AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of Chinook Energy Inc. ("the Company"), which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of loss and comprehensive loss, changes in deficit and accumulated other comprehensive loss and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of Chinook Energy Inc.'s predecessor entity Storm Ventures International Inc. for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2010.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 30, 2011

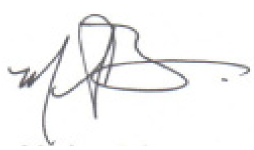
Management's Report

The management of Chinook Energy Inc. ("the Company") is responsible for the financial information and operating data presented in this financial document.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this financial document has been prepared on a basis consistent with that in the consolidated financial statements.

The Company maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded. Management's evaluation concluded that the Company's internal control over financial reporting was effective as of December 31, 2010. The Audit Committee of the Board of Directors, composed of independent non-management directors, meets regularly with management, as well as the external auditors, to discuss audit (external, and joint venture), internal controls, accounting policy and financial reporting matters as well as the reserves determination process. The Committee reviews the annual consolidated financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board. The Committee is also responsible for the appointment of the external auditors for the Company.

The consolidated financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.



Matthew Brister
President & Chief Executive Officer

Geoff Barlow
Vice President, Finance & Chief Financial Officer

Calgary, Alberta
March 30, 2011

Consolidated Balance Sheets

($ thousands)	**December 31 2010**	December 31 2009
Assets		
Current		
Cash and cash equivalents	**$ 23,195**	$ 8,027
Accounts receivable and other *(Note 4)*	**51,515**	23,737
	74,710	31,764
Investments	**-**	64
Long-term derivative contracts *(Note 13)*	**1,764**	-
Property and equipment *(Note 5)*	**729,258**	362,372
	$ 805,732	$ 394,200
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	**$ 76,329**	$ 10,263
Current portion of long-term debt *(Note 6)*	**-**	8,170
Current portion of future income taxes *(Note 8)*	**1,114**	-
	77,443	18,433
Long-term debt *(Note 6)*	**167,793**	11,166
Asset retirement obligation and other long-term liabilities *(Note 7)*	**78,402**	6,193
Future income taxes *(Note 8)*	**4,978**	29,552
Shareholders' equity		
Share capital *(Note 11 b)*	**778,070**	344,703
Contributed surplus *(Note 11 e)*	**10,985**	4,137
Deficit	**(311,939)**	(6,298)
Accumulated other comprehensive income (loss)	**-**	(13,686)
	477,116	328,856
Commitments *(Note 10)*		
	$ 805,732	$ 394,200

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Loss and Comprehensive Loss

($ thousands)	Year ended December 31 **2010**	2009
Revenue		
Production revenue	**$ 132,010**	$ 1,734
Royalties	**(17,390)**	-
	114,620	1,734
Processing and other income	**5,338**	129
	119,958	1,863
Expenses		
Production expenses	**45,345**	733
Derivatives gain *(Note 13)*	**(3,448)**	-
Foreign exchange loss	**1,404**	1,044
General and administrative	**23,520**	6,107
Interest and financing charges	**11,574**	20
Gain on sale of investment	**-**	(1,909)
Depletion, depreciation and accretion	**79,583**	1,867
	157,978	7,862
Net loss before income tax	**(38,020)**	(5,999)
Current taxes	**4,245**	-
Future taxes (recovery)	**(10,313)**	-
	(6,068)	-
Net loss from continuing operations	**(31,952)**	(5,999)
Discontinued operations *(Note 17)*	**(13,540)**	(13,618)
Net loss	**(45,492)**	(19,617)
Other comprehensive income (loss)		
Cumulative foreign currency translation adjustment	**(21,179)**	(3,892)
Available for sale assets fair value adjustment	**(5)**	(57)
	(21,184)	(3,949)
Comprehensive loss	**$ (66,676)**	$ (23,566)
Net loss per share		
Basic and diluted	**$ (0.28)**	$ (0.27)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Deficit and Accumulated Other Comprehensive Loss

($ thousands)	Year ended December 31 2010	2009
Retained (deficit) earnings, beginning of year	**$ (6,298)**	$ 13,319
Net loss	**(45,492)**	(19,617)
Dilution adjustment on investment in Bridge Energy *(Note 9)*	**(27,985)**	-
Return of equity on Bridge Energy distribution *(Note 17)*	**(232,164)**	-
Deficit, end of year	**$ (311,939)**	$ (6,298)
Accumulated other comprehensive loss, beginning of year	**$ (13,686)**	$ (9,737)
Other comprehensive income (loss)		
Cumulative foreign currency translation adjustment	**(21,179)**	(3,892)
Available for sale assets fair value adjustment	**(5)**	(57)
Distribution of Bridge Energy *(Note 17)*	**34,870**	-
Accumulated other comprehensive loss, end of year	**$ -**	$ (13,686)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

($ thousands)	Year ended December 31 2010	2009
Operating activities		
Net loss from continuing operations	**$ (31,952)**	$ (5,999)
Add non-cash items:		
Accretion	**3,665**	-
Depletion and amortization	**75,918**	1,867
Unrealized derivative loss	**3,906**	-
Foreign exchange loss	**1,403**	1,460
Shares issued	**784**	346
Stock based compensation	**6,233**	2,999
Future income tax	**(10,313)**	-
Non-cash charges	**2,084**	-
Change in non-cash working capital *(Note 12)*	**5,256**	(858)
Cash flow from continuing operating activities	**56,984**	(185)
Cash flow from discontinued operations before change in non-cash working capital	**3,672**	18,849
Change in non-cash working capital from discontinued operations *(Note 12)*	**1,047**	(207)
Cash flow from discontinued operations	**4,719**	18,642
Cash flow from operating activities	**61,703**	18,457
Financing activities		
Issue of share capital	**288,584**	4,500
Long-term debt issue	**142,793**	-
Proceeds from exercise of stock options	**197**	-
Share issue costs	**(36)**	-
Change in non-cash working capital *(Note 12)*	**-**	2,113
Financing activities from continuing operations	**431,538**	6,613
Long-term debt repayment from discontinued operations	**-**	(16,573)
Change in non-cash working capital from discontinued operations *(Note 12)*	**-**	-
Financing activities from discontinued operations	**-**	(16,573)
Cash flow from financing activities	**431,538**	(9,960)
Investing activities		
Property and equipment - net	**(249,472)**	(3,418)
Business combinations	**(243,538)**	-
Investment proceeds received	**-**	8,860
Change in non-cash working capital *(Note 12)*	**17,781**	(15,744)
Investing activities from continuing operations	**(475,229)**	(10,302)
Property and equipment - net from discontinued operations	**(2,128)**	(10,579)
Change in non-cash working capital from discontinued operations *(Note 12)*	**-**	-
Investing activities from discontinued operations	**(2,128)**	(10,579)
Cash flow from investing activities	**(477,357)**	(20,881)
Change in cash and cash equivalents during the year	**15,884**	(12,383)
Change and cash equivalents, beginning of year	**8,027**	24,366
Cash and cash equivalents, foreign exchange	**(716)**	(3,955)
Cash and cash equivalents, end of year	**$ 23,195**	$ 8,027

See accompanying notes to the consolidated financial statements.

1. Basis of Presentation

Chinook Energy Inc. (the "Company" or "Chinook"), formerly Storm Ventures International Inc., was incorporated under the laws of the Province of Alberta, Canada, on August 28, 2003. On June 29, 2010, (effective date of the arrangement) through a plan of arrangement, Storm Ventures International Inc. ("SVI") acquired all of the issued and outstanding securities of Iteration Energy Ltd. ("Iteration") and formed Chinook Energy Inc. These consolidated financial statements are a continuation of SVI with the results of Iteration included in the accounts from the effective date of the arrangement. Chinook's operations are in the business of exploration for, development of, and production of natural gas, crude oil and natural gas liquids both domestically and internationally.

The annual consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries, after the elimination of intercompany balances and transactions.

All dollar amounts are reported in Canadian Dollars, except where indicated.

2. Accounting Policies

Preparation of Financial Statements

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized below.

Use of Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Specifically amounts recorded for depletion and amortization, asset retirement costs and obligations, fair value measurements and amounts used for ceiling test and impairment calculations are based on estimates. These estimates include crude oil and natural gas reserves, future interest rates and future costs required to develop these reserves as well as other fair value assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that mature within three months of their purchase. They are recorded at cost, which approximates fair value.

Property and Equipment

A) Oil and Natural Gas

The Company employs the full cost method of accounting for oil and natural gas interests whereby all costs of acquisition, exploration for and development of oil and natural gas reserves are capitalized and accumulated within cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity, drilling of productive and non-productive wells, carrying costs directly related to unproved properties and administrative costs directly related to exploration and development activities. Depletion of oil and natural gas properties and depreciation of associated production facilities are amortized on the unit of production method, based on gross proved oil and natural gas reserves using future prices and costs as estimated by the Company's engineers, for each cost centre. Capitalized costs subject to depletion include both the estimated future costs required to develop proved undeveloped reserves and the associated addition of the asset retirement obligations. Proceeds from the divestiture of properties are normally deducted from the full cost pool without recognition of a gain or loss unless that deduction would result in a change to the depletion rate by 20% or more, in which case a gain or loss is recorded.

Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from the costs subject to depletion until it is determined whether or not proved developed reserves are attributable to the properties, or impairment has occurred. Costs that have been impaired are included in the costs subject to depletion and amortization.

Impairment losses are recognized when the carrying amount of a cost centre exceeds the sum of:

- the undiscounted cash flow expected to result from production from proved reserves based on forecast oil and gas prices and costs;
- the costs of unproved properties, less impairment; and
- the costs of major development projects, less impairment.

The amount of impairment loss is determined to be the amount by which the carrying amount of the cost centre exceeds the sum of:

- the fair value of proved and probable reserves calculated using a present value technique that uses the cash flows expected to result from production of the proved reserves and probable reserves discounted using a risk free rate; and
- the cost, less impairment, of unproved properties and major development projects that do not have probable reserves attributed to them.

B) Office Furniture and Equipment

Office furniture and equipment are recorded at cost and amortized on a straight line basis over its expected useful life of ten years. Computer hardware is recorded at cost and amortized on a straight line basis over its expected useful life of five years. Computer software is recorded at cost and amortized on a straight line basis over its expected useful life of two years. Leasehold improvements are recorded at cost and amortized on a straight line basis over the term of the lease.

C) Asset Retirement Obligation

The Company recognizes the fair value of the retirement obligation associated with tangible properties in the period in which this liability arises and when reasonable estimates of this fair value can be made. The fair value of the liability is calculated as the present value of the expected future costs of abandonment. The obligation is recorded with a corresponding increase to the carrying amount of property and equipment. The liability is increased through the accretion of interest up to the future amount of the liability with the charge for accretion being recorded in the Company’s consolidated financial statements. The addition to the carrying amount of property and equipment will be amortized. Actual costs incurred upon settlement of the abandonment obligation are charged against the liability.

Inventory

Inventory of oil products is valued at the lower of cost (determined by weighted average method) or market. The cost of production inventoried consists of production and transportation costs and an allocation of depletion.

Joint Operations

Certain of the Company's exploration and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Income Taxes

Income taxes are calculated using the liability method of accounting for taxes. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in earnings when substantively enacted.

Non-monetary Transactions

Non-monetary transactions are measured based on fair value when there is evidence to support the fair value unless the transaction lacks commercial substance or is an exchange of product or property held for sale in the ordinary course of business.

Revenue Recognition

Revenue from the sale of oil and natural gas is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when the product is physically transferred in a vessel, pipeline or other delivery mechanism.

Interest and investment revenue is recognized by applying the effective interest rate.

Foreign Currency Translation

The Company operates in jurisdictions where the US dollar and the Tunisian Dinar are the operating currencies. Where operations are considered to be financially and operationally integrated foreign currency balances are translated as follows:

- monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date;
- non-monetary assets and liabilities are translated at historical rates; and
- income and expenses are translated at the average rate of exchange during the quarter they are recognized.

Any resulting foreign exchange gain or loss arising on translation is included in the determination of net income.

The activities of the Company's subsidiaries that are considered to be self-sustaining are translated using the current rate method as follows:

- assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date; and
- income and expenses are translated at the average rate of exchange during the quarter they are recognized.

Any resulting foreign exchange gain or loss on the translation of self-sustaining operations is included in Other Comprehensive Income.

Stock Based Compensation

The Company has granted options to employees, directors, officers and key contractors to acquire common shares of the Company. These options are accounted for using the fair value method, which estimates the value of the options at the date of the grant using the Black-Scholes option pricing model. The fair value established is recognized as an expense over the life of the options with a corresponding increase to contributed surplus.

Per Share Amounts

Net income per share is calculated using the weighted average number of shares outstanding during each reported period. Diluted net income per share is calculated using the treasury-stock method to determine the dilutive effect of stock options. The treasury-stock method assumes that the proceeds received from the exercise of in-the-money stock options are used to purchase common shares at the market price at the end of the reporting period.

Financial Instruments

The derivative financial instruments are initiated within the guidelines of the Company's hedging policy. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to the cash flow from the asset have expired or the Company has transferred substantially all risks and records of ownership. Financial liabilities are reduced when settlement has occurred.

The Company accounts for its commodity sales and purchase contracts, which were entered into for the purpose of receipt or delivery of non-financial items, on an accrual basis rather than as derivatives. As such, physical sales and purchase contracts are not recorded at fair value on the balance sheet.

The Company uses derivative financial instruments from time to time to manage its exposure to commodity price fluctuations. The Company may choose at inception of the hedge to designate derivative financial instruments as hedges, which requires the Company to formally document the designation of the hedge, the risk management objectives, the hedging relationships and the method for testing the effectiveness of the hedge, which must be assured over the term of the hedge. The Company is then required to formally assess, at inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is optional. Derivative instruments that have been designated and qualify for hedge accounting are classified as either fair value or cash flow hedges. For fair value hedges, any gains or losses arising on fair value measurement of the derivative are recognized immediately in earnings along with the gain or loss on the hedged item.

All financial instruments must initially be recognized at fair value on the balance sheet. Financial instruments must be classified into one of the following five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets or other financial liabilities. Subsequent measurement of all financial assets and liabilities except those held for trading and available-for-sale are measured at amortized cost determined using the effective interest rate method. Held for trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at the fair value with changes in fair value recognized in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Company's financial assets and liabilities are identified and classified below:

- cash and cash equivalents comprise cash on hand. Due to short-term nature of cash and cash equivalents, its carrying value approximates fair value.
- accounts receivable and other, which are non-derivative financial assets, are classified as loans and receivables. They are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. A provision for impairment of trade receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the terms of receivable.
- commodity risk management contracts are classified as held-for-trading and measured at fair value. They are included in either current assets or non-current assets depending on the date of maturity of the contract.
- accounts payable and accrued liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current if payment is due within one year or less.
- long-term debt is an obligation to repay funds advanced by a lender or group of lenders where payment is not required within the next twelve months from the reporting date.

The Company may enter into commodity price contracts for anticipated sales of crude oil and natural gas production to manage its exposure to price fluctuations. The Company marks these instruments to market prices and recognizes these changes in fair value in derivatives (gain) loss in the consolidated statements of income (loss) and comprehensive income (loss). Fair values of the derivatives are based on quoted market prices. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The statement of comprehensive income may report changes in fair value in derivatives designated as cash flow hedges, available-for-sale investments and foreign currency translation of financial statements of a self-sustaining foreign operation. Accumulated Other Comprehensive Income (loss) is an equity category in the balance sheet comprised of cumulative amounts of Other Comprehensive Income (loss).

Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the provision for the asset retirement obligation and amounts used for ceiling test calculations are based on estimates of reserves, production rates and future commodity prices and costs. Stock-based compensation and future income tax include assumptions with respect to future costs, discount rates, income tax rates and timing of deductions. These estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be material.

Reclassification

Certain amounts presented for the purpose of comparison have been reclassified to conform to the current period's presentation.

Changes in Accounting Policies

On January 1, 2010, Chinook adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- Section 1582 – Business Combinations, which replaces CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price on the date of the exchange. The new guidance requires all costs of the acquisition to be expensed, which were previously capitalized as part of the purchase price. Contingent liabilities are recognized at fair value at the acquisition date and re-measured at fair value through earnings until settled. Previously only contingent liabilities that were resolved and payable were included in the cost to acquire the enterprise. In addition, negative goodwill is recognized immediately in earnings, unlike the previous requirement to eliminate it by deducting it from non-current assets in the purchase price allocation.

- Section 1601 – Consolidated Financial Statements, which replaces CICA section 1600 of the same name. This guidance requires consistent application of accounting policies throughout all consolidated entities. The adoption of this standard should have no material impact on the consolidated financial statements.

- Section 1602 – Non-controlling Interests, which replaces CICA section 1600 Consolidated Financial Statements. This standard establishes the accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has resulted in an adjustment to retained earnings (deficit) as a result of a loss on the dilution of Chinook's ownership of a controlled subsidiary.

3. Business Combinations

Iteration Energy Ltd.

On June 29, 2010, (effective date of the arrangement) through a plan of arrangement, Chinook acquired all of the issued and outstanding securities of Iteration for $555.9 million, including Iteration bank debt and working capital deficiency assumed. Iteration was a publicly traded company with the majority of its production from natural gas mainly located in Alberta. The plan of arrangement resulted in the newly amalgamated company, Chinook, being a publicly traded company listed on the Toronto Stock Exchange.

Tabular amounts in thousands, except per share amounts

The plan of arrangement was an arm's length transaction and has been accounted for as an acquisition of Iteration by Chinook using the purchase method with Chinook being the acquirer. This transaction has been accounted for as a business combination and all transaction costs have been expensed. These consolidated financial statements are a continuance of Chinook with the results of operations of Iteration included in the accounts from the effective date of the arrangement. The allocation of the purchase price based on estimated fair values of Iteration on the acquisition date was as follows:

Net assets acquired:		
Property and equipment	$	618,002
Unrealized gain on financial instruments		4,486
Asset retirement obligation		(54,033)
Future income tax liability		(12,515)
Assumption of bank debt		(175,000)
Working capital deficit		(14,099)
Total consideration transferred	$	366,841

Consideration given:		
Cash	$	225,000
Common shares issued (52,147,287)		141,841
Total purchase price	$	366,841

Talisman Resources (Tunisia) Limited ("TRTL")

On March 11, 2010, Chinook acquired all of the issued and outstanding shares of TRTL for $24.3 million. TRTL owns a 5% non-operated interest in the Adam concession and a 10% non-operated interest in the Borj El Khadra Permit, both in Tunisia. The acquisition has been accounted for as a business combination and all transaction costs have been expensed. The results of TRTL are included in the consolidated financial statements of the Company from the acquisition date.

The allocation of the purchase price based on the estimated fair value of TRTL on the acquisition date was as follows:

Net assets acquired:		
Cash	$	11,240
Working capital		(1,691)
Property and equipment		18,809
Future income tax		(3,891)
Asset retirement obligation		(190)
Total consideration transferred	$	24,277

Consideration given:		
Cash	$	24,277

Tabular amounts in thousands, except per share amounts

4. Accounts Receivable and Other

The Company's accounts receivable and other is comprised of:

	2010	2009
Production revenue receivable	**$ 21,327**	$ 629
Joint venture partner receivables	**15,566**	4,617
Refundable deposits	**6,298**	523
Unrealized gain on financial instruments	**3,516**	-
GST input tax credits	**1,846**	109
Cash call balances	**1,615**	1,075
Prepaids	**969**	325
Inventory	**51**	24
Other receivables	**327**	16,435
	$ 51,515	$ 23,737

5. Property and Equipment

The Company has invested in property and equipment costs as follows:

	2010	2009
North Sea, UK	**$ -**	$ 372,553
Canada	**719,528**	-
Tunisia	**84,051**	45,308
Corporate	**3,468**	576
	807,407	418,437
Accumulated depletion on petroleum and natural gas properties	**(77,076)**	(55,821)
Accumulated depreciation on other property and equipment	**(713)**	(244)
	$ 729,258	$ 362,372

On March 1, 2010, the Company completed the acquisition of oil and natural gas assets in West Central Alberta for a total purchase price including interim adjustments, of $175.6 million. At December 31, 2009, a deposit of $10.0 million associated with the purchase had been placed in trust and was reflected in accounts receivable and other charges on the consolidated balance sheet. The purchase has been accounted for as an asset purchase. The purchase of the oil and natural gas assets was funded by equity financing and bank debt.

On March 15, 2010, the Company completed the acquisition of the interests of one of its partners in the Sud Remada field in Tunisia for USD $4.0 million plus adjustments. This purchase increased the Company's working interest in the field from 71% to 86%.

On June 1, 2010, the Company sold oil and natural gas assets in Alberta for proceeds of $7.2 million plus interim adjustments.

On June 29, 2010, the Company completed the acquisition of Iteration (Note 3) with a property and equipment value of $618.0 million. In conjunction with the corporate acquisition, the Company sold $150.0 million of petroleum and natural gas assets to a limited partnership as repayment of a bridge credit facility (Note 6).

On June 30, 2010, the Company completed the acquisition of oil and natural gas assets in West Central Alberta for a total purchase price of $44.6 million, including interim adjustments.

On July 28, 2010, the Company sold oil and natural gas assets in Alberta for gross proceeds of $14.5 million plus interim adjustments.

On September 30, 2010, the Company sold oil and natural gas assets in Alberta for proceeds of $4.1 million plus interim adjustments.

Tabular amounts in thousands, except per share amounts

The Company capitalized $2.5 million (2009 - $1.8 million) of direct general and administrative costs as related to its exploration and development activity for the year ended December 31, 2010. Included in the depletion calculation were future development costs of $63.2 million (2009 - $31.2 million).

Costs of oil and natural gas properties excluded from costs subject to depletion and depreciation were as follows:

	2010	2009
Canada	**$ 53,096**	$ -
Tunisia	**35,605**	25,986
	$ 88,701	$ 25,986

The Company performed a ceiling test calculation at December 31, 2010, to assess the recoverable value of its petroleum and natural gas interests. It was determined that there was no impairment using the prices in the following table:

	2011	2012	2013	2014	2015	Price increase thereafter
WTI crude oil *($USD/bbl)*	85.00	87.70	90.50	93.40	96.30	2%
Brent crude oil *($USD/bbl)*	85.00	87.20	89.50	92.30	95.20	2%
AECO natural gas *($Cdn/mmbtu)*	4.25	4.90	5.40	5.90	6.35	2%
Propane *($Cdn/bbl)*	44.40	47.70	50.30	52.70	55.00	2%
Butane *($Cdn/bbl)*	67.90	71.20	74.00	76.40	78.70	2%
USD/Cdn exchange risk	0.975	0.975	0.975	0.975	0.975	0.975

6. Debt

i) Revolving Term Credit Facility

On February 24, 2010, the Company completed bank financing to facilitate the acquisition of certain oil and natural gas assets, as disclosed in Note 5, and for general corporate borrowing purposes. The Company obtained an extendible revolving term credit facility allowing Chinook to borrow up to $50.0 million and a $5.0 million operating credit facility, from a syndicate of Canadian financial institutions. On June 28, 2010, the Company re-negotiated the credit facility to increase the extendible revolving term portion to $190.0 million and the operating portion to $25.0 million as a result of the acquisition of Iteration. On June 30, 2010, the Company's extendible revolving term credit facility was increased to $215.0 million as a result of the additional property purchase and reserve values associated with those properties. The credit facility was reviewed and re-determined as per the semi-annual review such that as of December 22, 2010, the syndicated credit facility was amended to $230.0 million resulting in the credit facilities consisting of a $25.0 million operating loan and a $205.0 million 364-day revolving loan. The revolving period ends June 27, 2011 with a one-year term-out following the revolving period. In the event that the revolving period is not extended by June 27, 2011, all amounts then outstanding under the credit facilities will be payable by June 27, 2012. At December 31, 2010, the Company had drawn $167.8 million on the revolving term credit facility and drawn $nil on the operating credit facility.

The re-determination at December 22, 2010, brought the Tunisian assets into the borrowing base, however certain due diligence and the delivery of certain guarantees and security documents were not completed at that time. Subsequently, all required guarantees and security documents have been executed and delivered and due diligence by the banks' legal counsel has been completed; however the registration of the security in the various jurisdictions and certain other usual and customary documentary conditions precedent have not been completed. These matters are expected to be completed in April 2011, and upon completion, the revolving term credit facility will be increased to $240.0 million, consisting of a $215.0 million revolving credit facility and a $25.0 million operating facility.

The credit facilities are secured by a first floating charge and security interest over all present and future Canadian property and assets. Interest payable on amounts drawn on the facilities vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptance depending on the borrowing option selected by the Company. The facility contains a covenant whereby the Company's debt to earnings before interest, taxes, depreciation and amortization and other non-cash items (“EBITDA”) ratio cannot be greater than 4:1 at the end of any fiscal quarter. At December 31, 2010, the Company was in compliance with the covenant.

Tabular amounts in thousands, except per share amounts

ii) Bridge Credit Facility

On June 28, 2010, the Company entered into a $167.8 million bridge credit facility. The facility was used to help fund the acquisition of Iteration. On June 29, 2010, the Company made an in-kind payment on the drawn amount through the transfer of a 25.45% working interest in all of the Iteration properties to the lender. The in-kind payment reduced the drawn amount by $150.0 million. On August 9, 2010, the Company repaid the bridge credit facility amount outstanding of $17.8 million plus accumulated interest of $0.3 million.

iii) Royal Bank of Scotland

Long-term debt at December 31, 2009, consisted of Royal Bank of Scotland debt of $19.3 million (current portion $8.2 million), which was associated with Chinook’s UK North Sea business.

7. Asset Retirement Obligation and Other Long-term Liabilities

i) Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the Company’s net obligation associated with the retirement of oil and natural gas assets. The provision has been based upon existing technology, current legislation requirements, an inflation rate of between 1.69% and 2% and discounted using a rate of 8.5%. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $150.0 million. The expenditures are estimated to be incurred starting in 2015 until 2051 in Canada and by 2021 in Tunisia.

		2010		2009
Beginning of year	**$**	**6,031**	$	12,987
Provision		**3,190**		715
Acquired on acquisition of Western Canadian Assets *(Note 5)*		**26,495**		-
Acquired on acquisition of TRTL *(Note 3)*		**190**		-
Acquired on acquisition of Iteration, net of disposition *(Note 3)*		**40,525**		-
Discontinued operations *(Note 17)*		**(3,332)**		-
Revision		**-**		(7,090)
Foreign currency adjustment		**(2,058)**		(718)
Accretion		**3,665**		137
End of year	**$**	**74,706**	$	6,031

ii) Other Long-term Liabilities

At December 31, 2010, there was a long-term liability of $3.7 million relating to lease obligations of Iteration.

At December 31, 2009, there was a long-term liability of $0.2 million relating to the unapproved share option scheme of Silverstone Energy Limited, a former indirect wholly-owned subsidiary. This liability no longer exists following the discontinued operations of Silverstone Energy Limited (Notes 9 and 17).

Tabular amounts in thousands, except per share amounts

8. Income Taxes

The differences between the expected income tax provision and the reported income tax provision are summarized as follows:

	2010	2009
Net loss before taxes	**$ (38,020)**	$ (38,776)
Statutory income tax rate	**28%**	29%
Expected income tax recovery	**(10,646)**	(11,245)
Effect on income tax of:		
Foreign tax rate differences	**2,912**	(6,196)
Stock based compensation	**1,745**	870
Changes in rates	**1,216**	-
Change in valuation allowances	**(1,185)**	603
Other	**(110)**	(1,898)
	$ (6,068)	$ (17,866)

The future income tax liability at December 31, 2010, is comprised of the tax effect of temporary differences as follows:

	2010	2009
Property and equipment	**$ (22,771)**	$ (111,005)
Asset retirement obligation	**10,553**	-
Non-capital losses	**5,515**	81,453
Share issue costs	**1,116**	-
Other	**(505)**	-
	(6,092)	(29,552)
Current portion of future income taxes	**1,114**	-
Future income taxes liability	**$ (4,978)**	$ (29,552)

At December 31, 2010, the Company had Canadian resource pools and non-capital losses totaling $598.1 million, of which $9.9 million related to non-capital losses, available to reduce future taxes.

9. Dilution Adjustment

On March 30, 2010, Chinook's indirect wholly-owned subsidiary, Silverstone Energy Limited ("Silverstone"), completed a business combination transaction with Bridge Energy Norge AS whereby each of the companies became subsidiaries of a holding company, Bridge Energy ASA ("Bridge Energy"). Storm Ventures International (BVI) Limited formerly owned all of the shares of Silverstone which contained Chinook's United Kingdom - North Sea business. Pursuant to the transaction, Storm Ventures International (BVI) Limited received 28.8 million common shares of Bridge Energy, which represented approximately 80% of the Bridge Energy shares, which were outstanding immediately following the business combination. On March 30, 2010, Bridge Energy also issued 16.2 million shares to subscribers in a private placement at NOK 20 per share (or approximately USD $3.33 per share), for gross proceeds of NOK 324.5 million (or approximately USD $54.1 million). Following the private placement, Chinook's ownership in Bridge Energy was reduced to 55.1%. The dilution loss associated with Chinook's change in ownership was accounted for as a reduction to retained earnings at March 31, 2010.

Effective May 10, 2010, the Company distributed all of the shares of Bridge Energy, held by Storm Ventures International (BVI) Limited, to shareholders of record of the Company as of April 20, 2010. The distribution was a reduction and return of equity and resulted in a charge to retained earnings of $232.2 million.

Tabular amounts in thousands, except per share amounts

10. Commitments

At December 31, 2010, the Company had commitments that require the following minimum future payments:

	2011	2012	2013	2014	2015	Total
Long-term debt and interest	$ -	$ 177,251	$ -	$ -	$ -	$ 177,251
Operating leases, net of recovery	1,907	1,921	1,847	921	104	6,700
	$ 1,907	$ 179,172	$ 1,847	$ 921	$ 104	$ 183,951

Certain office space has been sublet resulting in a partial recovery of costs for varying terms extending through to July 31, 2013. As a result of the sublet, the Company recovers lease payments of approximately $1.6 million per annum.

The Company has legal claims and taxation notice of assessments that have arisen out of the normal course of business, which in management's opinion, individually and in aggregate are not material. The outcome of such claims are not determinable.

11. Share Capital

a) Authorized:

An unlimited number of common shares

An unlimited number of first preferred shares

b) Issued and Outstanding:

	Number of common shares	Consideration
Balance as at December 31, 2008	**73,599**	**$ 339,857**
Shares issued to employees and directors	126	346
Private placement	1,500	4,500
Balance as at December 31, 2009	**75,225**	**$ 344,703**
Shares issued to employees and directors	225	784
Private placements	85,847	288,584
Options exercised	744	2,194
Issued on acquisition of Iteration *(Note 3)*	52,147	141,841
Less: Issue costs	-	(36)
Balance as at December 31, 2010	**214,188**	**$ 778,070**

Share Issues

On January 8, 2010, the Company completed a private placement of 4.5 million common shares at $3.00 per share for aggregate gross proceeds of $13.5 million. Certain officers and directors participated in the private placement. At December 31, 2009, $2.0 million cash had been received for the private placement and was included as accounts payable and accrued liabilities in the consolidated balance sheet.

On March 1, 2010, in conjunction with the acquisition of certain oil and natural gas assets as disclosed in Note 5, the Company completed a private placement to Alberta Investment Management Corporation ("AIMCo"), which purchased 42.9 million common shares of the Company at a price of $3.50 per share for gross proceeds of $150.0 million.

On May 27, 2010, the Company completed the private placement of 38.5 million subscription receipts to AIMCo, on behalf of certain of its clients, at a price of $3.25 per subscription receipt for gross proceeds of $125.0 million. The proceeds were released from trust on June 29, 2010, in conjunction with the purchase of all of the issued and outstanding securities of Iteration (Note 3).

Tabular amounts in thousands, except per share amounts

On June 29, 2010, the Company issued 52,147,287 common shares in connection with the acquisition of Iteration pursuant to the plan of arrangement (Note 3). The 52,147,287 common shares were issued to Iteration shareholders on the basis of 0.5631 of a Chinook common share for each common share of Iteration.

During 2010, the Company issued 33,000 common shares to directors in lieu of directors' fees for deemed proceeds of $0.1 million.

During 2010, the Company issued 186,386 common shares to former employees of a subsidiary in recognition of long-term service and the forfeiture of their stock options.

During 2010, the Company issued 744,000 common shares pursuant to the exercise of stock options. Associated with the exercise of the options, $2.0 million was transferred from Contributed Surplus.

c) Warrants

The Company issued to AIMCo, on behalf of certain of its clients, 1,279,000 share purchase warrants on May 27, 2010, in conjunction with the private placement of subscription receipts and the provision of a bridge credit facility to the Company. Each warrant is exercisable to acquire one common share of the Company at a price of $3.25 per share at any time on or before June 30, 2013.

The estimated fair value of the warrants, using a Black-Scholes model with a 2.44% risk-free interest rate and 0.985 volatility factor, is $2.6 million. This amount has been included in the cost of financing and contributed surplus.

d) Stock Based Compensation Plan

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted to employees, directors, officers, and other service providers of the Company. The maximum number of common shares issuable on exercise of options granted pursuant to the share option plan may not exceed 10% of the issued and outstanding common shares of the Company. The outstanding options of the Company are exercisable for a period of five years and vest over a period of three years.

A summary of options outstanding is as follows:

Balance as at December 31, 2009	**4,090**
Granted during the year	10,390
Exercised during the year	(744)
Forfeited during the year	(1,600)
Balance as at December 31, 2010	**12,136**

Options previously granted to Silverstone employees were forfeited upon Silverstone and Bridge Energy completing the business combination. These employees were subsequently issued common shares of the Company to compensate for the loss of long-term employee incentive value.

Effective May 10, 2010, the grant prices of the outstanding stock options of the Company were adjusted to account for the reduction and return of capital associated with the distribution of the Bridge Energy shares (Notes 9 and 17). The result was a reduction in the exercise price of all outstanding options by $0.78 per option. The re-valuation resulted in an additional $3.4 million of fair value that will be charged to stock based compensation expense over the vesting period of the options.

	2010	2009
Weighted average exercise price - outstanding options	**$2.25**	$2.35
Average remaining life	**4.4 years**	4.0 years
Number exercisable at end of year	**808**	566
Option price	**$1.80 - $2.72**	$0.01 - $2.75

Tabular amounts in thousands, except per share amounts

	Outstanding options			Options exercisable	
Range of exercise price	Options outstanding *(thousands)*	Weighted average exercise prices	Weighted average remaining life	Options outstanding *(thousands)*	Weighted average exercise prices
$ 1.80 - 1.85	1,007	$ 1.83	4.92	-	$ -
1.86 - 2.20	7,024	2.11	4.36	808	1.97
2.21 - 2.72	4,105	2.58	4.33	-	-
	12,136	**$ 2.25**	**4.40**	**808**	**$ 1.97**

Total stock based compensation charges for 2010, was $6.2 million (2009 - $3.0 million). The following factors were used in the Black-Scholes pricing model for the determination of the fair value:

Expected average life	5.0 years
Risk-free interest rate	1.94 - 2.56%
Volatility factor	58.6 - 83.1%

e) Contributed Surplus

The following table outlines the changes in the contributed surplus balance:

Balance as at December 31, 2009	**$ 4,137**
Stock based compensation costs - stock options	6,233
Exercise of stock options	(1,997)
Stock based compensation costs - warrants	2,612
Balance as at December 31, 2010	**$ 10,985**

f) Per Share Amounts

The calculation of the per share amounts for the period ended December 31, 2010, were calculated as per the following table. Diluted income per share assumes the exercise of options and warrants as if issued at the later of the date of grant or the beginning of the period. This calculation takes into account only the options and warrants that are considered to be in-the-money at December 31, 2010. Based on the Company's share price at December 31, 2010, no vested options were considered to be dilutive.

	Year ended December 31	
	2010	2009
Net loss - continuing operations	**$ (31,952)**	$ (5,999)
Basic and diluted per share	**(0.20)**	(0.08)
Net income (loss) - discontinued operations	**(13,540)**	(13,618)
Basic and diluted per share	**(0.08)**	(0.19)
Net loss	**(45,492)**	(19,617)
Basic and diluted per share	**(0.28)**	(0.27)
Comprehensive loss	**(66,676)**	(23,566)
Basic and diluted per share	**(0.41)**	(0.32)
Weighted average shares outstanding *(thousands)*	**162,003**	73,681

Tabular amounts in thousands, except per share amounts

12. Supplemental Cash Flow Information

A) Changes in Non-Cash Working Capital:

	Year ended December 31	
	2010	2009
Accounts receivable and other	**$ (27,754)**	$ (11,000)
Accounts payable and accrued liabilities	**66,066**	(3,696)
Changes in non-cash working capital	**$ 38,312**	$ (14,696)
Relating to:		
Acquisitions activities	**$ 16,356**	$ -
Financing activities	**-**	2,113
Investing activities	**15,653**	(15,744)
Operating activities	**6,303**	(1,065)
	$ 38,312	$ (14,696)

B) Other Cash Flow Information:

	Year ended December 31	
	2010	2009
Cash taxes paid	**$ 4,686**	$ -
Cash interest paid	**$ 4,264**	$ -

13. Financial Instruments and Risk Management

The Company's financial instruments as at December 31, 2010, include cash and cash equivalents, accounts receivable, deposits, commodity contract asset and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities approximate their carrying value due to their short terms to maturity.

The fair value of the commodity contracts is determined through the difference between the contracted price and published forward price curves as at the balance sheet date using the remaining contracted petroleum and natural gas volumes. The fair value of the commodity contracts at December 31, 2010, was a net asset of $0.9 million, comprised of an asset of $5.3 million and a liability of $4.2 million. The commodity contracts are classified as level 2 within the fair value hierarchy.

Debt bears interest at varying market rates and the credit and market premiums therein are indicative of current rates, therefore the fair market value approximates the carrying value.

The following table represents the fair value measurement of each class of financial assets and liabilities using a fair value hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – valuations using unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.

Level 3 – valuations using inputs that are not observable market data.

As at December 31, 2010, the Company's financial instruments within the fair value hierarchy are as follows:

	2010	Level 1	Level 2	Level 3
Financial assets at fair value through net income				
Commodity price contracts	**$ 936**	$ -	$ 936	$ -
Total financial assets	**$ 936**	$ -	$ 936	$ -

Tabular amounts in thousands, except per share amounts

Gains on Level 2 instruments of $7.4 million are presented in derivatives (gain) loss in the income statement.

These financial instruments expose the Company to the following risks:

- credit risk;
- interest rate risk;
- market risk; and
- liquidity risk.

Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. At December 31, 2010, the Company had approximately $13.7 million outstanding balances greater than 90 days for which a $2.7 million allowance has been taken. The maximum credit risk exposure associated with accounts receivable and accrued revenues is the total carrying value.

As at December 31, 2010, account receivable was comprised of the following:

	Not past-due (less than 90 days)	Past due (90 days or more)	Total
Joint venture and other partner receivables	$ 2,794	$ 12,470	$ 15,264
Revenue and other accruals	28,445	729	29,174
Amounts due from government agencies	1,956	476	2,432
Less: allowance for doubtful accounts	-	(2,672)	(2,672)
Total accounts receivable	$ 33,195	$ 11,003	$ 44,198

Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current framework.

Market Risk

Market risk is the risk of changes in market prices, such as commodity prices and foreign currency exchange rates that will affect the net earnings or value of financial instruments. The objective of managing market risk is to control market risk exposure within acceptable limits, while maximizing returns.

Commodity Prices

The Company is constantly exposed to the risk of declining commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also global economic events that dictate the levels of supply and demand. To partially mitigate exposure to commodity price risk, the Company has entered into various financial derivative instruments. The use of such instruments is subject to limits established and approved by the Board of Directors. The Company's policy is not to use derivative financial instruments for speculative purposes..

Tabular amounts in thousands, except per share amounts

At December 31, 2010, the Company was under contract for the following commodity derivative instruments:

	Volume	Sell/Call	Buy/Put	Term
Natural gas - contract 1	6,400 *GJ/d*	$5.00/*GJ*	$5.41/*GJ*	March 1, 2010 to December 31, 2010
Natural gas - contract 2	4,500 *GJ/d*	$5.00/*GJ*	$6.40/*GJ*	January 1, 2011 to December 31, 2011
Natural gas - contract 3	3,800 *GJ/d*	$5.00/*GJ*	$7.70/*GJ*	January 1, 2012 to March 31, 2012
Natural gas - contract 4	2,000 *GJ/d*	$6.00/*GJ*		November 1, 2010 to October 31, 2011
Crude oil - contract 1	1,000 *bbl/d*		$85.80 *USD/bbl*	January 1, 2011 to December 31, 2011
Crude oil - contract 2	500 *bbl/d*		$85.70 *USD/bbl*	January 1, 2011 to December 31, 2011
Crude oil - contract 3	1,000 *bbl/d*		$98.75 *USD/bbl*	January 1, 2012 to December 31, 2012 [(1)]

(1) On December 31, 2012, at noon (MST) the counterparty holding the commodity contract has the right, but not the obligation, to extend the commodity contract to December 31, 2013, at the price of $98.75 USD/bbl.

The fair value of the contracts at December 31, 2010, is estimated at $0.9 million and comprised of an unrealized financial asset of $5.3 million and an unrealized financial liability of $4.2 million.

Foreign Exchange

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets and liabilities. With the Company's acquisition of petroleum and natural gas properties in Canada on March 1, 2010, and the distribution of all of the Bridge Energy shares on May 10, 2010, the majority of the operations are now located in North America and the Company's functional and reporting currency is in Canadian dollars. A significant portion of the Company's international capital expenditures are denominated in United States dollars, and the underlying market prices are affected by the exchange rate between the Canadian and the United States dollar. The Company's international production revenues are received in United States dollars. An increase in the value of the Canadian dollar relative to the United States will decrease the revenues received. Correspondingly, a decrease in the value of the Canadian dollar relative to the United States dollar will increase the revenues received from the sale of oil and natural gas commodities. As at December 31, 2010, the Company had no contracts in place to reduce foreign exchange risk.

Sensitivities

The Company must provide certain quantitative sensitivities related to its financial instruments. The following table summarizes the annualized sensitivities of the Company's net earnings and other comprehensive income to changes in the fair value of financial instruments outstanding as at December 31, 2010, resulting from changes in the specified variable, with all other variables held constant. These sensitivities are limited to the impact of changes in a specified variable applied to financial instruments only and do not represent the impact of a change in the variable on the operating results of the Company taken as a whole.

	Impact on net income
Commodity price risk	
Change in WTI USD $5.00/bbl	$ 2,144
Change in AECO-C gas price $1.00/mcf	$ 2,438
Interest rate risk	
Change in interest rate 1%	$ 859
Foreign exchange risk	
Change in USD/Cdn currency 1%	$ 443

Liquidity Risk

Liquidity difficulties would emerge if the Company was unable to meet its financial obligations as they fell due within normal credit terms. The financial obligations of the Company on its balance sheet consist of accounts payable and accrued liabilities, current portion of future income taxes, asset retirement obligations and debt. Accounts payable and accrued liabilities consist of invoices payable and known obligations to trade suppliers relating to the office and field operating activities and the capital expenditure program. Chinook processes invoices within a normal payment period.

Tabular amounts in thousands, except per share amounts

As disclosed in Note 15, the Company prepares annual budgets, which are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital. Generally the Company will, over a reasonable period of time, limit its capital programs to available funds. The Company frequently evaluates the options available, with respect to sources of short and long-term capital resources. As at December 31, 2010, the Company had available unused committed bank credit facilities in the amount of $41.9 million on the Canadian credit facility and $20 million on the Tunisian facility. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable commitments. The Company has had no defaults or breaches on its debt or any of its financial obligations.

The following are the contractual maturities of financial liabilities as at December 31, 2010:

	Within 1 year	1 to 2 years	2 to 4 years	Thereafter
Long-term debt and interest	$ -	$ 177,251	$ -	$ -
Accounts payable and accrued liabilities	76,329	-	-	-
	$ 76,329	$ 177,251	$ -	$ -

14. Related Party Transactions

The Company utilizes the services of a law firm in which the Corporate Secretary and a director of the Company are partners. As at December 31, 2010, the Company incurred $1.6 million (2009 - $0.2 million) on legal services obtained from the firm.

AIMCo is a major shareholder to which the Company provides certain services to nominees of AIMCo pursuant to an administrative services and cost sharing agreement and manages the working interests of nominees of AIMCo in a limited partnership. The calculated reimbursement since the inception of the agreement, July 1, 2010, in the amount of $2.3 million has been included in accounts receivable and other. At December 31, 2010, $9.7 million remained in accounts payable and $3.6 million remained in accounts receivable related to the ongoing operations of jointly-held producing and non-producing oil and natural gas properties.

All related party transactions are in the normal course of business and have been valued at normal commercial terms.

15. Capital Disclosures

The Company's objective when managing capital is to maintain a strong capital base so as to maintain investor, credit and market confidence while keeping a flexible capital structure to allow the execution of the capital expenditure program. The general current economic conditions are such that equity financing may not be available and availability of bank credit is uncertain with the related costs increasing. The Company is aware of these trends and monitors them with the intention to balance the proportion and levels of debt and equity in its capital structure to take into account the level of risk exposure.

The Company considers its capital structure to include share capital of $778.1 million and net debt of $170.5 million (defined as the sum of current assets, current liabilities and long-term debt).

The key measures that the Company utilizes in evaluating its capital structure are net debt to cash flow and the current credit available from its creditors in relation to budgeted capital expenditures. Net debt to cash flow is determined as net debt divided by cash flow and represents the time it would take to pay off the debt if no further capital expenditures were incurred and cash flow remained constant. Annualized cash flow for 2010 was $108.9 million resulting in a net debt to cash flow ratio of 1.5. This ratio is within the Company's standard acceptable range of 1.5 or less due to year end costs related to financial audit and reserves evaluation.

The Company manages its capital structure through the preparation of an annual budget, which may only be implemented after approval from the Board of Directors. The Company will make adjustments by continually monitoring the business conditions, including current economic conditions, risk characteristics of the underlying assets, the depth of investment opportunities, current and forecast debt levels, current and forecast commodity prices and other factors that influence commodity prices such as foreign exchange and product quality price differentials.

Tabular amounts in thousands, except per share amounts

The Company may adjust the capital structure while attempting to finance an acceptable capital expenditure program by considering bank credit available, other sources of debt with different characteristics than existing debt, the sale of assets or new common equity if available on favorable terms.

The Company is subject to certain financial covenants in its credit facility agreement and is in compliance with such financial covenants. The Company has no other externally imposed capital requirements.

16. Segmented Information

The Company's operating and reportable segments are as follows:

- **Tunisia** – includes the Company's exploration for and development and production of oil and natural gas and other related activities within the Tunisian cost centre.
- **Canada** – includes the Company's exploration for and development of natural gas and natural gas liquids and other related activities within the Canadian cost centre.
- **Discontinued Operations** – included the Company's exploration for and development and production of oil, natural gas and natural gas liquids and other related activities for the UK cost centre. This segment was discontinued in May 2010 (Note 17).
- **Corporate** – mainly includes general and administrative costs and assets held corporately.

Segment and Geographic Information

Property and Equipment and Total Assets by Segment

	Tunisia		Canada		Discontinued operations		Corporate		Consolidated	
Year ended December 31	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Capital expenditures [1]	**$ 38,744**	$ 7,822	**$ 719,423**	$ -	**$ -**	$ 10,434	**$ 2,892**	$ 161	**$ 761,059**	$ 18,417
Property and equipment - net	**$ 76,430**	$ 43,703	**$ 650,073**	$ -	**$ -**	$ 318,332	**$ 2,755**	$ 337	**$ 729,258**	$ 362,372
Total assets	**$ 113,604**	$ 52,906	**$ 689,373**	$ -	**$ -**	$ 318,316	**$ 2,755**	$ 22,978	**$ 805,732**	$ 394,200

[1] *Excludes capitalized costs relating to foreign currency translation incurred during the period.*

Tabular amounts in thousands, except per share amounts

Results of Continuing Operations by Segment

	Tunisia		Canada		Corporate		Consolidated	
Year ended December 31	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Production revenue	**$ 17,220**	$ 1,734	**$ 114,790**	$ -	**$ -**	$ -	**$ 132,010**	$ 1,734
Royalties	**(940)**	-	**(16,450)**	-	**-**	-	**(17,390)**	-
	16,280	1,734	**98,340**	-	**-**	-	**114,620**	1,734
Processing and other income	**380**	72	**4,956**	-	**2**	57	**5,338**	129
	16,660	1,806	**103,296**	-	**2**	57	**119,958**	1,863
Expenses								
Production expenses	**3,327**	733	**42,018**	-	**-**	-	**45,345**	733
Derivatives gain	**-**	-	**(3,448)**	-	**-**	-	**(3,448)**	-
Gain on sale of investment	**-**	-	**-**	-	**-**	(1,909)	**-**	(1,909)
Foreign exchange loss	**343**	507	**253**	-	**808**	537	**1,404**	1,044
General and administrative	**739**	724	**22,384**		**397**	5,383	**23,520**	6,107
Interest and financing charges	**10**	-	**11,551**	-	**13**	20	**11,574**	20
Depletion and amortization	**5,909**	1,827	**73,653**	-	**21**	40	**79,583**	1,867
	10,328	3,791	**146,411**	-	**1,239**	4,071	**157,978**	7,862
Net income (loss) before income taxes	**6,332**	(1,985)	**(43,115)**	-	**(1,237)**	(4,014)	**(38,020)**	(5,999)
Current taxes	**4,208**	-	**37**	-	**-**	-	**4,245**	-
Future taxes (recovery)	**1,814**	-	**(12,112)**	-	**(15)**	-	**(10,313)**	-
Net income (loss) from continuing operations	**$ 310**	$ (1,985)	**$ (31,040)**	$ -	**$ (1,222)**	$ (4,014)	**$ (31,952)**	$ (5,999)

17. Discontinued Operations

	Year ended December 31	
	2010	2009
Revenue		
Production revenue	**$ 6,510**	$ 19,134
Royalties	**(493)**	-
	6,017	19,134
Processing and other income	**15**	25
	6,032	19,159
Expenses		
Production expenses	**772**	6,182
General and administration	**1,330**	697
Derivatives gain	**(930)**	(10,642)
Foreign exchange gain (loss)	**4**	(48)
Depletion, depreciation and accretion	**31,672**	55,297
Release of decommissioning provision	**-**	(3,772)
Interest expense	**258**	2,929
	33,106	50,643
Net loss before tax	**(27,074)**	(31,484)
Future taxes (recovery)	**(13,534)**	(17,866)
Net income (loss) from discontinued operations	**$ (13,540)**	$ (13,618)

On May 10, 2010, the Company distributed all of the shares of Bridge Energy, held by Storm Ventures International (BVI) Limited, to its shareholders of record as of April 20, 2010, such that the Company no longer has ownership in any assets or holdings in the North Sea. Operating results related to these assets have been included in net income from discontinued operations on the Consolidated Statements of Loss and Comprehensive Loss. The distribution has been accounted for as a distribution of equity and resulted in a charge to retained earnings in the amount of $232.2 million.

CORPORATE INFORMATION

DIRECTORS
Donald F. Archibald
Matthew J. Brister, Chairman
John A. Brussa [3]
Stuart G. Clark [1] [2] [3]
Robert C. Cook [1] [2] [3]
Robert J. Herdman [1]
Simon Munro
P. Grant Wierzba [2]

[1] Members of the Audit Committee
[2] Members of the Reserves, Safety and Environmental Committee
[3] Members of the Compensation, Nominating and Corporate Governance Committee

MANAGEMENT
Matthew J. Brister
President & C.E.O.

P. Grant Wierzba
Vice President, Production,
Chief Operating Officer, Canada

Roy Smitshoek
Chief Operating Officer, International

L. Geoffrey Barlow
Vice President, Finance & C.F.O.

Tom N. Lindskog
Vice President, Exploration

Travis Stephenson
Vice President, Engineering

Tim Halpen
Vice President, Exploitation

Walter Vrataric
Vice President, Business Development & Land

Chris Laing
Vice President, International Development

Fred D. Davidson
Corporate Secretary

SOLICITORS
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITORS
KPMG LLP, Calgary, Alberta

BANKERS
Alberta Treasury Branches
CIBC, Oil & Gas Group, Calgary, Alberta
HSBC Bank Canada
Royal Bank of Canada
Société Générale (Canada Branch)
The Toronto Dominion Bank

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ABBREVIATIONS

boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls	barrels
bbls/d	barrels per day
Brent	international market price for light crude oil blend
ETAP	Entreprise Tunisienne D'Activités Pétrolières
GJ	gigajoule
LIBOR	London Interbank Offered Rate
mboe	thousand of barrels of oil equivalent
mcf	thousands of cubic feet
mcf/d	thousands of cubic feet per day
mmbbls	millions of barrels of oil
mmboe	millions of barrels of oil equivalent
mmcf	millions of cubic feet
mmcf/d	millions of cubic feet per day
NBP	national balancing point
NOK	Norwegian Krone

CONVERSION
Six thousand cubic feet (mcf) of natural gas equals one barrel of oil equivalent.