Chinook Energy Announces First Quarter 2014 Results and Provides an Operational Update

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CALGARY, ALBERTA--(Marketwired - May 13, 2014) - **Chinook Energy Inc. ("our", "we", "us" or "Chinook") (TSX:CKE)** is pleased to announce its first quarter financial and operating results as well as provide an operational update.

Operational and financial highlights for the three months ended March 31, 2014 are noted below and should be read in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2014 and 2013 and related management's discussion and analysis which have been posted on SEDAR (www.sedar.com).

FIRST QUARTER 2014 HIGHLIGHTS

Three months ended March 31	2014	2013
OPERATIONS		
Production		
Oil (bbl/d)	3,672	3,565
Natural gas liquids (bbl/d)	950	1,005
Natural gas (mcf/d)	30,839	37,736
Average daily production (boe/d)	9,761	10,860
Sales		
Oil (bbl/d)	3,707	2,710
Natural gas liquids (bbl/d)	950	1,005
Natural gas (mcf/d)	30,839	37,736
Average daily sales (boe/d)	9,797	10,006
Sales Prices		
Average oil price ($/bbl)	$ 105.83	$ 95.03
Average natural gas liquids price ($/bbl)	$ 74.10	$ 58.85
Average natural gas price ($/mcf)	$ 6.42	$ 3.72
Netback (1)		
Average commodity pricing ($/boe)	$ 67.44	$ 45.70
Royalties ($/boe)	$ (5.57)	$ (3.79)
Net production expenses ($/boe) (1)	$ (19.44)	$ (16.52)
Cash G&A ($/boe) (1)	$ (5.91)	$ (2.83)
Netback ($/boe) (1)	$ 36.52	$ 22.56
Wells Drilled (net)		
Oil	6.70	3.61
Gas	1.12	-
Dry	-	-
Total wells drilled (net)	7.82	3.61
FINANCIAL ($ thousands, except per share amounts)		
Petroleum & natural gas revenues, net of royalties	$ 54,545	$ 37,740
Cash flow (1)	$ 28,449	$ 21,518
Per share - basic and diluted ($/share)	$ 0.13	$ 0.10
Net income	$ 6,085	$ 4,500
Per share - basic and diluted ($/share)	$ 0.03	$ 0.02
Capital expenditures	$ 40,391	$ 25,046
Net debt (1)	$ 74,390	$ 64,440
Total assets	$ 604,419	$ 617,459
Common Shares (thousands)		
Weighted average during period		
- basic	214,188	214,188

- diluted	214,245	214,188
Outstanding at period end	214,188	214,188

(1) Cash flow, net debt, 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", "Net Debt", "Netback", "Net Production Expense" and "Cash G&A" in the Reader Advisory below for further information on such terms.

First Quarter 2014 Highlights

- Drilled and completed our first Montney horizontal well (0.375 net) at Gold Creek which flow tested for a total of 184 hours with final gross rates of 554 bopd plus 3.3 mmcf/d of natural gas (total of 1,107 boe/d) at a flowing casing pressure of 585 psi.
- Increased first quarter 2014 cash flow by 41% over the fourth quarter of 2013 and by 32% compared to first quarter 2013.
- Improved first quarter 2014 operating netback by 39% over the fourth quarter of 2013 to $42.43 per boe and by 67% compared to first quarter 2013.
- Recorded highest Canadian crude oil production volumes since first quarter of 2012 at 2,084 bbl/d and highest percentage of liquids in commodity mix at 47%.
- Executed a capital program which was 61% greater than first quarter 2013 and participated in six (4.38 net) wells in Canada and four (3.44 net) wells in Tunisia; representing 48% of our original budgeted capital program.

First Quarter 2014 Financial Results

Production in the first quarter of 2014 averaged 9,761 boe per day, down 10% from the same period in 2013 and up 1% from the fourth quarter of 2013. Despite the decrease in volumes, consolidated revenue was up 44% from the first quarter of 2013 as a result of increased commodity prices and a continued devaluation of the Canadian dollar. Cash flow for the quarter increased by 32% to $28.5 million compared to the same quarter in 2013.

Canada

Canadian production in the first quarter of 2014 averaged 7,928 boe per day. Our focus on shifting capital development to more liquids-based plays has resulted in a measurable shift in our commodity mix with liquids comprising 38% of our production for the quarter, as compared to just over 29% for the same period in 2013. Our realized sales prices increased for all commodities as the benchmark pricings in Canada for Edmonton par and AECO also increased in the period. Royalties increased with higher realized prices, however, royalties as percentage of revenue remained consistent with the comparative quarter in 2013 being 11% of revenues. We have experienced upward pressure on our production and operating expenses associated with the shift to increased crude oil production due to higher transportation costs associated with oil production.

Tunisia

Tunisian production in the first quarter of 2014 averaged 1,833 boe per day, compared to 2,227 boe per day for the same quarter in 2013. Sales volumes in excess of production volumes in the first quarter coupled with a higher realized oil price, despite a decreased Brent benchmark price which was more than offset by the continued devaluation of the Canadian dollar against the US dollar, resulted in an almost 44% increase in reported revenues for the period. Overall production and operating costs in the first quarter of 2014 increased from the comparable period in 2013 mainly due to higher costs related to equipment rentals. This was partially offset by decreases in trucking costs as a result of the contract negotiated in late 2013.

First Quarter 2014 Operational Results and Update

Canada

At our non-operated Karr property we participated in the drilling of five (1.41 net) new horizontal Dunvegan oil wells since the beginning of the fourth quarter of 2013, bringing the total number of working interest wells to ten (3.2 net). All ten wells are now tied-in, with current gross production in excess of 2,500 boe per day (800 boe per day net) at 80% oil. The operator has continued to reduce costs on the latest wells and every well has had initial production rates which meet or exceed our internal expectations. There are two (0.63 net) more wells budgeted at Karr in 2014, with up to 19 (6.7 net) additional locations identified on our working interest lands. Construction of a central oil battery (25% working interest) on the property is over half completed, and is expected to be operational in the second quarter of 2014, which central oil battery should further improve well run times and reduce operating costs going forward.

At Albright, three (3.0 net) wells were drilled in the first quarter and two were completed and brought on production during the quarter. In the 16 months since acquiring this property, we have drilled ten (8.0 net) horizontal Dunvegan oil wells adding 1,100 boe per day (net) and increased production by approximately 400%. We have at least two (2.0 net) additional wells budgeted at Albright for the remainder of 2014, with up to 26 (22.0 net) locations identified.

During the first quarter, we drilled and completed horizontal wells on two separate, potentially significant, Montney prospects. One (0.37 net) horizontal Montney well was drilled in the Gold Creek area, targeting oil and liquids-rich natural gas. The well was completed with a 28-stage slick water fracture treatment and flow tested for a total of 184 hours with final rates of 554 bopd plus 3.3 mmcf/d of natural gas (total 1,107 boe per day) at a flowing casing pressure of 585 psi. Total fluid flow rates at the end of the test period were approximately 3,500 barrels of fluid per day with only 25% of total fracture load fluid being recovered. We suspended operations as spring breakup conditions made trucking of the fluids an expensive logistical challenge due to lengthy wait times and delays at several fluid disposal facilities. While the preliminary results are encouraging, predicting well performance is not possible until testing of the well is completed post-breakup. We own over 50 sections of Montney rights in this active Montney fairway, with numerous new wells being licensed and drilled by other operators. We have budgeted one more horizontal Montney well in the Gold Creek area for 2014.

The second Montney well (0.75 net) was drilled at Umbach/Birley in northeastern British Columbia, targeting liquids-rich natural gas and is currently under evaluation. Success on this prospect could lead to large-scale development of our contiguous 35 section Montney land block. We also own significant Montney acreage in the Elmworth (Alberta) and Knopcik (Alberta) areas, with other operators generating impressive well results and increased drilling activity immediately offsetting our lands. We will continue to monitor these results with a view to proposing our own activity in our 2015 drilling program.

Tunisia

Our capital activity at our BBT Concession in the first quarter of 2014 consisted of drilling four (3.44 net) and completing three (2.58 net) of our planned six well program for 2014. Fifteen wells were on production at the end of the quarter with total gross production of 2,495 bopd (1,345 bopd net). The balance of our 2014 drilling program will be completed in the second quarter.

After the successful injection test on the TT12 horizontal well, a workover was performed to change out the completion system with a coated completion better suited to long term water injection. Equipment was ordered for the surface injection facilities and permanent water injection is slated to resume in the second quarter of 2014.

Outlook

As a result of increased commodity prices and the continued devaluation of the Canadian dollar, we are increasing our guidance for 2014 initially announced in our news release dated December 19, 2013.

	2014 Revised Guidance(1)			Original Guidance(2)		
($ millions, except boe/d)	Consolidated	International	Canada	Consolidated	International	Canada
Production *(boe/d)*	9,600 - 10,380	1,850 - 2,130	7,750 - 8,250	9,500 - 10,250	1,850 - 2,130	7,650 - 8,120
Cash flow	$ 95 - $ 105	$ 40 - $ 45	$ 55 - $ 60	$ 82 - $ 90	$ 42 - $ 46	$ 40 - $ 44
Capital expenditures	$ 95 - $ 105	$ 35 - $ 40	$ 60 - $ 65	$ 85	$ 36	$ 49
Net debt	$ 65 - $ 70	-	$ 65 - $ 70	$ 60	-	$ 60

Maximum available credit	$ 139	US $ 23.8	$ 115	$ 139	US $ 23.8	$ 115

(1) Pricing assumptions: Canadian crude oil-$95.97/bbl, Canadian natural gas-$4.98/mcf; Tunisian crude oil-$115.64/bbl, Tunisian natural gas-$13.78/mcf; FX-USD$1=CND$0.93

(2) Pricing assumptions: Canadian crude oil-$87.89/bbl, Canadian natural gas-$3.29/mcf; Tunisian crude oil-$103.47/bbl, Tunisian natural gas-$12.48/mcf; FX-USD$1=CDN$0.97

We are encouraged by our results to date in 2014 and look forward to the balance of the year. Our optimism stems from our focused development at Karr, Albright and the BBT Concession which continues to deliver meaningful cash flow growth and the encouraging preliminary results at our first Gold Creek Montney well and the future activity that may result from this well. Our evaluation of the Birley/Umbach well will be complete in the second quarter. In light of the recent strengthening of natural gas prices, we are revisiting our inventory of natural gas projects that now exceed our minimum threshold for investment.

As previously announced, we continue to review potential alternative strategies for our international business in an attempt to better understand the respective valuation of our domestic and international assets and to identify potential alternatives that may improve our market valuation as a hybrid company relative to our domestic peers. We caution that there is no assurance or guarantee that such review will result in a transaction or, if a transaction is undertaken, the terms or timing of such a transaction.

About Chinook Energy Inc.

Chinook is a Calgary-based public oil and gas exploration and development company that combines multi-zone conventional production and resource plays 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 particular, this news release contains, without limitation, forward-looking statements pertaining to: the anticipated timing that the central oil battery on the BBT Concession is expected to be operational and the anticipated improvement in well run times and reduced operating costs as a result thereof; wells budgeted for the remainder of the year; large-scale development of Chinook's contiguous 35 section Montney land block which may result from success of Chinook's second Montney well; the volume and product mix of oil and natural gas production on certain newly-drilled wells, operations to be conducted, wells to be drilled and/or completed and the timing thereof on certain of Chinook's Canadian and Tunisian properties; future results from operations and operating metrics, future exploration and development activities and the timing thereof and related production expectations; as well as management's future expectations regarding production, cash flow, capital expenditures, net debt and maximum available credit 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 limited 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 exploration and development activities, the ability of Chinook to add production and reserves through exploration and development activities, and the continued availability of adequate debt financing and cash flow to fund Chinook's 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 risks 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, environmental risks, competition from other producers, inability to retain drilling rigs and other services, unexpected 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 Chinook's 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 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.

Netback

The reader is cautioned that this news release contains the term 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 it 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

The reader is cautioned that this news release contains the term cash flow, 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 also 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 any 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 Chinook to provide an outlook of Chinook'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 Chinook and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. Chinook and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.

Initial Production Levels

Any references in this news release to initial, early and/or test production/performance rates 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 the aggregate production for Chinook. The initial production rate may be estimated based on other third party estimates or limited data available at this time. The initial production is generally estimated using boes. 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.

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