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

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

Operational and financial highlights for the three and six months ended June 30, 2014 are noted below and should be read in conjunction with our condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013 and related management's discussion and analysis which have been posted on SEDAR (www.sedar.com).

SECOND QUARTER 2014 HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
OPERATIONS				
Production				
Oil *(bbl/d)*	3,985	3,298	3,830	3,431
Natural gas liquids *(bbl/d)*	715	874	832	939
Natural gas *(mcf/d)*	31,045	34,458	30,942	36,088
Average daily production *(boe/d)*	9,875	9,916	9,818	10,385
Sales				
Oil *(bbl/d)*	3,613	3,588	3,660	3,151
Natural gas liquids *(bbl/d)*	715	874	832	939
Natural gas *(mcf/d)*	31,045	34,458	30,942	36,088
Average daily sales *(boe/d)*	9,503	10,205	9,648	10,106
Sales Prices				
Average oil price *($/bbl)*	$ 107.40	$ 98.07	$ 106.61	$ 96.77
Average natural gas liquids price *($/bbl)*	$ 72.06	$ 55.06	$ 73.22	$ 57.07
Average natural gas price *($/mcf)*	$ 5.34	$ 4.13	$ 5.88	$ 3.92
Netback [1]				
Average commodity pricing *($/boe)*	$ 63.71	$ 53.13	$ 65.59	$ 49.47
Royalties *($/boe)*	$ (7.50)	$ (4.88)	$ (6.53)	$ (4.35)
Net production expenses *($/boe)* [1]	$ (20.91)	$ (17.31)	$ (20.17)	$ (16.92)
Cash G&A *($/boe)* [1]	$ (4.21)	$ (3.02)	$ (5.06)	$ (2.92)
Netback *($/boe)* [1]	$ 31.09	$ 27.92	$ 33.83	$ 25.28
Wells Drilled *(net)*				
Oil	1.72	1.77	8.42	5.38
Gas	-	-	1.12	-
Dry	-	0.86	-	0.86
Total wells drilled *(net)*	1.72	2.63	9.54	6.24

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
FINANCIAL *($ thousands, except per share amounts)*				
Petroleum & natural gas revenues, net of royalties	$ 48,606	$ 44,805	$ 103,152	$ 82,545

Cash flow (1)	$	23,073	$	22,179	$	51,522	$	43,697
Per share - basic and diluted *($/share)*	$	0.11	$	0.10	$	0.24	$	0.20
Net income	$	4,391	$	3,990	$	10,476	$	8,490
Per share - basic and diluted *($/share)*	$	0.02	$	0.02	$	0.05	$	0.04
Capital expenditures	$	27,292	$	23,059	$	67,683	$	48,105
Net debt (1)	$	80,536	$	66,340	$	80,536	$	66,340
Total assets	$	589,515	$	621,143	$	589,515	$	621,143
Common Shares *(thousands)*								
Weighted average during period								
- basic		214,226		214,188		214,207		214,188
- diluted		215,814		214,188		214,916		214,188
Outstanding at period end		214,674		214,188		214,674		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.

Second Quarter and First Half 2014 Highlights

- Completed testing operations on our first Montney horizontal well (0.375 net) at Gold Creek which flow tested for a period of 320 hours with final gross test rates of approximately 500 barrels of oil per day (37 degree API) and up to 6.0 million cubic feet of natural gas per day (total of 1,500 boe/d).
- Completed testing operations on our first Montney horizontal well (0.75 net) at Birley/Umbach which flow tested for a period of 154 hours with final gross test rates of approximately 344 barrels of condensate per day (49 degree API) and 6.0 million cubic feet of natural gas per day (total of 1,336 boe/d) at 2,700 KPa flowing tubing pressure. The well was brought on production for 30 days in the second quarter at restricted gross rates of 135 barrels of condensate per day and 3.9 million cubic feet of natural gas per day (total of 785 boe/d) at greater than 7,000 KPa flowing tubing pressure.
- Acquired an additional 19 net sections of land at Birley/Umbach to now hold 54 gross (45 net) contiguous sections of Montney lands.
- Entered into a share purchase and sale agreement for the disposition of our Tunisian operations, effective January 1st, 2014, for US$127.7 million, subject to customary closing adjustments. The closing of this transaction will complete our transformation to a Montney-focused pure domestic oil and gas company.
- Increased first half 2014 Canadian cash flow by 61% over the first half of 2013.
- Improved first half Canadian operating netback by 72% over the first half of 2013.
- Renewed our Canadian reserve-based revolving credit facility at $125 million.

Second Quarter 2014 Financial Results

Consolidated

Production in the second quarter of 2014 averaged 9,875 boe per day, down less than 1% from the same period in 2013 and up 1% from the first quarter of 2014. Production for the first half of 2014 was down approximately 5% from the same period in 2013. Despite the decrease in volumes from the comparative 2013 periods, consolidated revenue was up over 10% from the second quarter of 2013 and up over 25% from the first half of 2013 as a result of increased commodity prices and our increased proportion of crude oil production. Cash flow for the quarter increased by 4% to $23.1 million compared to the same quarter in 2013 and increased 18% compared to the first half of 2013, but decreased from the first quarter of 2014 with a softening of natural gas prices between the periods. Net debt at the end of the second quarter was $80.5 million.

Canada

Canadian production in the second quarter of 2014 averaged 7,911 boe per day and 7,919 boe per day for the first half of 2014. Production was down marginally from the first quarter 2014 as the amount of capital activity in the quarter was minimal with spring break-up and downtime associated with turnarounds and facility issues. As a result of our slower capital program in the period, our commodity mix remained consistent from the first quarter with liquids comprising 38% of our production for the quarter. Our realized oil price increased during the second quarter of 2014 compared to the first quarter of 2014, which followed the benchmark pricing of Edmonton par and the world oil prices. Our realized natural gas and NGL prices decreased slightly from the first quarter of 2014 as benchmark prices softened moving into the summer season. Royalties increased in both the second quarter of 2014 and for the first half of 2014 compared to the same periods in 2013 as a result of higher realized prices and negative adjustments to the gas cost allowance received from the Crown.

Cash flow from Canadian operations in the second quarter was $14.8 million and $32.4 million for the first half of 2014 compared to $10.7 million and $20.1 million in the second quarter and first half of 2013, an increase of 39% and 61%, respectively.

As a result of stronger commodity prices and a focus on improving our operating efficiencies, our operating netback continues to improve and increased by 47% in the second quarter to $28.22/boe from $19.24/boe in the second quarter 2013 and by 72% in the first half 2014 to $30.88/boe compared to $17.97/boe in the first half 2013. Approximately 75% of our per barrel operating costs are fixed costs which we are addressing through internal operating reviews and dispositions of non-core high operating cost properties. As our Canadian production grows we expect our per unit operating costs to begin to decline.

Tunisia

Tunisian production in the second quarter of 2014 averaged 1,964 boe per day, an increase of 7% over the first quarter of 2014 and an increase of 3% over the same comparative period in 2013. Sales volumes were less than the production volumes in the quarter resulting in an increase in the inventory volumes held at the end of the quarter and a decrease in our second quarter revenue compared to the first quarter of 2014. Overall production and operating costs in the second quarter and first half of 2014 increased from the same comparable periods in 2013 and from the first quarter of 2014 mainly due to higher costs related to equipment rentals and prior period billings related to non-operated production.

Second Quarter 2014 Operational Results and Update

Canada

Chinook did not conduct any significant drilling and completion operations in the second quarter due to spring break up conditions in the field. Operations were limited to the completion of production testing two separate Montney discoveries at Birley/Umbach in northeast British Columbia and at Gold Creek in the Grande Prairie area of Alberta.

At Birley/Umbach, we announced the successful results of our first Montney well (0.75 net) in the second quarter along with the acquisition of an additional 19 net sections of offsetting Montney rights to now hold 54 (45 net) sections of contiguous Montney lands directly offsetting this discovery well. The well was licenced 13 kilometres away from the nearest Montney producer to the southwest and was drilled and completed in the upper Montney interval to a total drilled depth of 2,700 metres (1,220 metre lateral section) and flow tested through production tubing at 344 barrels per day of condensate and 6.0 million cubic feet of natural gas per day (total 1,336 boe per day). The well was brought on production on April 10, 2014 through an existing Chinook operated facility at a restricted rate of 135 barrels per day of condensate and 4.0 million cubic feet of natural gas per day (total 785 boe per day) and was subsequently shut-in during late May to repair mechanical issues with the facility. The well came back on production on August 6, 2014 and is currently producing at a restricted rate of 205 barrels per day of condensate and 4.1 million cubic feet per day of natural gas (total 888 boe per day). A second well (0.75 net) is scheduled to spud in late August approximately six kilometres to the southeast from the discovery well and will assist us in planning our winter 2014/2015 drilling program and design of our facility expansion. There are 216 potential locations in the Upper Montney across our lands and we are closely monitoring nearby drilling and completion operations in the mid and lower Montney intervals by other operators which could ultimately significantly increase the number of Montney locations on our lands.

At Gold Creek, we resumed testing our previously announced Montney discovery well (0.37 net) after spring break up. Prior to break up the well tested for a total of 184 hours with final rates of approximately 550 barrels of oil per day plus 3.3 million cubic feet per day of natural gas (total 1,100 boe per day) with total fluid rates at the end of the test of 3,500 barrels of fluid per day. We resumed testing on June 4, 2014 and tested the well for an additional 140 hours with final rates of approximately 500 barrels of oil per day plus 6.3 million cubic feet per day of natural gas (total 1,500 boe per day) with total fluid rates at the end of the test of 3,135 barrels of fluid per day. The well is expected to be brought on production in September 2014 along with plans for a water disposal well to be drilled early in the fourth quarter of 2014. We have more than 50 net sections of Montney rights in this active area with one additional well budgeted to be drilled in the fourth quarter.

Our Grande Prairie Dunvegan development drilling program resumed in late July at Albright where we have two (2 net) wells budgeted for the third quarter, which includes re-drilling the horizontal section of a well drilled in the first quarter. At Karr, we have budgeted four (1.37 net) wells to be drilled prior to year- end on this non-operated property. Since the first quarter of 2013, we have drilled 17 (10.15 net) horizontal Dunvegan wells in the Grande Prairie area on two of our six Dunvegan oil pools and have added cumulative third month production volumes of 3,900 boe per day (1,908 net) for approximately $17,000 per flowing barrel of oil equivalent with rates of return exceeding 70%.

Tunisia

Capital activity on our BBT Concession during the second quarter consisted of drilling and completing two (1.72 net) wells and completing one (0.86 net) well that was drilled during the first quarter of 2014. All six (5.16 net) wells of our 2014 well program have now been drilled and completed and five (4.3 net) wells have been brought on production.

Outlook

The first half of 2014 was a pivotal and exciting period for Chinook. Our encouraging Montney drilling results at Birley/Umbach and Gold Creek and our planned follow up activity on these properties has the potential to provide us with a multi-year drilling inventory to support meaningful growth and profitability.

The significant conditions precedent and requisite approvals needed to close the sale of our Tunisian operations have been met and we anticipate that the transaction will close prior to the end of August 2014, three months ahead of our previous estimate of December 1, 2014. We will provide updated guidance concurrent with our closing announcement. The sale of our international business will allow us to focus on our domestic business at a time when our Canadian operational results and key play economics are improving.

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.

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 closing date of the disposition of Chinook's Tunisian operations and the amount of the proceeds of the transaction; that Chinook's future operating costs should begin to decline; wells budgeted for the remainder of the year including expected timing of the drilling and completion of a second horizontal well in the Birley/Umbach area; the expected time that Chinook's Gold

Creek horizontal oil well is expected to be on production; the volume and product mix of oil and natural gas production on certain newly-drilled wells, anticipated operational and cost efficiencies, operations to be conducted, wells to be drilled and/or completed and the timing thereof on certain of Chinook's Canadian properties; future results from operations and operating metrics, future exploration and development activities and the timing thereof and related production expectations.

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.

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 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.

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.

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.

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