or Reversal of Prior Years' Impairment of D&P Assets

Peace River Arch CGU

Chinook identified evidence indicating impairment in the December 31, 2017, carrying value of the development and production assets. This evidence was a significant sustained reduction in short term forward British Columbia Station 2 natural gas pricing. As a result, Chinook tested for impairment on its one remaining *Peace River Arch* CGU. This test revealed impairment of $17.1 million for the year ended December 31, 2017 compared to a reversal of impairment of $17.0 million at December 31, 2016.

The CGU's recoverable value of $110 million was estimated using a value in use calculation based on a December 31, 2017, independently prepared reserve report. Management used this report's expected future net revenues anticipated to be produced from the combined reserve categories proved developed, proved undeveloped and probable reserves, using before income tax discount rates of 10%, 15% and 20%, as respectively applied to each reserve category, which included $139.1 million of undiscounted future development costs and the following January 1, 2018 forward commodity price estimates (and their comparatives):

	Edmonton Condensate & Natural Gasolines ($/bbl) (1)		British Columbia Station 2 Natural Gas ($/mmbtu) (2)	
As at December 31,	**2017 (3)**	**2016 (3)**	**2017 (3)**	**2016 (3)**
2018	$ 73.10	$ 75.80	$ 1.78	$ 2.78
2019	$ 74.40	$ 78.60	$ 2.28	$ 3.04
2020	$ 78.00	$ 84.30	$ 2.69	$ 3.34
2021	$ 83.70	$ 89.80	$ 3.14	$ 3.64
2022	$ 86.00	$ 91.60	$ 3.34	$ 3.69
Thereafter, increasing per year	2%	2%	2%	2%

(1) Central market point for Canadian condensate.

(2) Central market point for British Columbia natural gas.

(3) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2018 and 2017.

A five percent decrease in the forward commodity price estimate or a one percent increase in the applied discount rate, as determined for the Peace River Arch CGU, would have resulted in an additional impairment charge totaling approximately $12.5 million and $5.5 million, respectively.

Craft CGU

As discussed in note 6, subsequent to December 12, 2016, Craft entered into purchase and sale agreements to dispose of substantially all of its petroleum and natural gas properties. The selling price in these agreements was used as a basis to estimate the fair value of Craft's petroleum and natural gas properties, net of decommissioning obligations. This evaluation resulted in an impairment charge to the Craft CGU of $57.8 million for the year ended December 31, 2016. It also resulted in an impairment charge to Craft's E&E Assets of $0.3 million. Combined with the $17.0 million reversal of prior years' impairment expense from Chinook's one remaining CGU, the impairment of D&P Assets and E&E assets, net of reversal, for the year ended December 31, 2016, as reported on the consolidated statements of operations and comprehensive loss, was $41.1 million.

8. Exploration & Evaluation Assets

The following table reconciles Chinook's E&E Assets for the years ended December 31, 2017 and 2016:

Cost of Assets		2017		2016
Beginning balance	**$**	**30,947**	$	68,622
Capital expenditures		**382**		164
Business acquisition non-cash consideration (note 5)		**-**		1,300
Removed on distribution of Craft shares (note 6)		**-**		(30,346)
Cost of properties sold (note 9)		**-**		(3,037)
Assets held for sale (note 9)		**-**		(5,456)
Transfer to development & production assets (note 7)		**(800)**		(300)
Ending balance	**$**	**30,529**	$	30,947
Accumulated Amortization				
Beginning balance	**$**	**(17,435)**	$	(44,315)
Amortization		**(1,805)**		(3,738)
Impairment of Craft properties (note 7)		**-**		(320)
Removed on distribution of Craft shares (note 6)		**-**		27,725
Properties sold (note 9)		**-**		2,717
Reversed on assets held for sale (note 9)		**-**		496
Ending balance	**$**	**(19,240)**	$	(17,435)
Net book values	**$**	**11,289**	$	13,512

During the year ended December 31, 2017, pre-licensing evaluation, exploratory lease rental and geological and geophysical costs of $0.3 million were expensed through the line item "exploration and evaluation" on the consolidated statements of operations and comprehensive loss (December 31, 2016 - $0.7 million).

Chinook did not identify facts and circumstances that indicated impairment in the December 31, 2017 and 2016 carrying values of exploration and evaluation assets. As at December 31, 2017 and 2016, Chinook's exploration properties, are prospective for the Montney formation as located in the Peace River Arch area. As discussed in note 7, management attributed $0.3 million of impairment to the Craft E&E Assets as at December 12, 2016.

9. Dispositions

Assets Held for Sale

During December 2016, Chinook entered into two agreements to sell certain of its petroleum and natural gas properties and undeveloped lands located in the Knopcik/Pipestone and East Gold Creek areas of northwestern Alberta for total net proceeds of $17.8 million before customary adjustments. At December 31, 2016, these properties were classified as held for sale as it was highly probable that their carrying values would be received through a sales transaction rather than through continued use. The combined net carrying values of $7.1 million were reclassified from D&P Assets and E&E Assets to assets held for sale and the associated decommissioning obligations of $0.2 million were reclassified from provisions to liabilities held for sale on the consolidated statements of financial position. These transactions closed on January 20, 2017 and February 1, 2017, respectively, resulting in a $10.9 million gain on dispositions of properties for the year ended December 31, 2017.

Property Dispositions

During the year ended December 31, 2016, Chinook completed the sale of several petroleum and natural gas properties including undeveloped lands and other adjustments for aggregate net consideration of $21.4 million. The carrying amount of these sold properties, less $45.3 million of associated decommissioning obligations, was less than the sales proceeds received. This contributed to the gain on dispositions of properties of $5.8 million for the year ended December 31, 2016.

Sale of Third Party Notes

The net consideration from property dispositions for the year ended December 31, 2016, included $4.5 million of a buyer's units (the "Units") as held by Craft. The Units were comprised of par value 10.5% senior secured notes (the "Notes") due in 2021 and 7.38 million purchase warrants (the "Warrants"). Chinook management bifurcated the value of the Units between the Notes and the Warrants. The fair value of the Warrants was estimated using received bids. The fair value of the Notes was determined from the face value of the Units less the estimated fair value of the Warrants. Management's fair value estimates for the Notes and Warrants was $4.2 million and $0.3 million, respectively. In November 2016, Craft management sold the Notes for $3.6 million. This resulted in a realized loss on the sale of $0.6 million. The Warrants were included in the estimated fair value of Craft's non-cash working capital as discussed in note 6.

10. Provisions

	December 31 2017	December 31 2016
Decommissioning obligations (a)	$ 31,125	$ 29,067
Onerous contract and indemnifications (b)	2,157	-
Total provisions	$ 33,282	$ 29,067

As reported on the consolidated statements of financial position, Chinook's provisions' consists of:

	December 31 2017	December 31 2016
Current portion	$ 1,655	$ 1,300
Long term portion	31,627	27,767
Total provisions	$ 33,282	$ 29,067

a) Decommissioning obligations

The total future decommissioning obligations were estimated by management based on Chinook's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. At December 31, 2017, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $31.7 million ($31.2 million - December 31, 2016). At December 31, 2017 and 2016, management estimates that these payments are expected to be made over the next 25 years. At December 31, 2017, a risk free rate of 2.2% and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations (December 31, 2016 – 2.34% and 2.0%, respectively).

The following table reconciles Chinook's decommissioning obligations for the years ended December 31, 2017 and 2016:

Decommissioning Obligations:	**2017**	2016
Beginning balance	**$ 29,067**	$ 98,742
Business acquisition (note 5)	-	3,977
Decommissioning obligation additions and change in estimate (note 7)	1,789	11,618
Property dispositions (note 9)	-	(45,278)
Expenditures	(412)	(3,914)
Accretion expense	681	2,192
Liabilities held for sale (note 9)	-	(236)
Removed on distribution of Craft shares (note 6)	-	(38,034)
Ending balance	**$ 31,125**	$ 29,067

The increase in decommissioning obligations during the year ended December 31, 2017 was caused by Chinook's compression facility expansion and its drilling activities in addition to a change in estimate resulting from a decrease in the risk free rate.

b) *Onerous contract and indemnifications*

The following table reconciles Chinook's onerous contract and indemnifications for the year ended December 31, 2017:

Onerous Contract and Indemnifications:		**2017**
Beginning balance	$	**-**
Additions		**1,837**
Indemified litigation and claims transferred from accounts payable, accrued liabilities and other		**1,064**
Expenditures		**(755)**
Accretion expense		**11**
Ending balance	**$**	**2,157**

During the year ended December 31, 2017, Chinook recognized a provision caused by the onerous portion of its Calgary head office lease contract. This provision represents the present value of the minimum future lease payments the Company is obligated to make under the estimated onerous portion of the non-cancellable lease contract less estimated recoveries. At December 31, 2017, the undiscounted amount of future cash flows to settle this provision was $1.2 million. These cash flows have been discounted using a risk-free discount rate of 1.58%. The onerous contract provision is estimated to be settled in future reporting periods through to June 2019.

Chinook is involved in litigation and claims arising in the normal course of operations and from indemnifications provided to the buyer of its Tunisian operations in 2014. At December 31, 2017 and 2016, claims from a former Tunisian service provider and the Tunisian Tax Authority totaled $15 million. Storm BVI has provided the buyer indemnifications for claims of this nature which are guaranteed by Chinook. During the year ended December 31, 2017, management evaluated the potential of future disbursements resulting from Chinook's issued indemnification to be probable. As of December 31, 2017, an estimate of probable future disbursements for these indemnifications, including professional costs, totaled $1.0 million. While the outcome of the remaining claims in excess of $1.0 million is not known with certainty, management is of the view that such claims have a remote probability of success and will represent Chinook's interests vigorously in any future legal or arbitration proceedings.

11. Debt

During the year ended December 31, 2017, Chinook's previous credit facility agreement was terminated and Chinook negotiated and secured a demand credit facility as amended with a Canadian chartered bank to increase the availability to $18.0 million (the "Demand Credit Facility") with the next semi-annual review scheduled for May 31, 2018.

At any time, the lender can request repayment of all outstanding drawn amounts under the Demand Credit Facility resulting in any future borrowings being classified as a current liability. Changes in the availability in the Demand Credit Facility are possible, from one semi-annual review to the next, with draws in excess of availability becoming immediately payable. Borrowings incur interest at the prime rate plus an applicable margin and are collateralized by floating charges and security interests over all of Chinook's present and future properties and other assets. As at December 31, 2017, Chinook had not made any draws on the Demand Credit Facility, but had outstanding letters of credit of $0.8 million, as secured by its lender, which reduced the available credit to $17.2 million (at December 31, 2016 - $-).

The Demand Credit Facility has a financial covenant requiring that the adjusted working capital be 1:1 at each reporting period. For the purposes of this covenant, adjusted working capital is defined as working capital excluding both the current portion of commodity price contracts and debt but including the undrawn portion of the Demand Credit Facility. In addition, the Demand Credit Facility includes operating and financial restrictions on Chinook that include restrictions on paying dividends or repurchasing or making other distributions in respect of Chinook's securities.

As at the end of any month, if the greater of Chinook's adjusted working capital deficits or Demand Credit Facility draws are either up to $9.0 million or in excess of $9.0 million, within 60 days of the end of any such month, the terms of the Demand Credit Facility require that Chinook enter into commodity price contracts covering no less than 30% or 50%, respectively, of its forecasted twelve month combined production volumes. For purposes of this compliance requirement, adjusted working capital deficit is current assets less current liabilities, excluding current commodity price contracts. As at December 31, 2017, Chinook had an adjusted working capital deficit and subsequently entered into commodity price contracts, as detailed in note 16, which management estimates covers no less than 30% of the forecasted twelve month combined production volumes.

As at December 31, 2017, Chinook was in compliance with the foregoing financial covenant and other requirements under the Demand Credit Facility.

On June 10, 2016, as a result of the acquisition of Craft (see note 5), Chinook acquired outstanding debt. This debt was then disposed of on December 12, 2016. Borrowings under Craft's credit facility incurred interest at a rate equal to 9% per annum.

12. Income Taxes

The provision for income taxes reflects an effective tax rate which differs from the expected statutory rate. Differences were accounted for as follows:

	December 31 2017	December 31 2016
Net loss before tax	**$ (16,914)**	$ (54,773)
Expected tax rate	**27.0%**	26.5%
Expected income tax recovery	**$ (4,567)**	$ (14,515)
Effect on income tax resulting from:		
Stock-based compensation	**244**	594
Change in unrecognized tax asset	**5,395**	11,947
Adjustments to opening deferred tax balances	**438**	848
Change in enacted tax rates	**(1,510)**	1,126
Total income tax expense	**$ -**	$ -

The statutory tax rate consists of the combined federal and provincial tax rates applicable for the Company and its subsidiaries.

Unrecognized deferred tax assets

Deferred tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations where these temporary differences arose.

As at December 31, 2017, Chinook had Canadian unrecognized temporary differences as follows:

	December 31 2017	December 31 2016
Development & production/exploration & evaluation assets	**$ 9,421**	$ 29,612
Provisions	**31,125**	29,067
Non-capital losses	**271,954**	230,430
Capital losses	**10,987**	10,750
Other	**3,887**	2,445
	$ 327,374	$ 302,304

Uncertain Tax Position

Chinook is subject to taxation in Canada and was subject to taxation in international jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. Chinook maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Chinook reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of Chinook's provisions could result from audits by, or litigation with, tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

13. Share Capital

Authorized

An unlimited number of no par value common shares and first preferred shares.

Issued and Outstanding

Common Shares

The holders of common shares are entitled to share equally in dividends, returns of capital and to vote at shareholders' meetings.

On December 11, 2017, Chinook completed the private placement of 6,450,000 common shares on a flow-through basis at a price of $0.31 per flow-through common share for total gross proceeds of $2.0 million. The flow-through common share issuance costs were $0.1 million resulting in net proceeds of $1.9 million. A premium of $0.3 million received on the flow-through common shares was recognized as a liability on the consolidated statements of financial position as determined from the difference between the total gross proceeds and the estimated fair value of the equivalent number of Chinook's common shares immediately preceding the date of the flow-through common share announcement. Chinook has until December 31, 2018, to incur the required $2.0 million of qualifying Canadian exploration expenditures. The flow-through common share premium will be amortized on the consolidated statements of operations and comprehensive loss as the qualifying Canadian exploration expenditures are incurred.

In connection with the Craft Share Distribution, on December 12, 2016, each outstanding Chinook share was exchanged for one new class "A" common share in the capital of Chinook (which class "A" common shares were subsequently re-named common shares) and 0.70343 of a common share in the capital of Craft. All previous outstanding common shares of Chinook were deemed to have been cancelled. The Craft share amount represents the pro-rata entitlement per Chinook share to the 152,251,953 Craft shares held by Chinook based on the 216,442,934 Chinook shares issued and outstanding as at the close of business on December 12, 2016. A new Chinook share does not have any pro-rata entitlement to a Craft share.

14. 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. The maximum number of common shares issuable from treasury pursuant to all Share-Based Awards may not exceed 10% of Chinook's issued and outstanding common shares.

Share Option Plan

Outstanding options granted pursuant to Chinook's share option plan vest evenly over a period of three years and expire five years after the grant date. The following table reconciles Chinook's outstanding options for the years ended December 31, 2017 and 2016:

	Number of Options (thousands)		**Weighted Average Exercise Price ($/option)**
Balance as at December 31, 2015	**9,466**	**$**	**1.21**
Forfeited or cancelled	(1,681)	$	(1.22)
Expired	(1,313)	$	(1.62)
Balance as at December 31, 2016	**6,472**	**$**	**1.13**
Granted	5,687		0.38
Forfeited or cancelled	(1,167)		(0.92)
Expired	(715)		(1.48)
Balance as at December 31, 2017	**10,277**	**$**	**0.71**
Exercisable	**3,939**	**$**	**1.16**

The table below summarizes the outstanding and exercisable share options, their respective weighted average exercise prices and remaining life as at December 31, 2017:

	Outstanding Options				Outstanding Exercisable Options			
Range of Exercise Prices ($/option)	**Options Outstanding (thousands)**		**Weighted Average Exercise Prices ($/option)**	**Weighted Average Remaining Life (years)**	**Options Outstanding (thousands)**		**Weighted Average Exercise Prices ($/option)**	**Weighted Average Remaining Life (years)**
$0.38 - $0.53	5,438	$	0.38	4.3	-	$	-	-
$0.54 - $1.08	2,038	$	0.61	2.8	1,414	$	0.62	2.7
$1.09 - $2.46	2,801	$	1.44	1.6	2,525	$	1.46	1.6
	10,277	**$**	**0.71**	**3.2**	**3,939**	**$**	**1.16**	**2.0**

In addition to a forfeiture rate of 13.5%, which was used in the calculation of share-based compensation, the following factors were used in the Black-Scholes pricing model for the determination of the fair value of options granted during the year ended December 31, 2017:

Expected average life (years) (1)	**3 to 5**
Weighted average risk-free interest rate (%)	**1.0**
Weighted average volatility factor (%) (2)	**58**
Share option exercise price ($/option)	**0.38**

(1) The expected average life of the share option is based on time to vest plus a historical calculation.

(2) The volatility factor is based on historical price volatility of Chinook's common shares over the expected life of the option.

The weighted average fair value determined for options granted during the year ended December 31, 2017 was $0.17 per option. There were no options granted during the year ended December 31, 2016.

Restricted and Performance Award Plan

The following table reconciles Chinook's outstanding restricted and performance awards for the years ended December 31, 2017 and 2016:

	Number of Restricted Awards (thousands)	**Number of Performance Awards (thousands)**
Balance as at December 31, 2015	1,084	1,007
Distributed	(562)	(502)
Forfeited	(173)	(123)
Balance as at December 31, 2016	**349**	**382**
Granted	225	-
Distributed	(301)	(346)
Forfeited	(73)	(36)
Balance as at December 31, 2017	**200**	**-**

Certain performance awards which were distributed upon vesting in the years ended December 31, 2017 and 2016 were subject to a performance multiplier.

The fair value determined for restricted awards granted during the year ended December 31, 2017 was $0.38 per award excluding estimated forfeitures. This fair value was based on the market price of Chinook's common shares on the date the restricted awards were granted. There were no restricted or performance awards granted during the year ended December 31, 2016.

15. Related Party and Significant Shareholder

Chinook has determined that its key management personnel consist of its officers and directors. In addition to the salaries and directors fees paid to the officers and directors, respectively, the officers and directors participate in Chinook's long-term incentive plans, which include the share option plan and the Share Award Incentive Plan. The officers' salaries, directors' fees and other benefits as mostly included in general and administrative expense and transaction, distribution and severance costs for the years ended December 31, 2017 and 2016 totaled $2.2 million and $2.3 million, respectively. Long-term incentive benefits for Chinook's officers and directors as included in share-based compensation for the years ended December 31, 2017 and 2016 totaled $0.6 million and $1.2 million, respectively.

Alberta Investment Management Corporation ("AIMCo"), as investment manager to Her Majesty the Queen in Right of the Province of Alberta ("HMQ"), maintains investment control and direction over approximately 36% of Chinook's outstanding common shares for the benefit of HMQ. Pursuant to a management and administration services agreement (the "Services Agreement") dated June 29, 2010 between WOGH GP and Chinook, WOGH GP engaged Chinook to perform its duties under the partnership agreement and to manage, administer and maintain the properties and the books, accounts and records of WOGH in connection with the partnership business and to make all decisions relating thereto. WOGH was formed to hold working interests in certain of Chinook's assets which are held by nominees of AIMCo on behalf of HMQ. As Chinook manages, administers and maintains the properties and the books, accounts and records of WOGH, the Company is reimbursed for such services. In accordance with the Services Agreement, Chinook reported a recovery from WOGH, which is mostly reported against the Company's general and administrative expense of $1.1 million and $1.4 million for the years ended December 31, 2017 and 2016, respectively. The recovery for the years ended December 31, 2017 and 2016 was generally determined from WOGH's pro rata share as estimated at 14 percent of its and CEI's combined production volumes. At December 31, 2017 and 2016, $0.1 million of this general and administrative recovery was included in accounts receivable.

16. Financial Instruments and Market Risk Management

Financial Instrument Classification and Measurement

Chinook's financial instruments carried on the consolidated statements of financial position as at December 31, 2017 were carried at amortized cost with the exception of cash which was carried at fair value. Chinook's cash was assessed on the fair value hierarchy as level 1 as it is transacted in active markets. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management

Chinook is exposed to a number of market risks that are part of its normal course of business. Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework. In the sections below, Chinook prepared a sensitivity analysis in an attempt to demonstrate the effect of changes in these market risk factors on its consolidated statements of operations and comprehensive loss. For the purposes of the sensitivity analysis, the effect of a variation in a particular variable was calculated independently of any change in another variable. In reality, changes in one variable may contribute to changes in another, which may increase or decrease the change. The assumptions made to derive the changes in the relevant risk variables in each sensitivity analysis were based on Chinook's assessment of reasonably possible changes that could occur at December 31, 2017. The results of the sensitivity analysis should not be considered to be predictive of future performance.

Commodity Price Risk

Commodity price risk occurs as the fair value of Chinook's financial instrument contracts fluctuate as a result of changes in commodity prices. In the past Chinook has entered into various commodity price contracts to mitigate the exposure to commodity price risk. The use of such instruments is subject to limits established and approved by the Board of Directors. These limits are sufficient to comply with Chinook's recent Demand Credit Facility compliance requirements (see note 11). Chinook's policy precludes the use of financial instrument contracts for speculative purposes. As at December 31, 2017, Chinook had not entered into any financial derivative contracts. Had Chinook entered into such an arrangement, the fair value estimate would have been partially determined through the difference in the referenced benchmark forward price as compared to each contract's strike price multiplied by the notional volumes during the remaining contractual term.

Subsequent to December 31, 2017, Chinook entered into a commodity price contract with the following terms:

Indexed Price	Notional Volumes	Company's Received Price	Contractual Term
Chicago City Gate	6,000 mmbtu/d	US$2.68/mmbtu	February 1, 2018 to March 31, 2019

Interest Rate Risk

Interest rate risk occurs when the fair value of debt fluctuates because of changes in market interest rates. Chinook is exposed to interest rate fluctuations on its Demand Credit Facility which bears a floating rate of interest. As mentioned, Chinook had no outstanding debt as at December 31, 2017.

Foreign Exchange Risk

Foreign exchange risk occurs as financial instruments fluctuate as a result of changes in foreign exchange rates. Most of Chinook's financial instruments are indirectly exposed to currency risk as the underlying commodity prices in Canada for petroleum and natural gas are impacted by changes in exchange rate between the Canadian and the United States dollars. As at December 31, 2017, Chinook held US$1.2 million in cash. Management estimates that an increase (decrease) in the US dollar, relative to the Canadian dollar, of 10% is possible and this would result in a $0.2 million increase (decrease) in foreign exchange gains from this US cash held.

Financial Assets and Credit Risk

Credit risk is the risk of financial loss to Chinook if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. As at December 31, 2017, Chinook was mostly exposed to credit risk with respect to its accounts receivable. Most of Chinook's accounts receivable relate to petroleum and natural gas sales and joint interest activities and are subject to typical industry credit risk. During 2017, Chinook had two purchasers that individually accounted for 10% or more of the Company's total revenue. Chinook transacts with a number of commodity purchasers and historically has not experienced any purchaser credit losses. Purchasers typically remit amounts to Chinook prior to the end of the month following production. Receivables from partners within jointly owned assets and operations are typically collected within one to three months following production.

Chinook's accounts receivable balance was aged as follows:

	December 31 2017	December 31 2016
Not past due	**$ 3,351**	$ 5,976
Past due by more than 90 days, net of allowance	**139**	682
	$ 3,490	$ 6,658

During the year ended December 31, 2017, Chinook reported $0.3 million (December 31, 2016 - $0.6 million) of accounts receivable that were deemed uncollectable and charged to bad debt expense as included in the consolidated statements of operations and comprehensive loss.

Chinook's allowance for doubtful accounts was $0.8 million as at December 31, 2017 (December 31, 2016 - $3.1 million). When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Chinook considers all amounts greater than 90 days after the due date to be past due. As at December 31, 2017, $0.1 million of accounts receivable were past due and considered to be collectible.

Maximum credit risk is calculated as the total recorded value of cash and accounts receivable assets at December 31, 2017.

Financial Liabilities and Liquidity Risk

Liquidity difficulties could emerge if Chinook is unable to meet its financial obligations as they fall due within normal credit terms. The Company prepares annual budgets, which are monitored and updated as required. Generally Chinook will, over a reasonable period of time, limit its capital programs to available funds. Chinook frequently evaluates the options available, with respect to sources of short and long-term capital. Management believes that future generated cash flows as complimented, on occasion, with these sources of capital will be adequate to settle Chinook's financial liabilities. All of Chinook's accounts payable and accrued liabilities listed on the consolidated statements of financial position are due within one year.

17. Commitments and Guarantees

At December 31, 2017, Chinook's contractual commitments required the following minimum future payments without giving effect to any offsetting third party agreements, which are anticipated to reduce some of these amounts:

December 31	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
Office leases	$ 1,593	$ 797	$ -	$ -	$ -	$ 2,390
Operating contracts	4,157	2,263	877	209	-	7,506
	$ 5,750	**$ 3,060**	**$ 877**	**$ 209**	**$ -**	**$ 9,896**

Office lease commitments relate to Chinook's head office in Calgary, Alberta. This office lease commitment excludes the undiscounted portion considered onerous (see note 10b). Operating contracts relate to minimum contractual payments if Chinook does not benefit from the operating services.

Chinook has guaranteed indemnifications issued by Storm (BVI) to the buyer of its former Tunisian operations (see note 10b).

As at December 31, 2016, Chinook had guaranteed a total of $1.3 million in outstanding letters of credit through depositing an equivalent amount in cash with its lender. During the year ended December 31, 2017, the lender released its restrictions to this cash in connection with the execution of the Demand Credit Facility.

18. Other Supplementary Information

Changes in non-cash working capital

	Year ended December 31	
	2017	2016
Cash provided by (used for):		
Accounts receivable	**$ 2,868**	$ 3,880
Prepaids & deposits	**2,196**	(1,468)
Accounts payable, accrued liabilities & other	**(239)**	(10,328)
Craft non-cash working capital	**-**	1,638
	$ 4,825	$ (6,278)
Cash provided by (used for):		
Operating activities	**$ 3,284**	$ (511)
Investing activities	**1,521**	(5,767)
Financing activities	**20**	-
	$ 4,825	$ (6,278)

Cash interest and financing fees paid

	Year ended December 31	
	2017	2016
Cash interest & financing fees paid	**$ 109**	$ 1,125

Per Share Amounts

The per share amounts for the years ended December 31, 2017 and 2016, were calculated as per the following table:

	Year ended December 31	
	2017	2016
Weighted average shares outstanding - basic & diluted (thousands)	**217,174**	215,860
Net loss	**$ (16,914)**	$ (54,773)
Net loss per share - basic & diluted ($/share)	**$ (0.08)**	$ (0.25)

For the years ended December 31, 2017 and 2016, because Chinook reported net losses, the effect of Share-Based Awards would have been anti-dilutive resulting in them being excluded in the calculation of dilutive weighted average shares outstanding.

Consolidated statements of operations and comprehensive loss presentation

Chinook's consolidated statements of operations and comprehensive loss was prepared primarily by nature of expense, with the exception of employee compensation costs which were included in the production and operating, general and administrative and exploration and evaluation expense line items.

The following table details the amount of total employee compensation costs included in these line items in the consolidated statements of operations and comprehensive loss.

	2017	2016
Production & operating	**$ 231**	$ 491
General & administrative	**1,431**	3,969
Transaction, distribution and severance costs	**705**	1,092
Exploration & evaluation	**177**	267
Total employee compensation costs	**$ 2,544**	$ 5,819