Chinook Energy Inc. Announces Its Second Quarter Financial and Operational Results and Provides an Operational Update

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CALGARY, ALBERTA -- (Marketwired - Aug. 14, 2013) - Chinook Energy Inc. ("Chinook" or the "Company") (TSX:CKE) today announced its second quarter financial and operational results and provided an operational update.

The Company has filed its unaudited consolidated financial statements for the three and six months ended June 30, 2013 and 2012 and related management's discussion and analysis ("MD&A") on the SEDAR website (www.sedar.com) and Chinook's website (www.chinookenergyinc.com).

SECOND QUARTER 2013 HIGHLIGHTS

Three months ended
June 30 Six months ended
June 30
2013 2012 2013 2012
OPERATIONS
Production
Oil (bbl/d) 3,298 3,195 3,431 3,507
Natural gas liquids (bbl/d) 874 1,122 939 1,162
Natural gas (mcf/d) 34,458 43,387 36,088 47,417
Average daily production (boe/d) 9,916 11,548 10,385 12,573
Sales
Oil (bbl/d) 3,588 2,385 3,151 3,116
Natural gas liquids (bbl/d) 874 1,122 939 1,162
Natural gas (mcf/d) 34,458 43,387 36,088 47,417
Average daily sales (boe/d) 10,205 10,738 10,106 12,181
Sales Prices
Average oil price ($/bbl) $ 98.07 $ 89.11 $ 96.77 $ 96.49
Average natural gas liquids price ($/bbl) $ 55.06 $ 55.46 $ 57.07 $ 63.32
Average natural gas price ($/mcf) $ 4.13 $ 2.08 $ 3.92 $ 2.18
Corporate Netbacks (1)
Average commodity pricing ($/boe) $ 53.13 $ 33.97 $ 49.47 $ 39.22
Royalties ($/boe) $ (4.88) $ (3.29) $ (4.35) $ (3.81)
Net production expenses ($/boe) (1) $ (17.31) $ (14.46) $ (16.92) $ (16.24)
Cash G&A ($/boe) (1) $ (3.02) $ (3.74) $ (2.92) $ (3.35)
Corporate netbacks ($/boe) (1) $ 27.92 $ 12.48 $ 25.28 $ 15.82
Wells Drilled (net)
Oil 1.77 0.86 5.38 4.02
Gas - - - 1.00
Dry 0.86 0.86 0.86 0.96
Total wells drilled (net) 2.63 1.72 6.24 5.98

Three months ended
June 30 Six months ended
June 30
2013 2012 2013 2012
FINANCIAL ($ thousands, except per share amounts)
Petroleum & natural gas revenues, net of royalties $ 44,805 $ 29,979 $ 82,545 $ 78,488
Cash flow (1) $ 22,179 $ 9,830 $ 43,697 $ 29,004
Per share - basic and diluted ($/share) $ 0.10 $ 0.05 $ 0.20 $ 0.14
Net income (loss) $ 3,990 $ (24,812) $ 8,490 $ (41,903)
Per share - basic and diluted ($/share) $ 0.02 $ (0.12) $ 0.04 $ (0.20)
Capital expenditures $ 23,059 $ 13,083 $ 48,105 $ 36,529
Net debt (1) $ 66,340 $ 77,092 $ 66,340 $ 77,092

Total assets $ 621,143 $ 637,238 $ 621,143 $ 637,238
Common Shares (thousands)
Weighted average during period
- basic and diluted 214,188 214,188 214,188 214,188
Outstanding at period end 214,188 214,188 214,188 214,188

(1) Cash flow, net debt, corporate netback, net production expense and cash G&A are non-IFRS 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 "Cash Flow from Operations", "Net Debt", "Corporate Netback", "Net Production Expense" and "Cash G&A" in the Reader Advisory below for further information on such terms.

- Sales volumes in the second quarter were 10,205 boe per day compared to 10,006 boe per day in first quarter 2013 due to the sale of Tunisian crude oil held in inventory at the end of the first quarter. Crude oil held in inventory in Tunisia at the end of the second quarter was approximately 60,000 barrels and was subsequently sold in July.

- Second quarter production averaged 9,916 boe per day, with 42% being crude oil and natural gas liquids, which is down approximately 9% from 10,860 boe per day in first quarter 2013. Production declines are due to approximately 140 boe per day of asset dispositions in the quarter along with approximately 1,050 boe per day of non-operated and third party facility downtime in the second quarter, compared to approximately only 660 boe per day of third party and facility downtime in the first quarter. Tunisia production averaged 1,898 boe per day and production from Canadian operations averaged 8,018 boe per day.

- Field operating netbacks were $30.94 per boe during the second quarter representing a year-over-year increase of 91% and a 22% increase from the first quarter due to stronger Canadian natural gas prices and a higher oil weighting.

- Year-over-year cash flow increased by 51% to $43.7 million in first half 2013 from $29.0 million in first half 2012. As a result of inventoried crude oil at the end of certain periods, this yearly comparison is somewhat misleading; however, if the value of the inventoried volumes at the end of the first half of 2012 and 2013 are taken into account, then pro forma first half 2013 cash flow is $48.5 million ($0.23 per share) compared to first half 2012 cash flow of $35.3 million ($0.16 per share) an increase of 38% year-over-year.

- Net debt was $66.3 million or approximately 0.75 times annualized first half 2013 cash flow. Chinook has a $115.0 million Canadian credit facility and US$46.5 million of availability under its international credit facility.

- Capital expenditures were $23.1 million during the second quarter and were focused mainly in Tunisia due to spring break up conditions in Western Canada. Chinook participated in three (2.6 net) wells on its BBT concession and Sud Remada Permit in the second quarter and shot a 275km2 3-D seismic survey over the offshore Cosmos concession.

SECOND QUARTER OPERATIONAL REVIEW

Canada

Chinook did not conduct any significant drilling and completion operations in the second quarter due to spring break up conditions in the field. In the Grande Prairie core area, the Company commenced a three (3.0 net) well horizontal program on its recently acquired Albright and Beaverlodge properties in late June after a successful three (1.5 net) well program in the first quarter. The new wells are expected to be completed and on stream by September 2013. Average 30 day initial gross production rates at Albright and Beaverlodge are approximately 100 and 140 boe per day (90% oil), respectively. The gross costs to drill, complete and equip these wells are approximately $3.0 million. Chinook has identified over 30 horizontal oil locations on existing acreage along with numerous optimization and enhanced recovery upside opportunities on these properties. The Company also intends to expand its footprint in the area with additional exploration and acquisition opportunities. Since completing the acquisition in December 2012, Chinook is very encouraged with its results at Albright and Beaverlodge and anticipates an expanded capital program on these properties with continued success.

On the southern portion of the Grande Prairie core area, at Karr, the Company has five (1.86 net) previously drilled horizontal Dunvegan oil wells on production with combined gross production of approximately 1,176 boe per day during the month of June 2013. Three (1.13 net) additional wells will be drilled and completed prior to year end at an average gross cost of $5.0 million per well with anticipated initial 30 day production rates of 350 boe per day (85% oil). Chinook has identified an additional 25 locations (9.3 net) on its existing lands.

The Company currently has an interest in six Dunvegan and Doe Creek oil pools at Sinclair, Albright, Beaverlodge, Wapiti, Elmworth and Karr and has identified over 100 additional horizontal locations on the Company's lands. This multi-year inventory of locations and the use of new drilling and completion techniques that improve results and cost efficiencies will continue to be the main focus of Chinook's Canadian operations through 2013 and beyond.

Along with its large Dunvegan and Doe Creek opportunity base, the Company has a reasonable Montney position in three very active areas at Kaybob, Gold Creek and Birley/Umbach. Chinook currently has two (0.75 net) Montney horizontal oil wells at Kaybob which were brought on production in April 2013. The initial production rates from each well have been encouraging; however, the run times of these wells have been sporadic as new third party facilities have experienced typical and normal downtime issues associated with new production into new facilities and infrastructure. In June, the two wells were producing at a combined gross rate of approximately 500 boe per day (60% liquids). The Company is monitoring the production of these wells and has identified up to 24 potential locations on 37.5% and 75% working interest lands. The Company has surveyed two surface locations that, if warranted, would be used to drill up to four (3.0 net) operated horizontal wells next winter.

At Gold Creek, the Company has over 50 gross (35 net) sections of Montney rights within the upper and middle Montney oil fairway. Recent industry activity has seen record setting land sales with several operators licencing wells immediately offsetting Chinook lands. To date, Chinook has surveyed five (3.75 net) locations and anticipates bringing in a joint venture partner to help fund the estimated $8.0-$9.5 million per well drilling and completion costs. Management is excited about the growth potential of this area and will monitor area activity closely through the balance of the year. If warranted, drilling will be conducted at Gold Creek in 2014.

At Birley/Umbach, the Company has an interest in 36 (27 net) sections of Montney rights with recent liquids-rich Montney natural gas activity nearby. Chinook completed a vertical well in 2011 to delineate and establish this resource opportunity. The Company had postponed activity in 2012 due to low natural gas prices, but with the improvement in natural gas prices along with a higher liquids recovery than originally predicted, Chinook has surveyed three horizontal Montney locations and anticipates drilling two (1.5 net) wells in the winter of 2014. Gross costs to drill and complete a well are expected to be approximately $5.5 million.

Chinook's Canadian activity continues to increase its profitability with a year-over-year second quarter operating netback increase of 76% to $19.24 per boe. With a focus on oil development along with continued efforts on reducing operating costs and non-core asset rationalization, the Company anticipates supporting per share growth in 2013 from its Canadian operations.

Tunisia

Production in Tunisia averaged 2,061 boe per day through the first half 2013. Full year production volumes were originally forecast to average between 2,150 to 2,450 boe per day and are now forecast to be between 2,000 and 2,250 boe per day. Cash flow over the first half of 2013 was $23.15 million, and would have been $27.94 million had all production been sold in the period, which is consistent with how the cash flow has been forecast.

In 2012, Chinook's program on the Bir Ben Tartar concession was based on horizontal wells with multi-stage fracture completions; however while evaluating early stage well results and total costs the Company has determined that the field may be more efficiently developed in the future with a combination of vertical and horizontal wells as the appraisal and development of the reservoir proceeds. Chinook continues to monitor drilling performance, production history and costs and makes appropriate adjustments to its near term development plan. This iterative process is not unusual in the early stages of field development on new play types like BBT. Vertical well economics have improved materially due to substantial reductions in completed well costs from over $5.0 million in 2011 to $4.0 million today with projected go forward costs of $3.5 million. Improved economics on vertical wells allows the Company to step further away from existing well control to improve the understanding of the structure and sand distribution across the 50 km2 field area which will in turn improve the results of future horizontal wells by optimizing the placement and orientation of the lateral section of these wells. Horizontal wells drilled to date have exceeded management's expectations from a gross fluid volume perspective but have introduced the issue of water production not seen in the vertical producers. Water cuts remain stable and the Company has enough history to develop a trend that suggests three of four horizontal wells are at or above Chinook's commercial type curve. Management is working to improve the horizontal well economics with both an improved understanding of the reservoir (fracture and well orientation) and operational efficiencies (well design and water shut offs) and expects ongoing improvements as it continues to appraise and develop the reservoir.

Chinook anticipates completing a six well program at BBT which may include two horizontal wells. The start of the original 2013 program was delayed while waiting on government approvals and the program execution to date has been delayed by equipment availability and complications in technical results, both of which have had a negative effect on guidance production volumes. Despite that, based on projected materially improved vertical well costs, reasonable results and longer term producing well performance, Chinook remains confident with its booked reserves and the continued growth of BBT as the Company develops this field. BBT development wells were drilled at TT12, TT21 and TT20 with completion operations and initial testing ongoing. TT12 was drilled horizontally and is now on production at about 150 bopd with a water cut greater than 75%. TT21 was a vertical well on the crest of the structure that had good reservoir in three zones and will be completed in the third quarter. Lastly, TT20 is an extremely encouraging western extension of the booked reserve area, having encountered the thickest net pay yet in the field and demonstrating original pressure. The well will be completed beginning in mid-August.

The El Bell onshore exploration well was unsuccessful, likely due to a loss of top seal as the Company moved north and east of the BBT concession. The well cost approximately $3.0 million net and fulfilled the Company's drilling commitment on the first renewal of the one million acre Sud Remada exploration permit. Prospects regionally downstructure, or upstructure where existing well control confirms the Tannezuft is still present, remain prospective for Ordovician oil discoveries which Chinook will continue to pursue and evaluate in a prudent manner through cash flow generated from BBT.

The political stability and resulting security situation in Tunisia have taken several steps back recently after a four to five month period of relative calm, which had been viewed as a signal of progress. The majority of the timing and motivation of the acts of civil disobedience are politically motivated, perpetrated by parties intent on de-stabilizing the Tunisian political process and not directed towards Chinook or foreign investment in Tunisia. In response to the destabilized conditions, Chinook has increased its security preparedness and threat assessment protocols. The existing situation serves to increase the logistical complexity and security related costs of Chinook's operations. The Company expects that the current instability will continue during the balance of the year as the timing of promised elections approaches. Chinook will continue to carefully monitor the situation and manage for the long-term success of its Tunisian business while maintaining a priority on the immediate security of its personnel and stakeholders. The destabilized conditions in Tunisia may result in unforeseen delays in the execution of the Company's operational program.

OUTLOOK

Chinook is revising guidance for 2013 to reflect reduced capital investment in Tunisia due to operational delays on the BBT program coupled with the switch to vertical wells that have anticipated lower initial production rates but a projected greater economic rate of return from the higher initial rate horizontal wells contemplated in the original 2013 program. Updated guidance is provided below:

Revised Guidance Original Guidance
($ millions, except boe/d) Consolidated International Canada Consolidated International Canada
Production (boe/d) 9,350 - 10,000 2,000 - 2,250 7,350 - 7,750 9,500 - 10,200 2,150 - 2,450 7,350 - 7,750
Cash flow $85 - $90 $45 - $48 $40 - $42 $95 - $100 $55 - $58 $40 - $42
Capital expenditures $95 - $100 $51 - $53 $44 - $47 $102 - $107 $58 - $60 $44-$47
Net debt $60 - $65 $- $60 - $65 $60 - $65 $- $60 - $65
Debt facility $ 115 US $46.5 $115 $115 $- $115

Chinook's focus for the balance of 2013 will be on increasing its oil weighting in Western Canada with a capital program directed solely at oil opportunities. The Company will continue to develop its lower risk Dunvegan and Doe Creek properties while moving its Montney opportunities closer to drill ready stage for 2014. In Tunisia, Chinook will continue to appraise and develop its BBT concession along with interpreting newly acquired 3-D seismic data over the offshore Cosmos concession to determine the optimal location for a future appraisal well that would serve to establish additional reserves and justify field development. Chinook's balance sheet remains strong and its per share profitability continues to improve quarterly and with that, management anticipates continuing to provide shareholders with positive updates throughout 2013.

About Chinook Energy Inc.

Chinook is a Calgary-based public oil and gas exploration and development company that combines high quality natural gas-weighted assets in Western Canada with an exciting high growth oil business onshore and offshore Tunisia in North Africa.

Reader Advisory

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Chinook, including management's assessment of the future plans and operations of Chinook, 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 addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. In particular, this news release contains, without limitation, forward-looking statements pertaining to: the volume and product mix of Chinook's oil and natural gas production on certain newly drilled wells, projected well costs; the operations to be conducted, wells to be drilled and/or completed and the timing thereof on certain of Chinook's Canadian and Tunisian properties and, in certain cases, the expected increase in production volumes resulting therefrom; future results from operations and operating metrics; and future development, exploration, acquisition and development activities (including drilling plans) and the timing thereof and related production expectations; as well as management's future expectations regarding production, cash flow, capital expenditures, net debt and credit facilities set out under the heading "Outlook".

With respect to the forward-looking statements contained in this news release, Chinook has made assumptions regarding, among other things: that Chinook will continue to conduct its operations in a manner consistent with past operations, the ability of Chinook to continue to operate in Tunisia with anticipated logistical security and operational issues, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, Chinook's ability to obtain equipment in a timely manner to carry out development activities, the impact of increasing competition, the ability of Chinook to add production and reserves through development and exploitation activities, the results of seismic and other appraisal activities (including waterflood modeling and seismic data gathering); certain commodity price and other cost assumptions, the continued availability of adequate debt and equity financing and cash flow to fund its planned expenditures. Although Chinook believes 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 Chinook's 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, political and security risk associated with Chinook's Tunisian operations, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve and resource estimates, the continued impact of shut-in production, environmental risks, competition from other producers, inability to retain drilling rigs and other services, 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 ability 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 Chinook's operations and financial results are included in Chinook's annual information form for the year ended December 31, 2012 and other documents on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com) and at Chinook's 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 Chinook does 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.

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.

Corporate Netback

The reader is cautioned that this news release contains the term corporate netback, which is not a recognized measure under IFRS and is calculated as a period's sales of petroleum and natural gas, net of royalties less net production and operating expenses and cash G&A as divided by the period's sales volumes. Management uses this measure to assist them in understanding Chinook's profitability relative to current commodity prices and it provides an analysis tool to benchmark changes in operational performance against prior periods and to peers on a comparable basis. 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. Chinook's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

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 royalties less net production and operating expenses as divided by the period's sales volumes. Management uses this measure to assist them in understanding Chinook's profitability relative to current commodity prices and provides an analysis tool to benchmark changes in operational performance against prior periods and to peers on a comparable basis. Chinook's 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. Management uses net production expense to determine the current periods' cash cost of operating expenses. Chinook's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

Cash G&A

The reader is cautioned that this news release contains the term cash G&A, which is not a recognized measure under IFRS and is calculated as G&A less stock-based compensation and the amortization of the deferred lease liability.

Cash Flow from Operations

The reader is cautioned that this news release contains the term cash flow from operations, which is not a recognized measure under IFRS and is calculated from cash flow from continuing operations adjusted for changes in non-cash working capital. Management believes that cash flow is a key measure to assess the ability of Chinook to finance capital expenditures and debt repayments. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. Chinook's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

Net Debt

The reader is cautioned that this news release contains the term net debt, which is not a recognized measure under IFRS and is calculated as bank debt adjusted for working capital excluding mark-to-market derivative contracts. Working capital excluding mark-to-market derivative contracts is calculated as current assets less current liabilities both of which exclude derivative contracts and current liabilities excludes the current portion of debt. Management uses net debt to assist them in understanding Chinook's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's fair value or less.

Future Oriented Financial Information

This news release, in particular the information in respect of anticipated cash flows, may contain Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management of the Company to provide an outlook of the Company's 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 operations of the Company and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.

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