Q1 2017 News Release

CHINOOK energy inc

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CHINOOK ENERGY INC. ANNOUNCES FIRST QUARTER 2017 RESULTS

CALGARY, ALBERTA – May 9, 2017 – Chinook Energy Inc. ("our", "we", or "us") (TSX: CKE) is pleased to announce its first quarter 2017 financial and operating results.

Our operational and financial highlights for the three months ended March 31, 2017 are noted below and should be read in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2017 and 2016 and our related management's discussion and analysis which have been posted on the SEDAR website (www.sedar.com) and our website (www.chinookenergyinc.com).

First Quarter 2017 Financial and Operating Highlights

Three months ended March 31	2017	2016
OPERATIONS		
Production Volumes		
Crude oil (bbl/d)	**29**	817
Natural gas liquids (boe/d)	**482**	733
Natural gas (mcf/d)	**18,022**	25,215
Average daily production (boe/d)	**3,514**	5,753
Sales Prices		
Average oil price ($/bbl)	**$ 60.32**	$ 35.41
Average natural gas liquids price ($/boe)	**$ 51.39**	$ 27.65
Average natural gas price ($/mcf)	**$ 2.71**	$ 1.43
Netback (1)		
Average commodity pricing ($/boe)	**$ 21.42**	$ 14.82
Realized gains on derivative contracts ($/boe)	**$ 1.38**	$ -
Royalties ($/boe)	**$ 0.20**	$ (0.99)
Net production expenses ($/boe) (1)	**$ (11.27)**	$ (15.12)
Operating Netback ($/boe) (1)	**$ 11.73**	$ (1.29)
Wells Drilled (net)		
Total natural gas wells drilled (net)	**-**	-

Three months ended March 31	2017	2016
FINANCIAL ($ thousands, except per share amounts)		
Petroleum & natural gas revenues, net of royalties	**$ 6,838**	$ 7,244
Adjusted funds (outflow) from operations (1)	**$ 2,036**	$ (2,890)
Per share - basic and diluted ($/share)	**$ 0.01**	$ (0.01)
Net income (loss)	**$ 10,422**	$ (12,775)
Per share - basic and diluted ($/share)	**$ 0.05**	$ (0.06)
Capital expenditures	**$ 8,823**	$ 3,026
Net surplus (1)	**$ (25,622)**	$ (20,180)
Total assets	**$ 148,665**	$ 299,623
Common Shares (thousands)		
Weighted average during period		
- basic	**216,443**	215,349
- diluted	**216,900**	215,349
Outstanding at period end	**216,443**	215,350

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

Highlights for the three months ended March 31, 2017

- We ended the first quarter of 2017 with a strong balance sheet including a net surplus of $25.6 million (including cash of $21.6 million).
- We brought on-stream an additional three (2.64 net) wells at our Birley/Umbach area late in the first quarter bringing our current number of producing wells in this area to nine wells (7.63 net). Our total current production is approximately 5,050 boe/d.
- Our capital investment of $8.8 million during the first quarter included completing, equipping and tying-in three (2.64 net) horizontal Montney wells at Birley/Umbach at an average cost to drill and complete of $3.7 million per well, a 30% decrease from the previous six (5.0 net) wells which averaged $5.3 million per well. Since the end of the first quarter we have drilled another three (2.67 net) of a four (3.67 net) well horizontal drilling program at Birley/Umbach.
- For the first quarter we are reporting our highest adjusted funds flow from operations since the third quarter of 2015.
- During the first quarter, we signed an $8.0 million demand revolving credit facility with a Canadian chartered bank, of which we currently have $2.0 million of availability with expansion to $8.0 million pending confirmation that the wells that we brought on-stream in the first quarter are producing to the lenders satisfaction. We ended the first quarter undrawn on this facility and expect to remain undrawn on this facility through 2017.
- We completed the disposition of non-core properties in the Knopcik/Pipestone and East Gold Creek areas of northwestern Alberta (100 boe/d – 65% natural gas) for combined net proceeds of $18.0 million, before closing adjustments.

Strategic Transactions

Craft Oil Ltd.

On June 10, 2016, we conveyed the majority of our Alberta oil and natural gas assets, excluding our Montney assets, and the associated decommissioning obligations in addition to $0.9 million cash (collectively, the "Subject Assets") to Tournament Exploration Ltd., which subsequently changed its name to Craft Oil Ltd. and then Craft Oil Inc. ("Craft"), a private Calgary-based petroleum and natural gas production company, for 70% of its issued and outstanding common shares pursuant to an asset purchase and sale agreement dated and effective May 1, 2016. On December 12, 2016, we completed the distribution of all of the Craft Oil Ltd. shares held by us to our shareholders as at the close of business pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Craft Share Distribution"). Following the Craft Share Distribution, our control over Craft's operations ceased. As a result, for any period(s) subsequent to December 12, 2016, the accounts of Craft are not reflected in our financial and operating results. Generally, the first quarter changes in operating results and their corresponding financial measures, in comparison to the same quarter of 2016, result from the Subject Assets as either sold in October 2016 or as included in the Craft Share Distribution.

First Quarter 2017 Financial Results

Our production in the first quarter of 2017 averaged 3,514 boe/d, down 39% from the same quarter of 2016 primarily as a result of the Craft Share Distribution. However, our first quarter production for 2017 increased 36% compared to the 2,593 boe/d achieved during the fourth quarter of 2016 related to assets that we still currently own. This increase resulted from our Birley/Umbach area development program and the reactivation of wells in Boundary Lake North, BC.

Our first quarter of 2017 petroleum and natural gas revenues were down approximately 13% from the same quarter of 2016 due to the decrease of production volumes resulting from the absence of the Subject Assets. However, although our overall petroleum and natural gas revenues were down, an increase in our realized prices, due to increases in benchmark pricing, resulted in an increase in revenues related to our natural gas and associated liquids during the first quarter of 2017 compared to the same quarter of 2016.

Our net production expense (operating costs net of processing income) for the first quarter of 2017 decreased by approximately 55% to $3.6 million from $7.9 million in the quarter of 2016, which on a boe basis, respectively, resulted in a decrease to $11.27/boe from $15.12/boe. Our first quarter net production expense benefited from a new gas handling agreement which we entered into during the third quarter of 2016.

Our adjusted funds from operations for first quarter of 2017 of $2.0 million increased by approximately $4.9 million compared to the same quarter of 2016. This increase resulted from higher commodity benchmark prices, realized gains on a commodity price contract and a lower cash-based cost structure for our Montney focused operations.

We reported net income for the first quarter of 2017 of $10.4 million compared to a loss of $12.8 million during the same quarter of 2016. This increase reflects higher commodity prices, a lower cost structure associated with our transition to a pure Montney play in addition to a $10.9 million gain on the disposition of non-core properties and a $1.7 million gain on commodity price contracts.

First Quarter 2017 Operational Results

During the first quarter of 2017 we completed, equipped and tied-in three (2.64 net) horizontal Montney wells at Birley/Umbach at an average total cost of $3.7 million per well, a 30% decrease from the previous six (5.0 net) wells which averaged $5.3 million per well. Completion and equipping costs were consistent with our revised budget. Currently, we have production from nine wells (7.63 net) in this area.

Through to the date of this news release, at our Birley/Umbach area, we have drilled another three (2.67 net) of a four (3.67 net) well drilling program. All three wells were drilled on our D-93-F pad with various downhole locations. The fourth well (1.0 net) will be drilled in May on the same pad. Completions and equipping are expected to occur after spring break-up. All four of these Birley/Umbach wells are scheduled to be on-stream during the fourth quarter of 2017.

Production from our Birley property is as follows:

Well	Working Interest (%)	Lateral Length (metres)	Frac'd Stages (gross)	Flow Time (hours)	24 Hour Test Rate End Date (MM/DD/YYYY)	Final 24 Hour Average Test Total Gas Rates (mcf/d)	Final 24 Hour Average Test Total FCGR (1) (bbl/mmcf)	IP30 (mcf/d)	IP60 (mcf/d)	IP90 (mcf/d)
A-060-K/094-H-03	74.55	1,220	18	154	3/9/2014	5,276	54	3,726	3,754	3,923
B-071-F/094-H-03	74.55	1,553	23	211	10/4/2014	8,870	6	4,489	4,375	4,348
A-073-L/094-H-03	74.55	1,230	18	252	2/16/2015	3,827	23	3,712	3,417	3,459
C-073-K/094-H-03	100.00	1,210	18	145	9/23/2015	5,281	49	4,228	4,094	3,851
B-072-F/094-H-03	74.55	1,225	18	69	9/24/2015	3,908	30	3,991	4,104	4,227
B-004-K/094-H-03	100.00	1,200	16	119	9/24/2015	4,127	17	3,364	3,082	2,921
A-071-F/094-H-03	**74.55**	**1,517**	**24**	**113**	**2/8/2017**	**7,319**	**8**	**3,271**	**3,437 (2)**	**N/A**
D-095-F/094-H-03	**99.46**	**1,509**	**24**	**197**	**2/14/2017**	**6,756**	**11**	**3,404**	**3,557 (2)**	**N/A**
C-095-F/094-H-03 (3)	**90.47**	**1,498**	**24**	**98**	**2/15/2017**	**8,202**	**25**	**2,957**	**2,758 (2)**	**N/A**

(1) Free condensate gas ratio.
(2) Production for wells A-071-F and D-095-F is for 58 days. Production for well C-095-F is for 52 days.
(3) Well C-095-F requires a clean out of its sand separator when surface conditions permit, likely after breakup.

Hedging

We use commodity price hedges to support our capital investment and growth by providing more certainty regarding our adjusted funds from operations and balance sheet management. Our internal policy permits us to hedge up to a maximum period of 24 months, based on our total estimated oil and natural gas production volumes, consisting of no more than 50% for the first 12 months and 25% for the last 12 months. As previously announced, our current hedges in place are as follows:

Indexed Price	Notional Volumes	Company's Received Price	Remaining Contractual Term
AECO	7,500 GJ/d	$3.205/GJ	April 1, 2017 to December 31, 2017
AECO	4,000 GJ/d	$2.50/GJ	April 1, 2017 to October 31, 2017

Outlook

We continue to execute on our previously announced $40 million capital program for 2017 and remain excited about the growth this program will provide. As we implement this capital program we will continue to closely monitor our balance sheet and commodity prices. As in previous years, we will remain prudent in how we deploy our capital in order to defend our strong balance sheet.

We have made great strides over the past 12 months to improve our cost structure, including completing the Craft Share Distribution and executing a new gas handling agreement in BC. On a per boe basis, our net production expense in the fourth quarter of 2017 is expected to drop by almost 30% to approximately $8.00/boe from $11.27/boe in the first quarter of 2017. G&A is also projected to drop from $5.10/boe during the first quarter of 2017 to below $2.90/boe in the fourth quarter of 2017. As we begin to increase our production at Birley, our cost structure and profitability significantly improves.

We are maintaining our previously announced production guidance for 2017 as follows:

($ millions, except boe/d)	**2017 Guidance** [1]
Average production (boe/d)	4,200 - 4,300
Exit production (boe/d)	6,300 - 6,500
Capital expenditures	$ 40
Net surplus as at December 31, 2017	$ 2

(1) 2017 guidance assumptions: AECO natural gas price $2.64/mmbtu, Station 2 natural gas price $2.11/mmbtu and Chicago Alliance natural gas price $2.92/mmbtu.

Finally, we would like to personally acknowledge Matthew J. Brister, Stuart G. Clark and Donald F. Archibald who have decided not to run for re-election to our Board of Directors this year. We wish to thank them collectively for all the hard work and commitment they brought to our company and wish them all the best in their future endeavors.

About Chinook Energy Inc.

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

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Reader Advisory

Abbreviations

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	mcf	thousand cubic feet
bbls	barrels	mcf/d	thousand cubic feet per day
bbls/d	barrels per day	GJ	gigajoules
		GJ/d	gigajoules per day

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

Forward-Looking Statements

In the interest of providing our shareholders and readers with information regarding our company, including management's assessment of our future plans and operations, certain statements contained in this news release constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, this news release contains, without limitation, forward-looking statements pertaining to: that we expect to remain undrawn on our demand revolving credit facility through 2017, that we will drill the fourth well of our four well drill program at our Birley/Umbach area in May and that all four wells are scheduled to be on-stream during the fourth quarter of 2017, the expected decrease in our net production expense and G&A in the fourth quarter of 2017 and our expectation that as we begin to increase our production at Birley our cost structure and profitability will improve significantly, the amount of our 2017 capital program, future exploration and development activities and the timing thereof and how we intend to manage our company as well our guidance regarding average and ending production for 2017, capital expenditures for 2017 and net surplus at December 31, 2017 set forth under the heading “Outlook”.

With respect to the forward-looking statements contained in this news release, we have made assumptions regarding, among other things: that we will continue to conduct our operations in a manner consistent with that expressed herein, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, future currency, exchange and interest rates, our ability to obtain equipment in a timely manner to carry out exploration and development activities, the ability of the operator of the projects in which we have an interest in to operate in the field in a safe, efficient and effective manner, the impact of increasing competition, field production rates and decline rates, anticipated production volumes, our ability to replace and expand production and reserves through exploration and development activities, certain cost assumptions, that the budgeted 2017 capital program, which is subject to the discretion of our Board of Directors, will not be amended in the future, and the continued availability of adequate debt and cash flow to fund our planned expenditures. Although we believe that the expectations reflected in the forward-looking statements contained in this news release, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this news release, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that predictions, forecasts, projections and other forward-looking statements will not occur, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices and currency fluctuations, our Board of Directors may amend the 2017 capital program based on its discretion; environmental risks, competition from other producers, inability to retain drilling rigs and other services, unanticipated increases in or unforeseen capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, delays in projects and/or operations resulting from surface conditions, wells not performing as expected, delays resulting from or inability to obtain the required regulatory approvals and inability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the forgoing list of factors is not exhaustive. Additional information on these and other factors that could affect our operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) and at our website (www.chinookenergyinc.com). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release and we do not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Operating Netback

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

Net Production Expense

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

Adjusted Funds (Outflow) from Operations

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

Net Debt (Surplus)

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

Future Oriented Financial Information

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

Barrels of Oil Equivalent

Barrels of oil equivalent (boe) is calculated using the conversion factor of 6 mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Initial Production Rates

Any reference in this news release to initial, early and/or test or production/performance rates (including IP30, IP60 and IP90) are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating our aggregate production. The initial production or test rates may be estimated based on other third party estimates or limited data available at this time. In all cases in this news release initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons. Well-flow test result data should be considered to be preliminary until a pressure transient analysis and/or well-test interpretation has been carried out.