

Q2

2018

## News Release



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

## CHINOOK ENERGY INC. ANNOUNCES SECOND QUARTER 2018 RESULTS

**CALGARY, ALBERTA – August 9, 2018** – Chinook Energy Inc. ("our", "we", or "us") (TSX: CKE) is pleased to announce its second quarter of 2018 financial and operating results.

Our operational and financial highlights for the three and six months ended June 30, 2018 are noted below and should be read in conjunction with our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2018 and 2017 and our related management's discussion and analysis which have been posted on the SEDAR website ([www.sedar.com](http://www.sedar.com)) and our website ([www.chinookenergyinc.com](http://www.chinookenergyinc.com)).

### Second Quarter of 2018 Financial and Operating Highlights

	Three months ended		Six months ended	
	2018	2017	2018	2017
<b>OPERATIONS</b>				
<b>Production Volumes</b>				
Natural gas liquids (boe/d)	680	441	575	461
Natural gas (mcf/d)	22,253	19,065	18,053	18,546
Crude oil (bbl/d)	23	19	21	24
Average daily production (boe/d) <sup>(1)</sup>	4,413	3,638	3,605	3,576
<b>Sales Prices</b>				
Average natural gas liquids price (\$/boe)	\$ 66.65	\$ 44.48	\$ 63.29	\$ 48.07
Average natural gas price (\$/mcf)	\$ 1.40	\$ 2.77	\$ 1.87	\$ 2.74
Average oil price (\$/bbl)	\$ 75.11	\$ 59.55	\$ 72.09	\$ 60.01
<b>Netback<sup>(2)</sup></b>				
Average commodity pricing (\$/boe)	\$ 17.75	\$ 20.22	\$ 19.90	\$ 20.81
Royalty (expense) recovery (\$/boe)	\$ (0.07)	\$ (0.33)	\$ (0.11)	\$ (0.07)
Realized (loss) gain on commodity price contracts (\$/boe)	\$ 0.17	\$ 1.01	\$ (0.35)	\$ 1.19
Net production expense (\$/boe) <sup>(2)</sup>	\$ (10.17)	\$ (11.82)	\$ (11.96)	\$ (11.55)
Operating Netback (\$/boe) <sup>(1) (2)</sup>	\$ 7.68	\$ 9.08	\$ 7.48	\$ 10.38
<b>Wells Drilled</b>				
Exploratory wells (net)	-	-	2.00	-
Natural gas wells (net)	-	3.63	-	3.63

	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
<b>FINANCIAL</b> (\$ thousands, except per share amounts)				
Petroleum & natural gas revenues, net of royalties	\$ 7,098	\$ 6,583	\$ 12,913	\$ 13,421
Adjusted funds flow <sup>(2)</sup>	\$ 1,836	\$ 1,195	\$ 2,307	\$ 3,231
Per share - basic and diluted (\$/share)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Net (loss) income	\$ (2,471)	\$ (2,253)	\$ (4,569)	\$ 8,169
Per share - basic and diluted (\$/share)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.04
Capital expenditures	\$ 180	\$ 8,235	\$ 2,677	\$ 17,058
Net (debt) surplus <sup>(2)</sup>	\$ (2,654)	\$ 18,294	\$ (2,654)	\$ 18,294
Total assets	\$ 123,637	\$ 144,891	\$ 123,637	\$ 144,891
<b>Common Shares</b> (thousands)				
Weighted average during period				
- basic	223,603	216,598	223,584	216,521
- diluted	223,603	216,598	223,584	217,042
Outstanding at period end	223,605	217,115	223,605	217,115

(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 June 30, 2018

- During the second quarter of 2018 ("second quarter") corporate production increased by 21%, or 775 boe/d, compared to the same quarter of 2017.
- During the month of June, our production volumes were restricted due to maintenance issues on Enbridge's Oak 16" gathering line as well as other third party pipeline capacity constraints. Had these restrictions not occurred, our second quarter production volumes would have been approximately 20% higher at 5,300 boe/d. These issues were all resolved in early July. Since then, we have averaged approximately 5,000 boe/d.
- Second quarter production volumes increased by 58% compared to 2,788 boe/d reported during the first quarter.
- Net production expenses dropped by 31%, or \$4.67/boe, in the second quarter compared to the first quarter.
- During the quarter we entered into commodity price costless collar contracts for the second and third quarters of 2019 which essentially fix our Alliance natural gas sales to Chicago City Gate index prices. See our management's discussion and analysis for details. Combined with our other commodity price contracts, we have now secured pricing on approximately 30% of our forecasted production volumes.
- As at June 30, 2018, we amended our demand credit facility agreement with a Canadian chartered bank with an availability of \$10.0 million. We forecast our 2018 year end net debt will be approximately \$0.5 million.

## President's Message

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. Notwithstanding our minimal capital spending for 2018, we expect our 2018 annual average production to be approximately 18% higher than our 2017 annual production. With over 550 locations on our Birley/Umbach property and only 13 drilled to date, we have confirmed the resources are there and our objective is to extract them efficiently and profitably. Our additional delineation work in the first quarter has expanded the boundaries of the Montney resource in the area. Although we are encouraged with the results to date we remain cautious on making further significant capital expenditures until such time as commodity prices improve to a more constructive level. To date, commodity prices in 2018 have been higher than our internal forecasts and will serve to strengthen our balance sheet and facilitate future drilling activity.

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

## 2018 Guidance

Considering the above and in the absence of further unforeseen third party pipeline restrictions, we are announcing the following guidance for the second half and full year of 2018:

(\$ millions, except boe/d)	2018 H2 Guidance <sup>(1)</sup>	2018 Guidance
Average production (boe/d)	4,450	4,000
Exit production (boe/d)	4,100	4,100
Capital expenditures	\$ -	\$ 2.8
Abandonment and reclamation expenditures	\$ 0.3	\$ 0.7
Net debt as at December 31, 2018	\$ 0.5	\$ 0.5

(1) H2 2018 guidance assumptions: \$1.44/GJ Station 2 and \$3.50/mmbtu Chicago Alliance natural gas pricing.

Please see our related management's discussion and analysis for the three and six months ended June 30, 2018 and 2017 for details of our operational and financial results

## 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.

For further information please contact:

Walter Vrataric  
President and Chief Executive Officer  
Chinook Energy Inc.  
Telephone: (403) 261-6883  
Website: [www.chinookenergyinc.com](http://www.chinookenergyinc.com)

Jason Dranchuk  
Vice President, Finance and Chief Financial Officer  
Chinook Energy Inc.  
Telephone: (403) 261-6883

## 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: 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, future exploration and development activities and the timing thereof and how we intend to manage our company, as well as our guidance regarding average and ending production for 2018, capital expenditures for 2018, abandonment and reclamation expenditures for 2018 and net surplus at December 31, 2018 set forth under the heading "President's Message".

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](http://www.sedar.com)) and at our website ([www.chinookenergyinc.com](http://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.