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 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 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 6, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chinook Energy Inc.

Opinion

We have audited the consolidated financial statements of Chinook Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of operations and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

KPMG

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Brad William Robertson.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 6, 2019

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)		December 31 2018		December 31 2017
Assets				
Current				
Cash	**$**	**-**	$	4,341
Accounts receivable (note 5)		**3,386**		3,490
Prepaids & deposits		**2,528**		1,373
Fair value of commodity price contracts (note 5)		**424**		-
		6,338		9,204
Development & production assets (note 6)		**82,930**		110,078
Exploration & evaluation assets (note 7)		**12,148**		11,289
	$	**101,416**	$	130,571
Liabilities & Shareholders' Equity				
Current				
Accounts payable & accrued liabilities	**$**	**5,547**	$	9,915
Debt (note 8)		**2,361**		-
Fair value of commodity price contracts (note 5)		**659**		-
Provisions (note 9)		**575**		1,655
Deferred customer obligation (note 6)		**777**		775
		9,919		12,345
Provisions (note 9)		**33,146**		31,627
Deferred customer obligation (note 6)		**648**		1,427
Flow-through common shares premium (note 10)		**-**		323
Shareholders' Equity				
Share capital		**786,507**		786,492
Contributed surplus		**20,328**		19,835
Deficit		**(749,132)**		(721,478)
		57,703		84,849
	$	**101,416**	$	130,571

Subsequent event (note 5)
Commitments and guarantees (notes 9 & 16)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

"signed"
Jill T. Angevine

Chairman of the Board of Directors and Director

"signed"
Robert J. Herdman

Chairman of the Audit Committee and Director

Consolidated Statements of Operations and Comprehensive Loss

	Year ended	December 31
(in thousands of Canadian dollars, except per share amounts)	**2018**	2017
Petroleum & natural gas revenues (note 11)	**$ 25,947**	$ 21,214
Royalty (expense) recovery	**(110)**	57
Petroleum & natural gas revenues, net of royalties	**25,837**	21,271
Processing & gathering revenues (note 11)	**1,050**	1,006
Take-or-pay contract revenue (note 11)	**3,821**	2,974
Petroleum, natural gas & other revenues, net of royalties	**30,708**	25,251
Realized (loss) gain on commodity price contracts (note 5)	**(982)**	3,770
Unrealized (loss) gain on commodity price contracts (note 5)	**(235)**	154
(Loss) gain on commodity price contracts	**(1,217)**	3,924
Total revenues, net of royalties and commodity price contracts	**29,491**	29,175
Production & operating	**16,845**	15,476
Take-or-pay contract expense	**4,389**	3,500
General & administrative	**4,114**	5,244
Severance costs	**834**	705
Exploration & evaluation (note 7)	**171**	272
Impairment of development & production assets (note 6)	**19,600**	17,100
Depletion, depreciation & amortization (notes 6 & 7)	**11,654**	11,622
Deferred customer obligation amortization (note 6)	**(777)**	(583)
Gain on dispositions of properties (note 12)	**(721)**	(10,926)
Share-based compensation (note 13)	**508**	906
Amortization of flow-through common shares premium (note 10)	**(323)**	-
Other (income) losses	**(22)**	105
Onerous contract and indemnifications (note 9b)	**-**	1,837
Bad debt expense (note 5)	**-**	300
Total expenses, net of gains on dispositions of properties, excluding finance expenses	**56,272**	45,558
Loss before finance expenses	**(26,781)**	(16,383)
Interest & financing expense (income)	**180**	(161)
Accretion of provisions (notes 9a & 9b)	**693**	692
Finance expenses	**873**	531
Net & comprehensive loss	**$ (27,654)**	$ (16,914)
Net loss per share, basic and diluted (note 17)	**$ (0.12)**	$ (0.08)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)		Share Capital		Contributed Surplus		Deficit		Shareholders' Equity
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 13)	-		-		906		-		906
Issuance of flow-through shares, net of issue costs (note 10)	6,450		1,880		-		-		1,880
Flow-through common shares premium (note 10)	-		(323)		-		-		(323)
Net loss	-		-		-		(16,914)		(16,914)
Balance as at December 31, 2017	**223,565**	**$**	**786,492**	**$**	**19,835**	**$**	**(721,478)**	**$**	**84,849**
Settlement of restricted share awards	40		15		(15)		-		-
Share-based compensation (note 13)	-		-		508		-		508
Net loss	-		-		-		(27,654)		(27,654)
Balance as at December 31, 2018	**223,605**	**$**	**786,507**	**$**	**20,328**	**$**	**(749,132)**	**$**	**57,703**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31 2018	2017
Operating Activities		
Net loss	**$ (27,654)**	$ (16,914)
Add (deduct):		
Unrealized loss (gain) on commodity price contracts (note 5)	**235**	(154)
Impairment of development & production assets (note 6)	**19,600**	17,100
Depletion, depreciation & amortization (notes 6 & 7)	**11,654**	11,622
Deferred customer obligation amortization (note 6)	**(777)**	(583)
Gain on dispositions of properties (note 12)	**(721)**	(10,926)
Share-based compensation (note 13)	**508**	906
Amortization of flow-through common shares premium (note 10)	**(323)**	-
Foreign currency (gain) loss	**(41)**	121
Onerous contract and indemnifications (note 9b)	**-**	1,837
Bad debt expense (note 5)	**-**	300
Accretion of provisions (notes 9a & 9b)	**693**	692
Provision expenditures (notes 9a & 9b)	**(1,608)**	(1,167)
Change in operating non-cash working capital (note 17)	**(1,311)**	3,284
Cash inflow from operating activities	**255**	6,118
Financing Activities		
Debt borrowings (note 8)	**2,361**	-
Issuance of flow-through common shares, net of issue costs (note 10)	**-**	1,880
Change in financing non-cash working capital (note 17)	**(20)**	20
Cash inflow from financing activities	**2,341**	1,900
Investing Activities		
Development & exploration expenditures (notes 6 & 7)	**(2,890)**	(39,044)
Proceeds on property dispositions (note 12)	**-**	17,838
Restricted cash release (note 16)	**-**	1,308
Change in investing non-cash working capital (note 17)	**(4,088)**	1,521
Cash outflow from investing activities	**(6,978)**	(18,377)
Change in cash during the year	**(4,382)**	(10,359)
Cash, beginning of year	**4,341**	14,821
Cash, foreign currency gain (loss)	**41**	(121)
Cash, end of year	**$ -**	$ 4,341

Other supplementary information (note 17)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2018 and 2017

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, 2018 and 2017 (these "Financial Statements") include the accounts of Chinook Energy Inc. and two directly held wholly-owned subsidiaries (collectively, including all subsidiaries, "Chinook" or the "Company"): 1542991 Alberta Ltd. and Storm Ventures International (BVI) Limited ("Storm BVI").

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 6, 2019.

Basis of Measurement

These Financial Statements have been prepared on the historical cost basis with the exception of certain financial instruments 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.

Jointly Owned Assets:

Certain activities of Chinook are conducted jointly with others where the participants have a direct ownership interest in the related assets. Accordingly, the accounts of Chinook reflect only its working interest share of revenues and expenditures related to these jointly owned assets. Contractual arrangements for Chinook's jointly owned assets govern that the partners have rights to the assets and obligations for associated 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.

Transactions eliminated on consolidation:

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

Financial Instruments

Adoption of IFRS 9 "Financial Instruments"

Effective January 1, 2018, Chinook adopted *IFRS 9 Financial Instruments* ("IFRS 9"), which replaced *IAS 39 Financial Instruments: Recognition and Measurement*. The retrospective adoption of IFRS 9 did not have a material impact on these Financial Statements.

Classification of Financial Instruments

IFRS 9 contains three principal classification categories for financial instruments: measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss ("FVTPL"). Financial instruments are initially measured at fair value.

The classification of financial assets under IFRS 9 is generally based on both the business model in which the financial asset is managed and its contractual cash flow characteristics. A financial asset is subsequently measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

i) The asset is held with the objective to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at their fair values with changes in fair value recognized in the consolidated statements of operations and comprehensive loss. Financial liabilities are subsequently measured at either their fair value, with changes in fair value recognized in the statements of operations and comprehensive loss, or at amortized cost using the effective interest rate method. Financial instruments are not reclassified as subsequently measured at either amortized cost or FVTPL after their initial recognition.

Chinook evaluates financial instruments classified as FVTPL 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.

Impairment of Financial Assets Measured at Amortized Cost

Chinook uses the expected credit loss model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. Chinook's accounts receivable are typically short-term with payments received within a three to four month period and they do not have a significant financing component. As a result, Chinook recognizes an amount equal to the lifetime expected credit losses based on its historical experience and including forward-looking information. The carrying amount of these assets in the consolidated statements of financial position is net of any loss allowance.

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 no longer pursued for further evaluation or future development, 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.

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 are not measured because they are 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

Adoption of IFRS 15 "Revenue from Contracts with Customers"

Effective January 1, 2018, Chinook adopted *IFRS 15 Revenue from Contracts with Customers* ("IFRS 15"), which replaced *IAS 18 Revenue, IAS 11 Construction Contracts* and related interpretations. Chinook applied IFRS 15 to all of its contracts with customers using the cumulative effect method. Under this method, the comparative year's financial statements have not been restated. Management reviewed its customer contracts and associated revenue streams and concluded there were no material changes to its net loss or in the timing of when production revenue is recognized. As a result, no adjustments were required to the January 1, 2018 statement of financial position.

IFRS 15

Chinook applies a single, principles-based five-step analysis of transactions to determine the nature of its obligation to perform and whether, how much and when revenue is recognized.

Chinook's revenues are from the following major sources:

- Revenue from its production of petroleum liquids and natural gas;
- Fees charged to third parties for product processing and distribution services provided at facilities or pipelines where Chinook has an ownership interest; and
- Revenue from a take or pay contract where production is delivered by a third party.

Revenues from the sale of petroleum liquids, natural gas and a take or pay contract is measured using the consideration specified in contracts with customers. Chinook recognizes these types of revenues when it transfers control of the product to the buyer and collection is reasonably assured. This is generally at the point in time the purchaser obtains legal title to the product which is when it is physically transferred at an agreed upon delivery point, often a pipeline or other terminal point. Revenues from product processing and distribution services are recognized as these services are provided.

The nature of each of its performance obligations, including roles of third parties and partners, are evaluated to determine if Chinook acts as the principal or as an agent. In making this evaluation, management considers if Chinook obtains control of the product delivered, which is indicated by Chinook having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Chinook acts as the principal in a transaction, revenue is recognized on a gross-basis. If Chinook acts in the capacity of an agent in a transaction, then the revenue only reflects the fee, if any, realized by it from the transaction.

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") pursuant to which it 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 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, in its sole and absolute discretion, has 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 applicable 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 Values 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 the Transfer or Disposition of Properties

Gains and losses on the transfer or disposition of properties are determined by comparing any proceeds from each transfer or 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, PSUs and "in-the-money" options.

4. New Accounting Standard Not Yet Adopted

In January 2016, the IASB issued IFRS 16 "Leases". The standard requires entities to recognize lease assets and lease obligations in 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 optional exemptions from the above for short term leases, defined at 12 months or less, and leases of low value assets. There will also be 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 has compiled a list of contracts to assess the applicability of the new leasing standard. The extent of the impact of the adoption of this standard has not yet been determined.

5. Financial Instruments and Market Risk Management

Financial Instrument Classification and Measurement

Chinook's accounts receivable, debt and accounts payable & accrued liabilities are classified and subsequently measured at amortized cost. The fair value of all of these financial instruments as presented on the consolidated statements of financial position at December 31, 2018, approximates their carrying amount due to their short-term nature.

Chinook's commodity price contracts are financial instruments classified as FVTPL. These contracts were assessed on the fair value hierarchy as Level 2. The estimated commodity price contract's fair value is subject to changes in historical benchmark price volatilities, forward benchmark prices, and rates for both foreign exchange and interest. 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.

At December 31, 2018, Chinook does not have any measurements classified on the fair value hierarchy as either Level 1 or 3 (December 31, 2017 - Chinook's cash was classified as FVTPL and assessed as a Level 1 valuation).

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 Chinook'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, 2018. The results of the sensitivity analysis should not be considered to be predictive of future performance.

Commodity Price Risk

Chinook is exposed to commodity price risk as prices it receives for its petroleum and natural gas production fluctuate. Commodity prices fluctuate as a result of a number of local and global factors including supply and demand, inventory levels, pipeline transportation constraints, weather, political stability and economic factors. Chinook enters 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 minimum hedging requirement (see note 8). Chinook's policy precludes the use of financial instrument contracts for speculative purposes.

Chinook's outstanding commodity price contracts at December 31, 2018 had the following terms:

Remaining Contractual Term	Notional Volumes	Index and Company's Received Price
Natural gas swap		
January 1, 2019 to March 31, 2019	6,000 mmbtu/d	Chicago City Gate Monthly US$2.68/mmbtu
Natural gas collars		
April 1, 2019 to June 30, 2019	6,000 mmbtu/d	NYMEX (1) US$1.935/mmbtu to US$3.16/mmbtu
July 1, 2019 to September 30, 2019	6,000 mmbtu/d	NYMEX (1) US$2.00/mmbtu to US$3.21/mmbtu
Natural gas differential swaps		
April 1, 2019 to June 30, 2019	6,000 mmbtu/d	Price at Chicago = NYMEX (1) less US$0.435/mmbtu
July 1, 2019 to September 30, 2019	6,000 mmbtu/d	Price at Chicago = NYMEX (1) less US$0.41/mmbtu
Crude oil swaps		
April 1, 2019 to June 30, 2019	120 bbl/d	WTI (2) CAD$84.20/bbl
July 1, 2019 to September 30, 2019	120 bbl/d	WTI (2) CAD$84.00/bbl

(1) NYMEX is the abbreviation for the New York Mercantile Exchange.

(2) WTI is the abbreviation for West Texas Intermediate.

At December 31, 2018, the crude oil swaps had a combined fair value asset of $0.4 million whereas the natural gas contracts had a combined fair value liability of $0.7 million as reported through the line items fair value of commodity price contracts in current assets and liabilities, respectively, on the consolidated statements of financial position. As a result of these fair values, Chinook reported an unrealized loss on commodity price contracts of $0.2 million for the year ended December 31, 2018 (whereas it reported a $0.2 million unrealized gain on a commodity price contract that expired during the year ended December 31, 2017). The fair value of each contract was mainly determined through the difference in the referenced benchmark forward price as compared to the contract's strike price multiplied by the notional volumes during the remaining contractual term. Chinook did not have any outstanding commodity price contracts at December 31, 2017.

During the year ended December 31, 2018, Chinook reported a $1.0 million realized loss on a natural gas swap compared to a $3.8 million realized gain on a contract that expired during the year ended December 31, 2017.

Chinook's commodity price contracts are sensitive to commodity price volatility. A US$0.10/mmbtu price increase (decrease) in the Chicago City Gate Monthly benchmark would increase (decrease) Chinook's net and comprehensive loss by $0.5 million for the year ended December 31, 2018.

Subsequent to December 31, 2018, Chinook entered into the following commodity price contracts to both manage its overall commodity price exposure and to comply with its minimum hedging requirement (see note 8):

Contractual Term	Notional Volumes	Index and Company's Received Price
Natural gas swap		
October 1, 2019 to December 31, 2019	3,000 GJ/d	Westcoast Station 2 CAD$1.645/GJ
Natural gas collar		
October 1, 2019 to December 31, 2019	3,000 mmbtu/d	NYMEX (1) US$2.25/mmbtu to US$3.68/mmbtu
Natural gas differential swap		
October 1, 2019 to December 31, 2019	3,000 mmbtu/d	Price at Chicago = NYMEX (1) less US$0.125/mmbtu

(1) NYMEX is the abbreviation for the New York Mercantile Exchange.

Interest Rate Risk

Interest rate risk occurs because of changes in market interest rates. Chinook is exposed to interest rate fluctuations on its debt which bears a floating rate of interest. If the interest rate applicable to Chinook's variable rate debt were to increase by 100 basis points, its effect would increase Chinook's consolidated statements of operations and comprehensive loss by $0.1 million for the year ended December 31, 2018.

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. Chinook has mitigated some of this foreign exchange risk by entering into Canadian dollar crude oil swaps as outlined in the above commodity price risk section. At December 31, 2018, Chinook held natural gas commodity price contracts where the contracted prices were denominated in United States dollars. Management estimates that an increase (decrease) in the US dollar, relative to the Canadian dollar, of 10% is possible and this would have resulted in a $0.2 million increase (decrease) in Chinook's consolidated statements of operations and comprehensive loss for the year ended December 31, 2018.

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. At December 31, 2018, 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 operations in jointly owned assets and are subject to typical industry credit risk. During 2018, Chinook had four purchasers that individually accounted for 10% or more of the Company's revenues. 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 are typically collected within one to three months following production.

Chinook's accounts receivable balance was aged as follows:

As at December 31,	2018	2017
Not past due	**$ 3,335**	$ 3,351
Past due by more than 90 days, net of allowance	**51**	139
	$ 3,386	$ 3,490

During the year ended December 31, 2018 and 2017, Chinook reported $nil and $0.3 million, respectively, 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 $0.2 million at December 31, 2018 (December 31, 2017 - $0.8 million). During the year ended December 31, 2018, Chinook wrote-off $0.6 million of receivables that it had previously expensed. Chinook recognizes an amount equal to the lifetime expected credit losses based on its historical experience and forward-looking information. Chinook considers all amounts greater than 90 days after the due date to be past due. At December 31, 2018, $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 both accounts receivable and commodity price contract assets as at December 31, 2018.

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. The following financial liabilities on the consolidated statements of financial position are due within one year:

		Within 1 year
Accounts payable & accrued liabilities	$	5,547
Debt		2,361
Fair value of commodity price contracts		659
	$	**8,567**

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

The following table reconciles Chinook's D&P Assets for the years ended December 31, 2018 and 2017:

Cost of Assets		**2018**		2017
Balance, beginning of year	**$**	**281,904**	$	237,868
Capital expenditures		**98**		38,662
Decommissioning asset additions and change in estimate (note 9a)		**1,987**		1,789
Transfer from exploration & evaluation assets (note 7)		**352**		800
Transfer of pipeline from customer		**-**		2,785
Balance, end of year	**$**	**284,341**	$	281,904
Accumulated Depletion & Depreciation				
Balance, beginning of year	**$**	**(171,826)**	$	(144,909)
Impairment		**(19,600)**		(17,100)
Depletion & depreciation		**(9,985)**		(9,817)
Balance, end of year	**$**	**(201,411)**	$	(171,826)
Net book values	**$**	**82,930**	$	110,078

Capitalized general and administrative expenses

Chinook capitalized $nil and $0.7 million of direct general and administrative costs related to its development activity during the years ended December 31, 2018 and 2017, 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 years ended December 31, 2018 and 2017, $0.8 million and $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 at December 31, 2018, of $1.4 million as presented on the consolidated statements of financial position was classified as $0.8 million current and $0.6 million long-term at December 31, 2018 (December 31, 2017 - $2.2 million presented as $0.8 million current and $1.4 million long-term).

Impairment of D&P Assets

Chinook identified evidence indicating impairment in the December 31, 2018 and 2017 carrying values of its development and production assets. This evidence was a significant sustained reduction in forward British Columbia Station 2 natural gas pricing. Further evidence indicating impairment in the December 31, 2018 carrying value of development and production assets was reduced forward pricing over the next three years in the Western Canadian Select benchmark. As a result, Chinook tested for impairment on its one remaining *Peace River Arch* CGU. These tests revealed impairment of $19.6 million and $17.1 million for the years ended December 31, 2018 and 2017, respectively.

The CGU's recoverable value of $82.9 million was estimated using a value-in-use calculation based on a December 31, 2018 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 ranging from 10% to 20% depending on the reserve category, which included $161.2 million of undiscounted future development costs and the following January 1, 2019 forward commodity price estimates (and their comparatives):

	Western Canadian Select ($/bbl) (1)		British Columbia Station 2 Natural Gas ($/mmbtu) (2)	
As at December 31,	**2018 (3)**	**2017 (4)**	**2018 (3)**	**2017 (4)**
2019	$ 51.55	$ 57.00	$ 1.80	$ 2.28
2020	$ 59.58	$ 61.40	$ 2.20	$ 2.69
2021	$ 65.89	$ 66.00	$ 2.65	$ 3.14
2022	$ 68.61	$ 67.90	$ 2.95	$ 3.34
2023	$ 70.53	$ 69.20	$ 3.10	$ 3.41
Thereafter, increasing per year	2%	2%	2%	2%

(1) A market point for Canadian crude oil.

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

(3) Source: Average of McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants Ltd. and Sproule Associates Limited price forecasts, effective January 1, 2019.

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

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 $14.5 million and $5.5 million, respectively.

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

The following table reconciles Chinook's E&E Assets for the years ended December 31, 2018 and 2017:

Cost of Assets		**2018**		2017
Balance, beginning of year	**$**	**30,529**	$	30,947
Capital expenditures		**2,792**		382
Cost of properties sold (note 12)		**(384)**		-
Transfer to development & production assets (note 6)		**(352)**		(800)
Decommissioning asset additions and change in estimate (note 9a)		**233**		-
Balance, end of year	**$**	**32,818**	$	30,529
Accumulated Amortization				
Balance, beginning of year	**$**	**(19,240)**	$	(17,435)
Amortization		**(1,669)**		(1,805)
Properties sold (note 12)		**239**		-
Balance, end of year	**$**	**(20,670)**	$	(19,240)
Net book values	**$**	**12,148**	$	11,289

Capitalized general and administrative expenses

Chinook capitalized $0.2 million and $nil of direct general and administrative costs related to its exploration activity during the years ended December 31, 2018 and 2017, respectively.

Exploration & Evaluation Expense

During the years ended December 31, 2018 and 2017, pre-licensing evaluation and exploratory lease rental costs of $0.2 million and $0.3 million, respectively, were expensed through the line item "exploration and evaluation" on the consolidated statements of operations and comprehensive loss.

Indicators of Impairment

Chinook did not identify facts and circumstances that indicated impairment in the December 31, 2018 and 2017 carrying values of exploration and evaluation assets. At December 31, 2018 and 2017, Chinook's exploration properties, are prospective for the Montney formation as located in the Peace River Arch area.

8. Debt

As a result of the scheduled May 2018 semi-annual review, Chinook amended its demand credit facility agreement with a Canadian chartered bank resulting in a revised availability of $10.0 million as at December 31, 2018 (the "Demand Credit Facility"). At December 31, 2017, the facility's availability was $18.0 million. The Demand Credit Facility's next scheduled semi-annual review is May 2019. At December 31, 2018, Chinook had debt borrowings of $2.4 million and outstanding letters of credit of $0.9 million (note 16), as secured by its lender, which reduced the available Demand Credit Facility credit to $6.7 million (at December 31, 2017 – drawings of $nil, outstanding letters of credit of $0.8 million and available credit of $17.2 million). The annualized effective interest rate on draws against the Demand Credit Facility for the year ended December 31, 2018 was 4.6% (for the year ended December 31, 2017 – nil%).

All borrowings under the Demand Credit Facility have been classified as a current liability, as the lender can request repayment of all outstanding drawn amounts at any time. 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. In addition, the Demand Credit Facility includes operating and financial restrictions on Chinook that include restrictions on paying dividends or making other distributions in respect of Chinook's securities.

The Demand Credit Facility has financial covenants requiring that at each reporting period the adjusted working capital equals or exceeds a one-to-one ratio and that net debt to cash flows does not exceed a three-to-one ratio. For the purposes of these covenants:

- 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,
- Net debt is defined as working capital but excluding the current portion of commodity price contracts, and
- Cash flows are determined over the last 12 months and are defined as cash flows from operating activities before changes in non-cash working capital and excluding other one-time costs.

At the end of any fiscal quarter, if the greater of Chinook's net debt or the Demand Credit Facility draws are either up to $6.0 million or in excess of $6.0 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.

At the date of these Financial Statements, Chinook was in compliance with the foregoing financial covenants and other requirements under the Demand Credit Facility.

9. **Provisions**

As at December 31,	**2018**	2017
Decommissioning obligations (a)	**$ 32,417**	$ 31,125
Onerous contract and indemnifications (b)	**1,304**	2,157
Total provisions	**$ 33,721**	$ 33,282

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

As at December 31,	**2018**	2017
Current portion	**$ 575**	$ 1,655
Long term portion	**33,146**	31,627
Total provisions	**$ 33,721**	$ 33,282

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, 2018, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $33.3 million ($32.7 million - December 31, 2017). At December 31, 2018, management estimates that these payments are expected to be made over the next 23 years (25 years - December 31, 2017). At December 31, 2018, a risk free rate of 2.1% and an inflation rate of 2.0% were used to calculate the present values of the decommissioning obligations (December 31, 2017 – 2.2% and 2.0%, respectively).

The following table reconciles Chinook's decommissioning obligations for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	**$ 31,125**	$ 29,067
Expenditures	**(742)**	(412)
Decommissioning obligation additions and change in estimate (note 6 & 7)	**2,220**	1,789
Property dispositions (note 12)	**(866)**	-
Accretion expense	**680**	681
Balance, end of year	**$ 32,417**	$ 31,125

The increases in decommissioning obligations during the years ended December 31, 2018 and 2017 were caused by exploration and development activities and changes in estimate resulting from decreases in the risk free rates.

b) *Onerous contract and indemnifications*

The following table reconciles Chinook's onerous contract and indemnifications' provision for the years ended December 31, 2018 and 2017:

		2018		2017
Balance, beginning of year	**$**	**2,157**	$	-
Additions		**-**		1,837
Indemnified litigation and claims transferred from accounts payable & accrued liabilities		**-**		1,064
Expenditures		**(866)**		(755)
Accretion expense		**13**		11
Balance, end of year	**$**	**1,304**	$	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, 2018, the undiscounted amount of future cash flows to settle this provision was $0.4 million (at December 31, 2017 - $1.2 million). These cash flows have been discounted using a risk-free discount rate of 2%. The onerous contract provision as at December 31, 2018 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, 2018 and 2017, 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. As of December 31, 2018 and 2017, an estimate of probable future disbursements for these indemnifications, including professional costs, totaled $0.9 million and $1.0 million, respectively. While the outcome of the remaining claims in excess of $0.9 million is not known with certainty, management is of the view that such claims have a remote probability of success.

10. 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 initially recognized as a liability on the consolidated statements of financial position as at December 31, 2017, 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. During the year ended December 31, 2018, Chinook incurred the required $2.0 million of qualifying Canadian exploration expenditures pursuant to this issuance of common shares on a flow-through basis. As a result, for the year ended December 31, 2018, Chinook amortized the associated $0.3 million flow-through common shares premium.

11. Revenues

Chinook sells its petroleum and natural gas production and take-or-pay contract deliveries pursuant to fixed or variable price volume contracts. Petroleum and natural gas production is sold under various contracts with terms of up to one year. Take-or-pay is sold pursuant to a contract with a term through to March 2021. Take-or-pay, petroleum and natural gas revenues are normally collected in the month following revenue recognition. The transaction prices for the take-or-pay and variable price production contracts are based upon benchmark pricing for petroleum or natural gas commodities adjusted for quality, location, transportation or other factors. Under these types of contracts, Chinook is required to deliver a variable volume of petroleum liquids or natural gas to the purchaser. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to Chinook's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. Petroleum and natural gas revenues are recognized when Chinook gives up control of the unit of production at the delivery point agreed to under the terms of the contracts. As a result, none of the variable revenue is considered constrained.

Processing and distribution services are generally sold under multi-year contracts at fixed fees that vary by volume. Revenues from these contracts are typically collected within three months from billing.

Chinook's production revenue was primarily generated by its Birley/Umbach area located in British Columbia.

The following table presents Chinook's total revenues disaggregated by source for the years ended December 31, 2018 and 2017:

	2018	2017
Natural gas liquids	**$ 12,354**	$ 8,208
Natural gas	**13,103**	12,503
Crude oil	**490**	503
Petroleum & natural gas revenues	**25,947**	21,214
Processing & gathering revenues	**1,050**	1,006
Take-or-pay contract revenue	**3,821**	2,974
Total revenues	**$ 30,818**	$ 25,194

Included in accounts receivable at December 31, 2018 is $2.8 million of accrued and billed revenues, an increase from December 31, 2017 of $1.2 million. Changes in accrued production revenues result from changes in Chinook's production and transaction prices. There were no significant revenue adjustments from prior years reflected in the revenues reported for the years ended December 31, 2018 and 2017.

As at December 31, 2018, Chinook did not have any contracts for the sale of its future production beyond a one year term. However, it contractually does provide pipeline transportation services to a third party through to October 2020 for a minimum of $0.6 million per year. Chinook also will provide pipeline transportation services to another third party for a minimum of $1.6 million per year for at least a two year period commencing at the earlier of that party's tie-in to our pipeline, at their cost, or October 2020.

12. Property Dispositions

During the year ended December 31, 2018, Chinook disposed of its rights to undeveloped lands and suspended wells located in Rigel, British Columbia and Gordondale, Alberta. The $0.2 million net carrying amount of the undeveloped lands less $0.9 million of associated decommissioning obligations resulted in a gain on the transfer of property rights of $0.7 million for the year ended December 31, 2018.

During the year ended December 31, 2017, Chinook closed two transactions where the petroleum and natural gas properties, undeveloped lands and associated decommissioning obligations were previously classified as held for sale. Total net proceeds of $17.8 million less the held for sale assets and liabilities resulted in a $10.9 million gain on dispositions of properties for the year ended December 31, 2017.

13. Long-term Incentive Plans

Chinook grants share options, restricted awards and performance awards (collectively, "Share-Based Awards") to employees, officers, directors, consultants and other service providers pursuant to its long-term incentive plans. The maximum number of common shares potentially issuable from treasury upon conversion of outstanding Share-Based Awards may not exceed 10% of Chinook's issued and outstanding common shares.

For the years ended December 31, 2018 and 2017, share-based compensation expense resulting from Chinook's granted Share-Based Awards was $0.5 million and $0.9 million, respectively.

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, 2018 and 2017:

	Number of Options (thousands)		Weighted Average Exercise Price ($/option)
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**	**$**	**0.71**
Granted	6,285		0.20
Forfeited or cancelled	(2,939)		(0.55)
Expired	(446)		(1.18)
Balance as at December 31, 2018	**13,177**	**$**	**0.49**
Exercisable	**4,711**	**$**	**0.90**

The table below summarizes the outstanding share options, their respective weighted average exercise prices and remaining life in addition to the number of exercisable options, their respective weighted average prices and remaining life at December 31, 2018:

	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)**
$0.20	5,613	$	0.20	4.1	-	$	-	-
$0.38	4,279	$	0.38	3.3	1,426	$	0.38	3.3
$0.54 - $2.46	3,285	$	1.13	1.4	3,285	$	1.13	1.4
	13,177	**$**	**0.49**	**3.1**	**4,711**	**$**	**0.90**	**1.9**

In addition to a forfeiture rate of approximately 13%, which was used in the measure 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 years ended December 31, 2018 and 2017:

	2018	2017
Expected average life (years) (1)	**3 to 5**	**3 to 5**
Weighted average risk-free interest rate (%)	**2.0**	**1.0**
Weighted average volatility factor (%) (2)	**59**	**58**
Share option exercise price ($/option)	**0.20**	**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 determined weighted average fair value for options granted during the years ended December 31, 2018 and 2017 was $0.09 and $0.17 per option, respectively.

Share Award Incentive Plan

The following table reconciles Chinook's outstanding restricted and performance awards issued pursuant to the Share Award Incentive Plan for the years ended December 31, 2018 and 2017:

	Number of Restricted Awards (thousands)	Number of Performance Awards (thousands)
Balance as at December 31, 2016	349	382
Granted	225	-
Distributed	(301)	(346)
Cancelled	(73)	(36)
Balance as at December 31, 2017	**200**	**-**
Granted	191	-
Distributed	(40)	-
Cancelled	(224)	-
Balance as at December 31, 2018	**127**	-

The fair value determined for restricted awards granted during the years ended December 31, 2018 and 2017 was $0.20 and $0.38 per award, respectively. These fair values were based on the market price of Chinook's common shares on the grant date of the restricted awards.

14. 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:

As at December 31,		**2018**		2017
Net loss before tax	**$**	**(27,654)**	$	(16,914)
Expected tax rate		**27.0%**		27.0%
Expected income tax recovery	**$**	**(7,467)**	$	(4,567)
Effect on income tax resulting from:				
Change in unrecognized tax asset excluding renounced expenditures		**6,970**		5,350
Expenditures renounced to flow-through common shares		**495**		45
Permanent differences		**37**		244
Adjustments to opening deferred tax balances		**(35)**		438
Change in enacted tax rates		**-**		(1,510)
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 have not been recognized in respect of the following items, because it is not probable that there will be available future taxable profitability against which Chinook can realize the benefits therefrom:

As at December 31,		**2018**		2017
Development & production/exploration & evaluation assets	**$**	**13,975**	$	9,421
Provisions		**32,807**		31,125
Non-capital losses		**296,363**		271,954
Net capital losses		**10,987**		10,987
Other		**3,220**		3,887
	$	**357,352**	$	327,374

At December 31, 2018, Chinook had $296.4 million of non-capital losses (December 31, 2017 - $272.0 million). The losses will expire commencing in 2029 through to 2039.

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.

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 severance costs for the years ended December 31, 2018 and 2017, totaled $1.7 million and $2.2 million, respectively. Long-term incentive benefits for Chinook's officers and directors, as included in share-based compensation for the years ended December 31, 2018 and 2017, totaled $0.5 million and $0.6 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, Chinook was engaged to manage, administer and maintain the properties and the books, accounts and records of WOGH Limited Partnership ("WOGH"). WOGH is 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 $0.9 million and $1.1 million for the years ended December 31, 2018 and 2017, respectively. The recovery for the years ended December 31, 2018 and 2017 was generally determined from WOGH's pro rata share as estimated at 12% and 14%, respectively, of its and Chinook's combined production volumes. At December 31, 2018 and 2017, $0.1 million of this general and administrative recovery was included in accounts receivable.

16. Commitments and Guarantees

At December 31, 2018, Chinook's contractual commitments required the following future payments without giving effect to any offsetting third party agreements, which are anticipated to reduce some of these amounts:

December 31	2019	2020	2021	Thereafter	Total
Leases	$ 815	$ 8	$ -	$ -	$ 823
Operating and transportation contracts	2,276	888	212	-	3,376
	$ 3,091	**$ 896**	**$ 212**	**$ -**	**$ 4,199**

Lease commitments include Chinook's head office in Calgary, Alberta. This office lease commitment excludes the undiscounted portion considered onerous (see note 9b). Operating and transportation contracts relate to minimum contractual payments if Chinook does not benefit from the operating services or pipeline transportation.

Chinook has guaranteed indemnifications issued by Storm (BVI) to the buyer of its former Tunisian operations (see note 9b).

At December 31, 2018, Chinook has guaranteed a third party's pipeline commitment through issuing letters of credit of $0.9 million (note 8) as secured by its lender (December 31, 2017 - $0.8 million) and through a payment of $1.2 million as included in prepaids and deposits. Subsequent to December 31, 2018, $1.0 million of this payment was refunded to Chinook.

In a previously reported year, 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.

17. Other Supplementary Information

Changes in non-cash working capital

	Year ended	December 31
	2018	2017
Cash provided by (used for):		
Accounts receivable	**$ 104**	$ 2,868
Prepaids & deposits	**(1,155)**	2,196
Accounts payable & accrued liabilities	**(4,368)**	(239)
	$ (5,419)	$ 4,825
Cash provided by (used for):		
Operating activities	**$ (1,311)**	$ 3,284
Financing activities	**(20)**	20
Investing activities	**(4,088)**	1,521
	$ (5,419)	$ 4,825

Cash interest and financing fees paid

	Year ended	December 31
	2018	2017
Cash interest & financing fees paid	**$ 137**	$ 109

Per share amounts

	Year ended	December 31
	2018	2017
Weighted average shares outstanding - basic & diluted (thousands)	**223,594**	217,174
Net loss	**$ (27,654)**	$ (16,914)
Net loss per share - basic & diluted ($/share)	**$ (0.12)**	$ (0.08)

For the years ended December 31, 2018 and 2017, because Chinook reported net losses, the effect of outstanding Share-Based Awards would have been anti-dilutive resulting in them being excluded in the calculation of diluted 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:

	Year ended	December 31
	2018	2017
Production & operating	**$ 253**	$ 231
General & administrative	**1,052**	1,431
Severance costs	**834**	705
Exploration & evaluation	**45**	177
Total employee compensation costs	**$ 2,184**	$ 2,544