

**Q3**  
2019

# Condensed Consolidated Financial Statements



chinookenergyinc.com

TSX:CKE

## Condensed Consolidated Statements of Financial Position

(unaudited)

	September 30	December 31
(in thousands of Canadian dollars)	2019	2018
<b>Assets</b>		
Current		
Accounts receivable	\$ 1,903	\$ 3,386
Prepays & deposits	1,876	2,528
Fair value of commodity price contracts (note 5)	15	424
	<b>3,794</b>	6,338
Development & production assets (note 6)	61,085	82,930
Exploration & evaluation assets (note 7)	10,875	12,148
Right-of-use assets (notes 4 and 8a)	166	-
	<b>\$ 75,920</b>	<b>\$ 101,416</b>
<b>Liabilities &amp; Shareholders' Equity</b>		
Current		
Accounts payable & accrued liabilities	\$ 3,775	\$ 5,547
Debt (note 9)	6,986	2,361
Fair value of commodity price contracts	-	659
Provisions (note 10)	240	575
Deferred customer obligation	777	777
	<b>11,778</b>	9,919
Provisions (note 10)	34,100	33,146
Lease liabilities (notes 4 and 8b)	175	-
Deferred customer obligation	65	648
<b>Shareholders' Equity</b>		
Share capital	786,530	786,507
Contributed surplus	20,669	20,328
Deficit	(777,397)	(749,132)
	<b>29,802</b>	57,703
	<b>\$ 75,920</b>	<b>\$ 101,416</b>

Future operations (note 2)  
Commitments and guarantees (notes 10b & 14)

See accompanying notes to the condensed consolidated financial statements

# Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited)

(in thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
<b>Revenues</b>				
Petroleum & natural gas revenues (note 11)	\$ 2,147	\$ 7,779	\$ 9,361	\$ 20,764
Royalty expense	(11)	(1)	(56)	(73)
Petroleum & natural gas revenues, net of royalties	2,136	7,778	9,305	20,691
Other revenues (note 11)	573	1,277	3,296	3,794
<b>Petroleum, natural gas &amp; other revenues, net of royalties</b>	<b>2,709</b>	<b>9,055</b>	<b>12,601</b>	<b>24,485</b>
Gain (loss) on commodity price contracts (note 5)	9	(428)	(395)	(1,240)
<b>Total revenues, net of royalties and commodity price contracts</b>	<b>2,718</b>	<b>8,627</b>	<b>12,206</b>	<b>23,245</b>
<b>Expenses</b>				
Production & operating	3,125	4,551	9,438	12,886
Take-or-pay	548	1,144	3,340	3,444
General & administrative	600	937	2,217	3,095
Financing (note 12)	223	241	678	675
Other losses (income)	35	(4)	130	84
Impairment of development & production assets (note 6)	-	-	18,900	-
Depletion, depreciation & amortization	1,808	3,663	5,987	9,287
Deferred customer obligation amortization	(194)	(195)	(583)	(583)
Share-based compensation (note 13)	100	121	364	359
Severance costs	-	113	-	834
Amortization of flow-through common shares premium	-	-	-	(323)
<b>Total expenses</b>	<b>6,245</b>	<b>10,571</b>	<b>40,471</b>	<b>29,758</b>
<b>Net &amp; comprehensive loss</b>	<b>\$ (3,527)</b>	<b>\$ (1,944)</b>	<b>\$ (28,265)</b>	<b>\$ (6,513)</b>
<b>Net loss per share, basic and diluted (note 15)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.13)</b>	<b>\$ (0.03)</b>

See accompanying notes to the condensed consolidated financial statements.

# Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance as at December 31, 2018</b>	<b>223,605</b>	<b>\$ 786,507</b>	<b>\$ 20,328</b>	<b>\$ (749,132)</b>	<b>\$ 57,703</b>
Settlement of restricted share awards	77	23	(23)	-	-
Share-based compensation (note 13)	-	-	364	-	364
Net loss	-	-	-	(28,265)	(28,265)
<b>Balance as at September 30, 2019</b>	<b>223,682</b>	<b>\$ 786,530</b>	<b>\$ 20,669</b>	<b>\$ (777,397)</b>	<b>\$ 29,802</b>
<b>Balance as at December 31, 2017</b>	<b>223,565</b>	<b>\$ 786,492</b>	<b>\$ 19,835</b>	<b>\$ (721,478)</b>	<b>\$ 84,849</b>
Settlement of restricted share awards	40	15	(15)	-	-
Share-based compensation (note 13)	-	-	359	-	359
Net loss	-	-	-	(6,513)	(6,513)
<b>Balance as at September 30, 2018</b>	<b>223,605</b>	<b>\$ 786,507</b>	<b>\$ 20,179</b>	<b>\$ (727,991)</b>	<b>\$ 78,695</b>

See accompanying notes to the condensed consolidated financial statements.

# Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
<b>Operating Activities</b>				
Net loss	\$ (3,527)	\$ (1,944)	\$ (28,265)	\$ (6,513)
Add (deduct):				
Unrealized (gain) loss on commodity price contracts (note 5)	(57)	352	(250)	938
Non-cash financing and other expenses	146	175	503	482
Impairment of development & production assets (note 6)	-	-	18,900	-
Depletion, depreciation & amortization	1,808	3,663	5,987	9,287
Deferred customer obligation amortization	(194)	(195)	(583)	(583)
Share-based compensation (note 13)	100	121	364	359
Amortization of flow-through common shares premium	-	-	-	(323)
Provision expenditures	(65)	(231)	(845)	(1,013)
Change in operating non-cash working capital (note 15)	300	(809)	603	(2,001)
Cash (outflow) inflow from operating activities	(1,489)	1,132	(3,586)	633
<b>Financing Activities</b>				
Debt borrowings (repayments)	1,497	(1,065)	4,625	2,232
Lease payments	(18)	-	(558)	-
Change in financing non-cash working capital (note 15)	-	-	-	(20)
Cash inflow (outflow) from financing activities	1,479	(1,065)	4,067	2,212
<b>Investing Activities</b>				
Proceeds on property disposition	33	-	33	-
Development, exploration and right-of-use expenditures	-	-	(29)	(2,677)
Change in investing non-cash working capital (note 15)	(23)	(67)	(485)	(4,550)
Cash inflow (outflow) from investing activities	10	(67)	(481)	(7,227)
<b>Change in cash during the period</b>	-	-	-	(4,382)
<b>Cash, beginning of period</b>	-	-	-	4,341
<b>Cash, foreign currency gain</b>	-	-	-	41
<b>Cash, end of period</b>	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements

(unaudited)

For the three and nine months ended September 30, 2019 and 2018

Tabular amounts in thousands of Canadian dollars, except as noted

## 1. Reporting Entity

Chinook Energy Inc. is a Calgary-based petroleum and natural gas production company focused on development and exploration opportunities in western Canada.

These unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 (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. Future Operations

At September 30, 2019, Chinook was not in compliance with both the *net debt to cash flow* financial covenant and *minimum commodity price contract requirement* per the terms of its demand credit facility agreement (note 9). Chinook is also forecasting that it will continue to be in breach of the *net debt to cash flow* financial covenant over the next eight months. While Chinook continues its discussions with its lender, the borrowing base redetermination and resolutions of both the financial covenant breach and *minimum commodity price contracts requirement* remain outstanding. No assurance can be provided that the borrowing base will be renewed at the same or a similar amount or on the same or similar terms, nor can any assurance be provided that the lender will not call the debt as a result of these breaches. These material uncertainties may cast significant doubt with respect to the ability of the Company to continue as a going concern.

In addition to the discussions that Chinook is currently having with its lender, the Company is also evaluating other financing options including but not limited to reorganizing our operations, the disposition of natural gas assets, the sale/leaseback of midstream assets or other alternative sources of debt. Because no agreements have currently been reached, no assurance can be provided that any transaction will be concluded.

These Financial Statements have been prepared on a going concern basis, which presumes Chinook will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These Financial Statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if Chinook was unable to continue as a going concern.

## 3. Basis of Presentation

These Financial Statements have been prepared following the same accounting policies as summarized in note 3 in the audited consolidated financial statements of Chinook for the years ended December 31, 2018 and 2017 (the “Audited Financial Statements”), except the policy for Leases. Chinook has adopted IFRS 16 “Leases” effective January 1, 2019 as detailed in note 4 to these Financial Statements. The reader is advised that these Financial Statements do not include all of the required disclosures for annual consolidated financial statements and therefore should be read in conjunction with the Audited Financial Statements and the notes thereto.

These Financial Statements have been prepared by management in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ using accounting principles consistent with International Financial Reporting Standards issued by the International Accounting Standards Board.

Certain balances in the comparative periods have been reclassified to conform to the current periods’ presentation.

These Financial Statements were approved and authorized for issuance by Chinook’s Board of Directors on November 7, 2019.

## 4. Adopted New Accounting Standard

*IFRS 16, Leases* ("IFRS 16") was adopted on January 1, 2019, using the modified retrospective approach. This approach does not require restatement of prior period financial information as it applies the standard prospectively. This standard replaced *IAS 17, Leases* ("IAS 17"). Under IAS 17, operating lease expenditures were expensed on a straight line basis over the lease term whereas under IFRS 16, there is an increased focus on control of the underlying asset. Mineral licenses and surface leases that allow for the extraction of petroleum and natural gas are not within the scope of IFRS 16.

### Right-of-use asset

A lease is a contract that transfers substantially all the risks and rewards incidental to ownership of an identified asset. Chinook initially recognizes a lease at its commencement date which is when an identified asset is made available for use. Right-of-use assets are measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date and any initial direct or estimated restoration costs. A right-of-use asset is then depreciated on a straight-line basis over the shorter of the asset's useful life or the lease term. After the commencement date, Chinook measures its right-of-use assets by applying the net carrying value of these assets to another similar asset grouping where a revaluation model is already applied.

### Lease liabilities

Lease liabilities include the present value of future fixed payments (including in-substance fixed payments), less any lease incentives receivable, and the exercise price of a purchase option if it is reasonably certain to be exercised. Future fixed lease payments are discounted using Chinook's incremental borrowing rate if the rate implicit in the lease is not readily determinable. The term of each lease includes its non-cancellable period. The term can also include periods covered by an option to extend the lease if Chinook is reasonably certain to exercise that option. After the commencement date, Chinook will re-measure its lease liabilities to reflect any reassessment or lease modification or to reflect revised in-substance fixed lease payments using a revised discount rate, assuming it cannot be readily determined from the lease, with an offsetting adjustment to right-of-use assets.

Each lease payment is comprised of both a financing and principal component. Financing costs are charged to the consolidated statements of operations and comprehensive loss over each lease's term. Lease payments are applied against lease liabilities using the effective interest method.

Short-term leases with an initial lease term of less than twelve months are evaluated by class of the underlying asset whereas lease payments for low-value assets are evaluated on a lease-by-lease basis. Short-term and low-value leases can be accounted for as either leases or expensed.

## Adoption of IFRS 16

On adoption of IFRS 16, right-of-use assets were initially measured at the amount equal to the lease liabilities but as adjusted by the amount of the prepaids & deposits relating to leases recognized in the consolidated statement of financial position immediately before the date of adoption. Chinook also relied on a practical expedient that its assessment of its previous Calgary office space lease was onerous immediately before the date of IFRS 16 adoption as an alternative to performing an impairment review. By choosing this practical expedient, Chinook decreased its previous Calgary office space right-of-use asset on adoption of IFRS 16 by the amount of the onerous contract provision recognized as at December 31, 2018 in the consolidated statements of financial position. Chinook measured the present value of its lease liabilities on adoption of IFRS 16 using a discount rate of 6% as determined from its incremental borrowing rate. The adjustments to the consolidated statements of financial position as at December 31, 2018 resulting from the January 1, 2019 adoption of IFRS 16 are as follows:

	As at December 31		As at January 1
	2018	Adjustments	2019
Prepays & deposits	\$ 2,528	\$ (244)	\$ 2,284
Right-of-use assets	-	453	453
Lease liabilities	-	(599)	(599)
Provisions	(33,721)	390	(33,331)
Total	\$ (31,193)	\$ -	\$ (31,193)

Chinook reported its remaining operating lease commitments of \$0.8 million as at December 31, 2018 whereas its lease liabilities on adoption of IFRS 16 are \$0.6 million. The difference between these two measures was caused by excluding non-lease components from lease liabilities but as partially offset by a portion of future lease payments previously reported as onerous.

## 5. Commodity Price Contracts

As at September 30, 2019, Chinook had the following commodity price contracts:

Contractual Term	Notional Volumes	Index and Company's Received Price
<b>Natural gas swap</b>		
October 1, 2019 to December 31, 2019	3,000 GJ/d	Westcoast Station 2 CAD\$1.645/GJ
January 1, 2020 to March 31, 2020	2,000 GJ/d	Westcoast Station 2 CAD\$1.785/GJ
<b>Natural gas collars</b>		
October 1, 2019 to December 31, 2019	3,000 mmbtu/d	NYMEX <sup>(1)</sup> US\$2.25/mmbtu to US\$3.68/mmbtu
January 1, 2020 to March 31, 2020	4,000 mmbtu/d	Chicago City Gate Monthly US\$2.15/mmbtu to US\$4.11/mmbtu
<b>Natural gas differential swaps</b>		
October 1, 2019 to December 31, 2019	3,000 mmbtu/d	Price at Chicago = NYMEX <sup>(1)</sup> less US\$0.125/mmbtu

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

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

At September 30, 2019, the natural gas contracts had a combined fair value asset position of \$nil million as reported through the line item fair value of commodity price contracts in current assets on the condensed consolidated statements of financial position. The fair value of each contract was 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's gain (loss) on commodity price contracts was comprised of:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Realized loss on commodity price contracts	\$ (48)	\$ (76)	\$ (645)	\$ (302)
Unrealized gain (loss) on commodity price contracts	57	(352)	250	(938)
<b>Gain (loss) on commodity price contracts</b>	<b>\$ 9</b>	<b>\$ (428)</b>	<b>\$ (395)</b>	<b>\$ (1,240)</b>

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

The following table reconciles Chinook’s D&P Assets for the nine months ended September 30, 2019:

<b>Cost of Assets</b>	
<b>Balance, beginning of period</b>	<b>\$ 284,341</b>
Decommissioning asset change in estimate (note 10a)	1,362
<b>Balance, end of period</b>	<b>\$ 285,703</b>
<b>Accumulated Depletion &amp; Depreciation</b>	
<b>Balance, beginning of period</b>	<b>\$ (201,411)</b>
Impairment	(18,900)
Depletion & depreciation	(4,307)
<b>Balance, end of period</b>	<b>\$ (224,618)</b>
<b>Net book values</b>	
<b>Balance as at December 31, 2018</b>	<b>\$ 82,930</b>
<b>Balance as at September 30, 2019</b>	<b>\$ 61,085</b>

### Impairment of D&P Assets

Chinook previously identified evidence indicating impairment in the June 30, 2019 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 June 30, 2019 carrying value of development and production assets were concerns about Chinook’s ability to finance its future development costs and the timing thereof (see note 2). As a result, Chinook tested for impairment on its one remaining *Peace River Arch* CGU. This test revealed impairment of \$18.9 million that was charged against the June 30, 2019 carrying value of Chinook’s D&P Assets. There was no additional current substantial evidence beyond that previously considered that would indicate further impairment or recovery in the Company’s September 30, 2019 D&P Assets’ carrying value.

The CGU’s recoverable value of \$62.5 million at June 30, 2019 was estimated using a value-in-use calculation based on a roll forward of the December 31, 2018 independently prepared reserve report adjusted by management for the three engineering firms’ average July 1, 2019 price forecasts, reserves produced during the six months ended June 30, 2019 and deferring future development costs. 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 \$166.7 million of undiscounted future development costs (December 31, 2018 - \$161.2 million) and the following July 1, 2019 forward commodity price estimates (and their comparatives):

	<b>Western Canadian Select</b>		<b>British Columbia Station 2</b>	
	<b>(\$/bbl) <sup>(1)</sup></b>		<b>Natural Gas (\$/mmbtu) <sup>(2)</sup></b>	
	<b>June 30</b>	<b>December 31</b>	<b>June 30</b>	<b>December 31</b>
	<b>2019 <sup>(3)</sup></b>	<b>2018 <sup>(4)</sup></b>	<b>2019 <sup>(3)</sup></b>	<b>2018 <sup>(4)</sup></b>
2019	\$ 59.41	\$ 51.55	\$ 0.98	\$ 1.47
2020	\$ 59.93	\$ 59.58	\$ 1.57	\$ 1.99
2021	\$ 62.82	\$ 65.89	\$ 2.12	\$ 2.46
2022	\$ 66.19	\$ 68.61	\$ 2.46	\$ 2.81
2023	\$ 69.30	\$ 70.53	\$ 2.61	\$ 2.98
2024	\$ 71.24	\$ 72.34	\$ 2.75	\$ 3.11
Thereafter, increasing per year	2% to 3%		2% to 4%	

(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 July 1, 2019.

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



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 \$14.2 million and \$3.5 million, respectively.

## 7. Exploration & Evaluation Assets (“E&E Assets”)

The following table reconciles Chinook’s E&E Assets for the nine months ended September 30, 2019:

<b>Cost of Assets</b>	
<b>Balance, beginning of period</b>	\$ 32,818
Cost of properties sold	(112)
<b>Balance, end of period</b>	<b>\$ 32,706</b>
<b>Accumulated Amortization</b>	
<b>Balance, beginning of period</b>	\$ (20,670)
Amortization	(1,243)
Properties sold	82
<b>Balance, end of period</b>	<b>\$ (21,831)</b>
<b>Net book values</b>	
<b>Balance as at December 31, 2018</b>	<b>\$ 12,148</b>
<b>Balance as at September 30, 2019</b>	<b>\$ 10,875</b>

### Capitalized general and administrative expenses

Chinook capitalized \$nil and \$0.2 million of direct general and administrative costs related to its exploration activity during the nine months ended September 30, 2019 and 2018, respectively.

### Exploration & Evaluation expense

Exploratory lease rental costs of \$0.1 million were expensed during both the nine months ended September 30, 2019 and 2018 as included in the line item “other losses” on the condensed consolidated statements of operations and comprehensive loss.

## 8. Leases

Chinook’s current portfolio of leases mostly consists of its new Calgary head office space. Chinook’s previous Calgary office space lease expired June 30, 2019.

### a) *Right-of-use assets*

A reconciliation of Chinook’s right-of-use assets for the nine months ended September 30, 2019 is as follows:

<b>Balance, January 1, 2019 (note 4)</b>	<b>\$ 453</b>
Additions	121
Expenditures	29
Depreciation	(437)
<b>Balance, end of period</b>	<b>\$ 166</b>

## b) Lease liabilities

A reconciliation of Chinook's lease liabilities for the nine months ended September 30, 2019 is as follows:

<b>Balance, January 1, 2019 (note 4)</b>	<b>\$</b>	<b>599</b>
Lease payments		(558)
Additions		121
Interest expense		13
<b>Balance, end of period</b>	<b>\$</b>	<b>175</b>

As at September 30, 2019, Chinook measured the present value of its lease liabilities using a discount rate of 7.7% as estimated from its incremental borrowing rate. Lease liabilities as at September 30, 2019, are expected to be paid through to February 2025.

## 9. Debt

Chinook's amended demand credit facility agreement with a Canadian chartered bank had an availability of \$10.0 million as at September 30, 2019 and December 31, 2018 (the "Demand Credit Facility"). As described in note 2, Chinook and its lender have not completed the borrowing base redetermination as of the date of these Financial Statements. At September 30, 2019, Chinook had debt borrowings of \$7.0 million and undrawn letters of credit of \$0.9 million (notes 2 and 14), as secured by its lender, which reduced the available credit to \$2.1 million (at December 31, 2018 – drawings of \$2.4 million, undrawn letters of credit of \$0.9 million and available credit of \$6.7 million). The annualized effective interest rate on draws against the Demand Credit Facility for the three and nine months ended September 30, 2019 was 5.0% and 4.6%, respectively (for the three and nine months ended September 30, 2018 – 5.2% and 4.5%, respectively).

All borrowings under the Demand Credit Facility have always been classified as a current liability, as the lender can request repayment of all outstanding drawn amounts at any time. 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.

At the end of any fiscal quarter, if Chinook has either *net debt* or Demand Credit Facility draws, if the greater of the two is either below or in excess of \$6.0 million, within 60 days the Company is required to enter into commodity price contracts covering no less than 30% or 50%, respectively, of its forecasted 12 months combined production volumes.

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 less lease payments.

At September 30 2019, Chinook was not in compliance with the *net debt to cash flow* financial covenant in the Demand Credit Facility that allows a maximum ratio of three times because the Company had combined cash outflows over the past 12 trailing months. Chinook was also not in compliance with the *minimum commodity price contracts' requirement* because prior to August 30, 2019 it had not entered into such contracts with sufficient associated notional volumes totaling 30% relative to its forecasted 12 months combined production. As either *net debt* or debt draws at September 30, 2019 exceed \$6.0 million, the *minimum contracts' requirement* has increased to 50% whereas Chinook's current commodity pricing contracts' portfolio has associated notional volumes totaling 17% relative to its forecasted 12 months combined production. While Chinook continues its discussions with its lender, the borrowing base redetermination and resolutions of both the financial covenant breach and *minimum commodity price contracts' requirement* remain outstanding. No assurance can be provided that the borrowing base will be renewed at the same or a similar amount or on the same or similar terms, nor can any assurance be provided that the lender will not call the debt as a result of these breaches (note 2).

## 10. Provisions

As described in note 4, Chinook relied on a practical expedient resulting in the December 31, 2018, onerous contract provision recognized in the consolidated statements of financial position decreasing its right-of-use asset on adoption of IFRS 16. The following table details the resulting change in the provisions' classification on adoption of IFRS 16:

	As at December 31 2018		As at January 1 2019
		Adjustments	
Current portion	\$ 575	\$ (390)	\$ 185
Long term portion	33,146	-	33,146
Total	\$ 33,721	\$ (390)	\$ 33,331

Chinook's remaining provisions after adopting IFRS 16 consisted of both decommissioning obligations and indemnifications as detailed in the following table:

	September 30 2019	January 1 2019
Decommissioning obligations (a)	\$ 33,455	\$ 32,417
Indemnifications (b)	885	914
Total provisions	\$ 34,340	\$ 33,331

As classified as follows:

	September 30 2019	January 1 2019
Current portion	\$ 240	\$ 185
Long term portion	34,100	33,146
Total provisions	\$ 34,340	\$ 33,331

### 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 September 30, 2019, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of \$33.0 million (\$33.3 million - December 31, 2018). At September 30, 2019 and December 31, 2018, management estimates that these payments are expected to be made over the next 23 years. At September 30, 2019 and December 31, 2018, risk free rates of 1.7% and 2.1% and inflation rates of 1.8% and 2.0%, respectively, were used to calculate the present values of the decommissioning obligations.

The following table reconciles Chinook's decommissioning obligations for the nine months ended September 30, 2019:

<b>Balance, beginning of period</b>	\$ 32,417
Expenditures	(816)
Decommissioning obligation change in estimate (note 6 )	1,362
Accretion expense (note 12)	492
<b>Balance, end of period</b>	\$ 33,455

The increase in the decommissioning obligation change in estimate during the nine months ended September 30, 2019 was caused by a decrease in the risk free rate.

### b) Indemnifications

The following table reconciles Chinook's indemnifications' provision for the nine months ended September 30, 2019:

<b>Balance, January 1, 2019</b>	\$ 914
Expenditures	(29)
<b>Balance, end of period</b>	\$ 885

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 September 30, 2019 and December 31, 2018, 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. While the outcome of the remaining claims in excess of the estimated probable future disbursements for these indemnifications, including professional costs, of \$0.9 million is not known with certainty, management is of the view that such claims have a remote probability of success.

## 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. During the three and nine months ended September 30, 2019, Chinook also reported take-or-pay revenues for sales of third party acquired natural gas volumes which were necessary to meet its natural gas production performance obligations. 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 three and nine months ended September 30, 2019 and 2018:

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
<b>Petroleum &amp; natural gas revenues</b>				
Natural gas liquids	\$ 1,103	\$ 4,148	\$ 4,242	\$ 10,733
Natural gas	1,020	3,476	4,990	9,599
Crude oil	24	155	129	432
Petroleum & natural gas revenues	2,147	7,779	9,361	20,764
<b>Other revenues</b>				
Processing & gathering	281	245	851	774
Take-or-pay	292	1,032	2,445	3,020
Other revenues	573	1,277	3,296	3,794
<b>Total revenues</b>	\$ 2,720	\$ 9,056	\$ 12,657	\$ 24,558

Included in accounts receivable at September 30, 2019 is \$1.4 million of accrued and billed revenues (\$2.8 million - December 31, 2018). Changes in accrued production revenues result from changes in Chinook's production and transaction prices. There were no significant revenue adjustments from prior periods reflected in the revenues reported for the three and nine months ended September 30, 2019 and 2018.

As at September 30, 2019, 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 the Company's pipeline, at their cost, or October 2020.

## 12. Financing

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Accretion of provisions	\$ 145	\$ 175	\$ 492	\$ 523
Interest on bank debt	74	11	154	74
Other	4	55	32	78
<b>Financing expense</b>	<b>\$ 223</b>	<b>\$ 241</b>	<b>\$ 678</b>	<b>\$ 675</b>

## 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 three and nine months ended September 30, 2019 and 2018, share-based compensation expense resulting from Chinook's granted Share-Based Awards was \$0.1 million and \$0.4 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 nine months ended September 30, 2019:

	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
<b>Balance, beginning of period</b>	<b>13,177</b>	<b>\$ 0.49</b>
Granted	4,560	0.14
Cancelled	(333)	(0.20)
Expired	(465)	(2.44)
<b>Balance, end of period</b>	<b>16,939</b>	<b>\$ 0.35</b>
<b>Exercisable</b>	<b>7,543</b>	<b>\$ 0.53</b>

The table below summarizes the outstanding and exercisable share options, their respective weighted average exercise prices and remaining lives at September 30, 2019:

Range of Exercise Prices (\$/option)	Outstanding Options			Outstanding Exercisable Options		
	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)
\$0.14	4,405	\$ 0.14	4.3	-	\$ -	-
\$0.20	5,485	\$ 0.20	3.3	1,870	\$ 0.20	3.3
\$0.38	4,229	\$ 0.38	2.5	2,853	\$ 0.38	2.5
\$0.54 - \$1.68	2,820	\$ 0.91	0.7	2,820	\$ 0.91	0.7
	<b>16,939</b>	<b>\$ 0.35</b>	<b>2.9</b>	<b>7,543</b>	<b>\$ 0.53</b>	<b>2.0</b>

In addition to a forfeiture rate of approximately 14%, 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 nine months ended September 30, 2019:

Expected average life (years) <sup>(1)</sup>	<b>3 to 5</b>
Weighted average risk-free interest rate (%)	<b>1.9</b>
Weighted average volatility factor (%) <sup>(2)</sup>	<b>64 to 80</b>
Share option exercise price (\$/option)	<b>0.14</b>

(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 nine months ended September 30, 2019 was \$0.08 per option. No options were granted during the three months ended September 30, 2019.

## Share Award Incentive Plan

The following table reconciles Chinook's outstanding restricted awards issued pursuant to the share award incentive plan for the nine months ended September 30, 2019:

	<b>Number of Restricted Awards (thousands)</b>
<b>Balance, beginning of period</b>	<b>127</b>
Distributed	(77)
<b>Balance, end of period</b>	<b>50</b>

There were no outstanding performance awards as at September 30, 2019 and December 31, 2018.

## 14. Commitments and Guarantees

At September 30, 2019, Chinook had the following unrecognized minimum future contractual payments without giving effect to any offsetting third party agreements, which are anticipated to reduce some of these amounts:

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>	<b>Total</b>
Office contracts	\$ 88	\$ 321	\$ 311	\$ 304	\$ 300	\$ 350	\$ 1,674
Operating and transportation contracts	1,131	2,757	220	-	-	-	4,108
	<b>\$ 1,219</b>	<b>\$ 3,078</b>	<b>\$ 531</b>	<b>\$ 304</b>	<b>\$ 300</b>	<b>\$ 350</b>	<b>\$ 5,782</b>

The office contracts include the non-lease component of Chinook's new Calgary office space whereas the operating and transportation contracts relate to minimum contractual payments should Chinook not benefit from the operating services or pipeline transportation.

At September 30, 2019 and December 31, 2018, Chinook has guaranteed a pipeline commitment through undrawn letters of credit of \$0.9 million (notes 2 and 9) as secured by its lender. At September 30, 2019, Chinook guaranteed future processing tolls through a payment of \$0.6 million as included in prepaids and deposits. Chinook has also guaranteed indemnifications provided by Storm (BVI) to the buyer of its former Tunisian operations (see note 10b).

## 15. Other Supplementary Information

### Changes in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by (used for):				
Accounts receivable	\$ (491)	\$ (654)	\$ 1,483	\$ (759)
Prepays & deposits	(52)	56	407	(173)
Accounts payable & accrued liabilities	820	(278)	(1,772)	(5,639)
	\$ 277	\$ (876)	\$ 118	\$ (6,571)
Cash provided by (used for):				
Operating activities	\$ 300	\$ (809)	\$ 603	\$ (2,001)
Financing activities	-	-	-	(20)
Investing activities	(23)	(67)	(485)	(4,550)
	\$ 277	\$ (876)	\$ 118	\$ (6,571)

Chinook's prepays & deposits' balance at December 31, 2018 was lowered by prepaid office space rents on the January 1, 2019 adoption of IFRS 16 (see note 4).

### Cash interest and financing fees paid

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash interest & financing fees paid	\$ 73	\$ 42	\$ 166	\$ 93

### Per share amounts

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Weighted average shares outstanding - basic & diluted (thousands)	223,682	223,605	223,669	223,591
Net loss	\$ (3,527)	\$ (1,944)	\$ (28,265)	\$ (6,513)
Net loss per share - basic & diluted (\$/share)	\$ (0.02)	\$ (0.01)	\$ (0.13)	\$ (0.03)

For the three and nine months ended September 30, 2019 and 2018, 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.