CHINOOK ENERGY INC. TSX:CKE.TO

INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2010

Chinook Energy Inc. - 2010 Second Quarter Results

On June 29, 2010, pursuant to a plan of arrangement, we (Storm Ventures International Inc. (SVI)) acquired all of the outstanding securities of Iteration Energy Ltd. (Iteration) and amalgamated with Iteration to form Chinook Energy Inc. (Chinook). On July 6, 2010, the common shares of Chinook began to trade on the TSX under the symbol CKE. Chinook operates a gas-weighted conventional asset base in Western Canada and a large acreage position with minor production in Tunisia. Over the next three years it is anticipated that we will see the asset focus shift to projects of increasing scale and opportunity with production moving to a balance of one third to each of Tunisian light oil production, Canadian resource play exposure and conventional gas-weighted assets. We intend to position Chinook to deliver compounded average growth in production volumes on a per share basis in excess of 12 percent while targeting debt levels below 1.5 times forward forecast cash flow. The emergence of Chinook is a continuation of the repositioning we began late in 2009 with our announcement of the acquisition of Canadian assets in West Central Alberta and we will now focus on expanding our team and establishing the infrastructure to manage and grow the assets efficiently.

Presently, we produce approximately 16,700 barrels of oil equivalent per day comprised of 700 barrels of oil equivalent per day from Tunisia, 6,000 barrels of oil equivalent per day from West Central Alberta assets and 10,000 barrels of oil equivalent per day from a 75 percent slice of the Iteration assets. The balance of the Iteration assets were purchased by the Alberta Investment Management Corporation (AIMCo), on behalf of certain of its clients, in connection with our acquisition of Iteration, and will be administered by Chinook pursuant to an agreement with the general partner of the limited partnership in which the assets are held. AIMCo, on behalf of certain of its clients, is Chinook's largest shareholder, owning approximately 36 percent of the outstanding common shares on a fully diluted basis. It is anticipated that our production will average 16,700 - 17,000 barrels of oil equivalent per day over the second half of 2010. Preliminary guidance for 2011 is for production to average approximately 19,000 - 19,500 barrels of oil equivalent per day.

Our intention in expanding our Canadian platform was to materially improve our ability to internally finance growth through increased cash flow and balance sheet capacity and to bolster our ability to deliver profitable growth in Canada through an increased level of operatorship, average working interest, drilling inventory and undeveloped land position at costs that support a good return on a full cycle basis. On a gross basis, the Iteration transaction involved the acquisition of 47.3 million barrels of proved plus probable reserves, for a total cost of $555 million (including fees and severance) for transaction metrics of $11.73 per barrel of oil equivalent and $40,217 per flowing barrel of oil equivalent prior to the deduction of any value for the 750,000 acres of undeveloped land. Although in our view the reserve acquisition costs and opportunities embedded in the assets justified the purchase price, we will need to demonstrate improvements in our cost structure to improve netbacks from a second quarter average of $7.57 per barrel of oil equivalent. With the elimination of onetime costs and minor improvements operationally, we can see netbacks doubling over the balance of 2010 with future improvements dependent on volume growth and increased gas prices.

Net debt at the end of the second quarter (debt plus working capital) was $185.5 million and we are forecasting cash flow for the second half of the year of $45 - $50 million based on average natural gas prices of $4.14 per thousand of cubic feet and average oil prices of $80.43 per barrel. On August 9, 2010, we repaid the amount outstanding on the bridge credit facility of $17.8 million plus accumulated interest of

$0.3 million. We plan to spend in line with our cash flow and anticipate we will exit the year with a similar debt level. Our operating expenses are expected to average $14.00 per barrel of oil equivalent and we will target improvement to $12.00 - $13.00 per barrel of oil equivalent for next year. More major cost improvements will require increased volumes and more Company controlled facilities. We anticipate our overhead costs will be $3.00 per barrel of oil equivalent in 2010 but we are targeting to improve our overhead costs to less than $2.50 per barrel of oil equivalent in 2011 with the elimination of onetime charges, increased activity, more efficient operations and increased volumes.

Financial and Operating Results

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands, except per share and per unit amounts)	**2010**	2009	**2010**	2009
Sales and prices [3]				
Oil sales *(bbl/d)*	**1,319**	94	**816**	47
NGL sales *(bbl/d)*	**877**	-	**528**	-
Natural gas sales *(mcf/d)*	**21,466**	-	**14,443**	-
Average daily sales 6:1 *(boe/d)*	**5,774**	94	**3,751**	47
Average oil price *($/bbl)*	**72.41**	70.75	**73.22**	70.75
Average NGL price *($/bbl)*	**48.58**	-	**50.87**	-
Average natural gas price *($/mcf)*	**4.28**	-	**4.45**	-
Financial operations *($ thousands)*				
Oil, gas & NGL revenue, net of royalties [3]	**17,321**	603	**22,524**	603
Cash flow [1] [3]	**(190)**	975	**(1,490)**	491
Per share-basic and diluted [1]	**$ 0.00**	$ 0.01	**$ (0.01)**	$ 0.01
Net income (loss) from continuing operations	**(10,242)**	(1,094)	**(12,933)**	(2,333)
Per share-basic and diluted	**$ (0.08)**	$ (0.01)	**$ (0.12)**	$ (0.03)
Net income (loss)	**(14,570)**	1,987	**(26,473)**	(988)
Per share-basic and diluted	**$ (0.12)**	$ 0.03	**$ (0.24)**	$ (0.01)
Capital expenditures [2] [3]	**261,838**	973	**468,893**	3,017
Working capital (deficit)	**(185,492)**	13,425	**(185,492)**	13,425
Total assets	**843,804**	480,573	**843,804**	480,573
Common shares *(thousands)*				
Weighted average during period				
- basic	**124,124**	73,599	**108,499**	73,599
- diluted	**124,124**	73,599	**108,499**	73,599
Outstanding at period end				
- basic	**213,788**	73,599	**213,788**	73,599
- diluted	**220,298**	77,689	**220,298**	77,689

[1] *Cash flow is a non-GAAP measurement and is defined under the non-GAAP Measures section of the MD&A.*
[2] *Excludes asset retirement obligations incurred during the period.*
[3] *Excludes discontinued operations.*

Our immediate plan for our Canadian assets over the remainder of 2010 is to evaluate and differentiate core assets, in areas capable of supporting profitable growth, from assets that we may consider harvesting cash flow to redeploy into growth assets, and from assets that we should target for disposition or other forms of rationalization. We have worked most parts of the Western Canadian Sedimentary Basin at previous points in our careers and will keep an open mind as to which areas and assets make the most sense for us to pursue but come at this challenge with a strong bias towards balancing our product mix by increasing our exposure to oil prospects and shifting the future Canadian growth focus to resource plays with larger scale and repeatability. We believe our existing acreage provides us with a cost effective start on this transition and

that the cash flow from our strong conventional production base will provide a stable source of funding to pursue these higher growth opportunities. Our current resource play exposure is focused in the Montney and Nikanassin formations and contributes approximately four percent to our volumes with Tunisian production representing another four percent. We are targeting our efforts such that these two areas will represent 60 percent of our volumes three years from now and our production will be balanced between oil and gas.

Our conventional activity will become focused in our core areas where we have infrastructure, operatorship and a strong acreage position supporting our prospect inventory. We have an undeveloped acreage inventory of 600,000 net acres and a strong base of conventional production of 15,500 barrels of oil equivalent per day with 75% of our Canadian production coming from our core West Central, Grande Prairie and Peace River corridor areas. We have identified over 150 drilling locations on our undeveloped land position, as well as an initial acreage position on six resource plays, four of which have been successfully tested on our acreage and will form a meaningful component of our drilling activity in the second half of 2010.

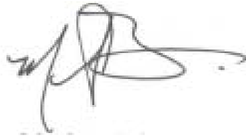
Over the second half of 2010, we anticipate we will participate in at least 35 additional well operations at an average working interest of approximately 60 percent. We expect to operate at least 20 of these wells, three of which will be in Tunisia. Second quarter operations in SVI and Iteration pre-close totalled seven wells (three net) with five cased for completion, one of which was contributing to volumes at the end of the second quarter. We anticipate that forty percent of our second half activity will have a primary light oil target with areas of focus being Manyberries and Triassic reservoirs in the Peace River/Grande Prairie core area. An additional 35 percent of our activity will evaluate resource play concepts largely in the Bakken, Montney and Notikewin formations.

In Tunisia, we are nearing completion of an active operational phase and are very excited about progressing the field development approvals and finance plans for oil developments at Remada, Cosmos and Jenien. Unfortunately our offshore Fushia exploration well was abandoned on June 25, 2010, as a dry hole after reaching total depth of 2,959 meters and encountering a non-commercial gas accumulation. Our Jenein exploration well (65 percent interest) which reached total depth of 4,334 meters and was rig released on August 8, 2010, has been cased as a potential Acacus oil discovery. We encountered over 150 feet of reservoir quality sands that we interpret as hydrocarbon bearing from open hole log evaluation and modular dynamic test results and we will begin a completion operation in early September that we hope will provide well test results by October 1, 2010. If successful, we will submit a plan of development for the pool and concession application that will facilitate sustained production once approved by as early as the first quarter of 2011. We will proceed with the drilling of the TT3 appraisal well (86 percent interest) at Remada in early October and hope to have agreement and approvals in support of the first phase of commercial development early in 2011 as well. We are beginning discussions around tendering of key components of the offshore Cosmos development that could support an accelerated procurement process that will commence upon approval by the Tunisian tax authority of the past costs expended on the block, hopefully early this fall. All three developments are capable of making our Tunisian business financially self sufficient with Jenein being a first priority to proceed due to the prolific profile of production supporting the accelerated development of the other two developments from cash flow. We also have follow up exploration potential to these discoveries and locations identified on existing seismic at both Remada and Jenein that we hope to pursue in 2011, pending commencement of the field developments later in 2010. We will also participate (10 percent interest) in an Acacus exploration well identified on our recently completed 800 square kilometres of 3d seismic on our Borj El Khadra permit.

Bridge Energy ASA (Bridge) completed the combination of SVI's subsidiary Silverstone Energy Limited and Bridge Energy Norge AS on March 26, 2010. On May 10, 2010, each SVI shareholder of record as of April 20, 2010, received 0.23398 of a Bridge share for each SVI share held. The Bridge shares were listed for trading on the Oslo Stock Exchange on May 21, 2010. We are still holding Bridge shares on behalf of over 100 former SVI shareholders who have not registered their Bridge shares in their own name. We would encourage these shareholders to complete the transfer, and instructions on how to do so are available from Alliance Trust Company (www.alliancetrust.ca, or 403-237-6111) or shareholders may contact Chinook for information at 403-261-6883.

In summary, the second quarter was an extremely active and important period in repositioning Chinook as a public exploration and production company with balanced, quality growth opportunities and the financial resources to capitalize on them, both domestically and internationally. The Company has very recently received its initial analyst coverage, which will assist potential investors in understanding the Company. We thank those firms for their support. We plan to use this first set of Chinook statements, our operational plan for the balance of 2010, and our vision for the new Company as an opportunity to visit institutional shareholders and generate increased interest in our Company early this fall.

We thank you for your support through these transactions and remain committed to delivering value to you through your investment in Chinook.



Matthew J. Brister
President and Chief Executive Officer
Chinook Energy Inc.
August 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010

Introduction

The following Management's Discussion and Analysis ("MD&A") reports on the financial condition and results of operations of Chinook Energy Inc. ("Chinook" or the "Company") for the three and six months ended June 30, 2010, and 2009, and should be read in conjunction with the June 30, 2010, unaudited consolidated financial statements and notes as well as the annual audited consolidated financial statements of Storm Ventures International Inc. for the year ended December 31, 2009.

The consolidated financial position and results of operations include the accounts of the Company's direct and indirect wholly-owned subsidiaries.

The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is dated August 12, 2010. All amounts are expressed in thousands of Canadian dollars, except per share and per unit amounts, and unless otherwise noted.

Statements throughout this report that are not historical facts may be considered "forward-looking statements". Investors should read the special note regarding forward-looking statements found in Section 15 of this MD&A.

Discontinued Operations

Storm Ventures International Inc. ("SVI") indirect wholly owned subsidiary, Silverstone Energy Limited ("Silverstone"), combined with Bridge Energy Norge AS on March 26, 2010, whereby each of the companies became subsidiaries of a holding company, Bridge Energy ASA ("Bridge Energy"). Storm Ventures International (BVI) Limited (SVI's wholly owned subsidiary) ("SVI (BVI)") formerly owned all of the shares of Silverstone which contained SVI's North Sea business. On May 10, 2010, the Company, through its wholly-owned subsidiary, SVI (BVI) distributed all of the shares of Bridge Energy acquired, to its shareholders 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 Income (Loss) and Comprehensive Income (Loss) (see Note 17 of the audited interim consolidated financial statements).

The information contained in this MD&A relates to the continuing operations of the Company.

1. Chinook Energy Inc. Business Overview

Chinook is headquartered in Calgary, Alberta, Canada and is a publicly-traded oil and natural gas exploration and production company with current operations focused in Canada and North Africa managed from offices in Calgary and Tunis, Tunisia. The Company resulted from the amalgamation of SVI and Iteration Energy Ltd. ("Iteration") pursuant to a plan of arrangement which closed on June 29, 2010. Through this plan of arrangement, Chinook acquired all of the issued and outstanding securities of Iteration and on July 6, 2010, was listed on the TSX.

Chinook's continuing operating and reportable segments are as follows:

- **Tunisia** – includes the Company's exploration for and development and production of oil, natural gas and other related activities within the Tunisian cost centre.
- **Canada –** includes the Company's exploration for and development and production of oil, natural gas and NGLs and other related activities within the Canadian cost centre.
- **Corporate** – mainly includes general and administrative costs and assets held corporately.

All of the Company's production is sold to third-party customers. Segmented financial information is presented on an after-elimination basis.

The current economic environment is challenging and uncertain amidst low gas prices, a volatile financial market, and limited access to capital markets. The operational and financial risk factors that may impact the Company are included in Section 10 of this MD&A.

2. Financial Summary

2.1. Financial and Operating Results

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Sales and prices [3]				
Oil sales *(bbl/d)*	**1,319**	94	**816**	47
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Cash flow from continuing operations [1]	**(190)**	975	**(1,490)**	491
Per share-basic and diluted [1]	**$ 0.00**	$ 0.01	**$ (0.01)**	$ 0.01
Net income (loss) from continuing operations	**(10,242)**	(1,094)	**(12,933)**	(2,333)
Per share-basic and diluted	**$ (0.08)**	$ (0.01)	**$ (0.12)**	$ (0.03)
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2.2. Financial Highlights

Revenue, net of royalties increased by $21.9 million for the six months ended June 30, 2010, compared to the same period in 2009 substantially due to revenue from the Canadian assets acquired March 1, 2010, and revenue from the Adam concession in Tunisia, which was acquired through the corporate acquisition of Talisman Resources (Tunisia) Limited on March 11, 2010.

Cash flow from continuing operations decreased by $2.0 million ($0.01 per share) for the six months ended June 30, 2010, compared to the same period in 2009.

The net loss from continuing operations for the six months ended June 30, 2010, increased by $10.6 million mainly as a result of higher general and administrative expenses, interest and financing charges and depletion over the comparable period in 2009.

As at June 30, 2010, the Company had combined current and long-term bank debt of $197.6 million compared with $19.3 million at December 31, 2009. Bank debt was comprised as follows:

($ thousands)	**June 30 2010**	December 31 2009
Revolving term credit facility - current portion	**179,793**	-
Bridge credit facility - current portion	**17,800**	-
Royal Bank of Scotland - current portion	**-**	8,170
Royal Bank of Scotland	**-**	11,166
Total	**197,593**	19,336

The revolving term credit facility represents a secured borrowing base facility obtained for the purpose of acquiring certain oil and natural gas assets, as disclosed in Note 6 of the consolidated financial statements and for general corporate borrowing. It is composed of a revolving term credit facility to a maximum of $215 million and an operating facility to a maximum of $25 million.

The bridge credit facility was entered into to facilitate the purchase of Iteration and was drawn to the maximum of $167.8 million. On June 29, 2010, the Company made a one time in-kind payment of $150 million through the transfer of a 25% working interest across all Iteration properties to the lender such that the facility was drawn to $17.8 million at June 30, 2010. On August 9, 2010, the $17.8 million drawn facility plus accumulated interest ($0.3 million) was repaid.

The Royal Bank of Scotland debt was associated with Silverstone and formed the discontinued operations at June 30, 2010. It is no longer part of the consolidated debt.

2.3. Operational Performance

- Total boe sales volume for the second quarter in 2010, of 5,774 boe/day, a 5,680 boe/day sales volume increase over the same period in 2009, reflected a full quarter of both the Canadian operations plus the newly acquired international operations.
- Production revenue, net of royalties of $17.3 million for the second quarter of 2010, represents a $16.7 million increase from the same period in 2009.

2.4. Growth Highlights

For the interim period ended June 30, 2010, the Company focused on the following projects, and has set the foundation for additional projects for the remainder of the year to achieve its strategic objectives:

Tunisia

Sud Remada – During the six months ended June 30, 2010, the Company increased its working interest in the producing area from 71% to 86% effective February 2010, through the purchase of working interests from a partner. Production from the TT-2 discovery well continued on pace with management's expectations. An additional well, TT-3, is planned for the latter half of 2010.

Jenein – During 2009, a partner confirmed their commitment to funding 70% of the well cost with Chinook retaining a 65% operated interest in the JC-1 well. The well, a 4,334 metre well with an estimated completion cost of USD $12.4 million, was spud on May 27, 2010, and the rig was released on August 8, 2010. Currently, plans and preparations are in progress to acquire the equipment required to complete and test the well.

Fushia – Final planning for the drilling of the well was completed during the period and the rig was on location and spud May 19, 2010. The well completed drilling operations and the rig was released on June 25, 2010. The well was plugged and abandoned in accordance with the pre-drill plan. Unfortunately, our offshore Fushia exploration well was abandoned as a dry hole after reaching total depth of 2,959 metres and encountering a non-commercial natural gas accumulation. Completion of the well operation fulfills all work requirements on the block.

Adam – On March 11, 2010, the Company completed the acquisition of its 5% working interest in the concession and the operational results have been included in the consolidated results since March 11, 2010.

Canada

The Company closed its first acquisition of Western Canadian assets on March 1, 2010. The assets are located predominantly in West Central Alberta and eastern British Columbia. They have low declines and produce liquids-rich natural gas, primarily. The assets are split approximately 50% operated and 50% non-operated.

The Company completed its second acquisition of Canadian assets on June 30, 2010. The assets consist primarily of low-decline natural gas assets in an existing core area of the Company. The primary producing areas include Gilby, Westerose and Thorsby.

3. Capabilities to Deliver Results

3.1. Governance

Role of Board of Directors

The Chinook Board of Directors is comprised of eight directors, a majority of whom are independent. The principal role of the Board of Directors is to act as stewards of the Company. Their primary objective is the protection and enhancement of shareholder value and, by consequence, the value of the Company's assets. The Board of Directors has the ultimate responsibility with respect to the business and affairs of the Company. The Board oversees the conduct of the business and the Company's management develops and executes the long-term strategy and conducts the Company's day-to-day business.

The Board also ensures that processes and systems are in place to manage risk and, in partnership with the Company's management, ensures transparency and conformity in the areas of regulatory compliance, environmental, health and safety policies and financial practices and reporting.

The Board has developed and implemented written position descriptions for the Chairman of the Board and the chair of each committee of the Board. In addition, the Board and the President and Chief Executive Officer have collectively developed and implemented a written position description for the President and Chief Executive Officer.

The Board of Directors has adopted a written Code of Business Conduct and Ethics (the "Code") applicable to all directors, officers and employees of Chinook. The Board has also adopted a Whistleblower Program whereby directors, officers and employees of Chinook and others are provided with a mechanism by which they can raise complaints or concerns. Reports made under the Whistleblower Program may be made in a confidential and, if deemed necessary, anonymous process. The Board monitors compliance with the Code through the Whistleblower Program.

Board and Committee Independence

The Board of Directors discharges some of its responsibilities through three committees - Audit Committee, Compensation, Nominating and Corporate Governance Committee and Reserves, Safety and Environmental Committee. The mandate and responsibilities of the Board of Directors are reviewed on an annual basis to reflect changes in the business environment and new legislation.

Audit Committee

The Audit Committee is composed entirely of independent directors. The mandate and responsibilities are for oversight of the nature and scope of the annual audit, management reporting on accounting standards and practices, review of financial information, accounting systems and procedures and financial reporting and financial statements.

Compensation, Nominating and Corporate Governance Committee

The Compensation, Nominating and Corporate Governance Committee is responsible for reviewing matters relating to human resources policies and compensation of directors, officers and employees of the Company, identifying new individuals qualified to become Board members and developing the approach of the Company regarding matters of corporate governance.

The Compensation, Nominating and Corporate Governance Committee's primary purpose with respect to compensation is to assist the Board in fulfilling its oversight responsibilities with respect to: (i) key compensation and human resources policies; (ii) establishing objectives, conducting performance reviews and setting compensation for the Chief Executive Officer; (iii) establishing the compensation of senior management of Chinook; (iv) coordinating management succession and development plans; and (v) reviewing executive compensation disclosure before it is released.

Reserves, Safety and Environmental Committee

The Reserves, Safety and Environmental Committee is responsible for: (a) assisting the Board in fulfilling its oversight responsibilities with respect to the evaluation and reporting of the Company's oil and natural gas reserves and resources and related matters, which include reviewing and making recommendations to the Board with respect to: (i) the reserves data (oil and natural gas reserves and associated future net revenues) that will be made publicly available and filed with applicable regulatory authorities; (ii) procedures relating to the disclosure of information with respect to oil and natural gas activities; and (b) assisting the Board in fulfilling its oversight responsibilities with respect to the development, monitoring and effective implementation of systems, programs and initiatives for the management of health, safety, security and environmental matters that may affect Chinook.

3.2. Liquidity

It is not possible to predict, with any degree of confidence, future commodity prices given the economic environment and its impact on the demand for natural gas and crude oil. Should current conditions continue, cash flow will be affected and will impact the Company's ability and timing to develop proved and probable undeveloped reserves necessary to maintain or achieve production growth.

The following table shows how the Company financed its business activities:

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Net cash from (used in)				
Operating activities	**5,616**	(973)	**6,531**	10,376
Financing activities	**273,427**	(1,859)	**464,486**	(3,660)
Investing activities	**(323,201)**	(15,270)	**(446,861)**	(11,260)
Foreign exchange, cash and cash equivalents	**-**	(624)	**(716)**	(492)
Increase (decrease) in cash and cash equivalents	**(44,158)**	(18,726)	**23,440**	(5,036)

At June 30, 2010, the Company had cash and cash equivalents of $31.5 million, held in current accounts predominantly located in Canada and Tunisia.

As is typical in the oil and gas industry, there is a timing difference between cash receipts from sales transactions and partner's share of capital costs and payments of trade payables. Chinook anticipates that it will continue to meet the payment terms of its suppliers.

The Company completed three private placements during the first six months of 2010, for gross proceeds of $288.6 million. The first one closed in January at a price of $3.00 per share and gross proceeds of $13.5 million. The second placement closed in March in conjunction with the acquisition of certain Canadian oil and gas properties. The shares were issued at a price of $3.50 per share and gross proceeds of $150 million. The third placement was in the form of a subscription receipts issuance which closed on May 27, 2010. There were 38.5 million subscription receipts that were issued at a price of $3.25 per share for gross proceeds of $125 million. The proceeds from the subscription receipts were held in trust until June 29, 2010, when the funds were used for the purchase of all of the outstanding securities of Iteration and the subscription receipts were exchanged for common shares in Chinook.

At June 30, 2010, outstanding long-term debt totaled $197.6 million including the current portion amounts due, compared with $19.3 million at December 31, 2009. On June 28, 2010, Chinook re-negotiated the credit facility to facilitate closing the acquisition of Iteration and for general corporate purposes. The total credit facility available was $215.0 million, consisting of a $190.0 million revolving term credit facility and a $25.0 million operating facility. On June 30, 2010, the total credit facility was increased to $240.0 million as a result of the additional Western Canadian assets purchased. At June 30, 2010, Chinook had drawn $179.8 million on the total facility. Chinook anticipates it will have adequate liquidity to fund its financial liabilities as repayments come due.

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 a one time in-kind payment on the drawn amount through the transfer of approximately a 25% working interest in all of the Iteration properties to the lender. The in-kind payment reduced the drawn amount by $150 million. At June 30, 2010, the balance outstanding on the bridge facility was $17.8 million. The bridge facility loan is due on December 31, 2010, and bears interest at a rate of 15% per annum. On August 9, 2010, the $17.8 million drawn facility plus accumulated interest ($0.3 million) was repaid.

The Company will manage commodity price volatility by adjusting its short-term capital program focus towards those supportive, full cycle returns for 2010 and 2011 but will hedge to protect its capital program when strategic investments, required to support long-term growth, look marginal at the low end of a forecast price range.

The Company will finance growth through cash flow, bank debt up to 1.5 times forecasted cash flow, asset sales of non-core properties, and equity, to the degree it can be accretive to per share growth.

Chinook will focus on steady growth in volumes from the opportunities in the existing asset base to grow conventional liquids production and test resource play concepts in Canada and progress the light oil discoveries in Tunisia to first production. The Company expects production weighting to shift from 85% conventional from Western Canada to a balance of international production and Canadian resource plays as it moves forward.

The Company will fund its future obligations associated with general commitments and future development costs on oil and natural gas properties from cash flow generated from the Canadian and Tunisian operations and the credit facility.

Contractual Obligations

In the normal course of business, Chinook is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

($ thousands)	2010	2011-12	2013-14	Thereafter	Total
Long-term debt and interest	$ 198,928	$ -	$ -	$ -	$ 198,928
Operating leases	1,428	5,512	3,691	-	10,631
Engineering and construction commitments	1,061	-	-	-	1,061
Total	$ 201,417	$ 5,512	$ 3,691	$ -	$ 210,620

On July 23, 2010, the Company made full payment on the outstanding, engineering and construction commitment thereby reducing it to nil.

4. Strategic Plan and Outlook

4.1. 2010 Guidance

Chinook intends to be a prudent operator by maintaining a conservative capital structure, deliver production growth from low risk development opportunities, and a pursuit of high-impact exploration activity through promoted partner participation.

Chinook's capital program for the remainder of 2010 will be funded primarily by cash generated from operating activities and bank financing. Chinook's operations have a relatively high degree of fixed costs and relatively low royalty and tax rates. This provides the Company with a high netback per barrel for

incremental production, and makes the cash from operating activities sensitive to variations in commodity prices. Management has reviewed the Company's financial prospects under numerous market conditions, commodity price scenarios and drilling success rates. This review has enabled Chinook to prioritize capital expenditures. The Company's current strategic direction by business segment is as follows:

Tunisia

In the first half of 2010, the Company has closed two acquisitions in Tunisia: (a) the acquisition of an additional 15% interest in the Sud Remada block from a partner resulting in the Company now holding an 86% interest in the block and (b) the acquisition from a major producer of a 5% interest in the Adam concession, a producing oil concession with exposure analogous to the Jenein play.

For the rest of 2010, on the Sud Remada block, the Company intends to drill one appraisal well as included in the Plan of Development submitted to the Tunisian authorities. Economic review of the Cosmos concession development will continue in 2010, as the Company considers its time and funding constraints and awaits Tunisian regulatory agreement on key fiscal terms (past costs and sole source).

Western Canadian Assets

On March 1, 2010, the Company closed the acquisition of oil and natural gas properties located in West Central Alberta. This acquisition repositioned the Company to include a growth platform in Western Canada. The Company is reviewing the exploitation potential associated with the assets through the application of new technology in order to expose untapped potential. While approximately 50% of the assets are operated and the remainder are non-operated with industry partners, the Company is optimistic it can work with its partners to realize the available potential.

In April 2010, the Company also entered into a farm-in agreement with an industry partner to participate in the drilling of four wells in the Lake Alma area of Saskatchewan. The wells are targeting the Bakken formation. The Company has agreed to pay 40% to earn 40% subject to a non-convertible gross overriding royalty on the first three test wells and 24% on the fourth test well.

On June 29, 2010, the Company completed the plan of arrangement and amalgamation with Iteration marking the Company's third foray into the Canadian producing asset market. This has resulted in Chinook having a more balanced commodity mix and a higher operatorship percentage in its assets.

On June 30, 2010, the Company completed the acquisition of certain oil and natural gas properties also located in West Central Alberta for $46.25 million. These assets are complementary to its existing Canada asset-base.

During the second quarter, the Company rationalized some non-core assets through the disposition of its interests in properties in the Cow Lake, Alberta area for gross proceeds of $7.2 million. The disposition accounted for approximately 100 boe/day of production.

In the third quarter of 2010, the Company has continued the rationalization process through the disposition of its interests in the Judy Creek, Alberta property for gross proceeds of $14.5 million. The Company also has an agreement to dispose of its interests in the Milligan Creek area of Alberta for gross proceeds of $4.1 million. The proceeds of the sales will be used to repay outstanding debt.

4.2. 2010 Actual Results

($ thousands, except per unit amounts)	**Six Months Ended June 30**
Pricing	
Crude oil *($/bbl)*	**73.22**
NGL *($/bbl)*	**50.87**
Natural gas *($/mcf)*	**4.45**
$US/$Cdn exchange rate	**1.0276**
Capital expenditures	
Tunisia	**26,550**
Canada	**442,057**
Corporate	**286**
Production [(2)]	
Oil *(bbl/d)*	**834**
NGL *(bbl/d)*	**528**
Natural gas *(mcf/d)*	**14,443**
Total *(boe/d)*	**3,769**
Financial metrics	
Operating netback *($/boe)* [(1)]	**6.85**
Cash flow from continuing operations [(1)]	**(1,490)**
Cash flow per share [(1)]	**(0.01)**

[(1)] *Operating netback and cash flow are non-GAAP measurements defined in the non-GAAP Measures section of this MD&A.*
[(2)] *Production volumes differ from sales volumes in Tunisia where volumes of oil are stored as inventory, until custody transfer to a third party occurs.*

5. Business Environment Analysis

5.1. Commodity Prices

The Company's natural gas production in Western Canada is sold at prices that reflect the AECO daily index pricing. NGL's produced in association with natural gas are sold at prices based on the monthly spot postings at Edmonton, Alberta and Mont Bellevue, KS, benchmark prices.

The Company's oil production from the Sud Remada permit in the Ghadames Basin of Southern Tunisia and from the Adam concession is sold based upon the average price for Brent oil sold in the Mediterranean during the three days after loading onto tankers.

The Company's natural gas production from the Adam Concession in Tunisia is sold at a price based off a sulfurous fuel oil in the Mediterranean.

While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques.

At June 30, 2010, and pursuant to the acquisition of the Western Canadian assets, the Company had the following commodity price contracts in place on Canada's natural gas production:

	Volume	Sell Call	Buy Put	Term
Natural gas - Contract 1	6,400 *GJ/d*	$5.00/*GJ*	$5.41/*GJ*	March 2010 to December 2010
Natural gas - Contract 2	4,500 *GJ/d*	$5.00/*GJ*	$6.40/*GJ*	January 2011 to December 2011
Natural gas - Contract 3	3,800 *GJ/d*	$5.00/*GJ*	$7.70/*GJ*	January 2012 to March 2012

Pursuant to the acquisition of Iteration, the Company assumed the following commodity contracts:

	Volume	Sell Call	Buy Put	Term
Crude oil - Contract 1	200 *bbl/d*	$70.00/*bbl*	$91.00/*bbl*	January 1 2010 to December 31 2010
Crude oil - Contract 2	200 *bbl/d*	$70.00/*bbl*	$97.00/*bbl*	January 1 2010 to December 31 2010
Crude oil - Contract 3	800 *bbl/d*	$85.10/*bbl*		July 1 2010 to September 30 2010
Gas - Contract 1	3,500 *GJ/d*	$4.98/*GJ*		November 1 2009 to October 31 2010
Gas - Contract 2	2,000 *GJ/d*	$6.00/*GJ*		November 1 2010 to October 31 2011
Gas - Contract 3	15,800 *GJ/d*	$5.54/*GJ*		July 1 2010 to September 30 2010

5.2. Second Quarter 2010 Sensitivities

Chinook's financial performance is affected by factors such as changes in commodity prices, exchange rates and interest rates. The estimated impact of these factors on the Company's financial performance for the first six months of 2010 is summarized in the following table, based on an approximate Brent oil price of USD $78.60/bbl and an exchange rate of $US = $Cdn 1 = 0.97.

($ thousands, except per unit amounts)	**Six Months Ended June 30 Net Income**
Price changes	
Oil increased $1.00/*(bbl)*	**148**
Natural gas increased $0.10/*(mcf)*	**261**
Interest rate changes	
Rate increased by 1%	**988**

6. Results of Operations

6.1. Cash Flow

Second Quarter

Cash flow decreased by $1.2 million in the second quarter of 2010 compared to the same period in 2009. The decrease was as a result of:

- Higher general and administrative expenses associated with the expensing of transaction costs under a new accounting policy and increased staff to manage the newly acquired Canadian assets;
- Higher interest and financing charges associated with both the new credit facility and the bridge facility.

This was partially offset by:

- Higher revenue for the second quarter, as a result of the acquisition of Canadian and Tunisian producing assets.

Six Months

For the six months ended June 30, 2010, cash flow decreased $2.0 million mainly due to:

- Costs associated with the amalgamation and formation of Chinook;
- Interest and financing costs for the syndicated credit facility and bridge financing;
- Increased personnel-related costs due to higher staff levels with growth of the Company;
- Production costs from Canadian assets acquired.

This was partially offset by:

- Revenue from Canadian assets acquired in the first quarter of 2010.

6.2. Production

Three Months Ended June 30	**2010**				2009			
	Oil ***(bbl/d)***	**NGL** ***(bbl/d)***	**Gas** ***(mcf/d)***	**Total** ***(boe/d)***	Oil *(bbl/d)*	NGL *(bbl/d)*	Gas *(mcf/d)*	Total *(boe/d)*
Canada	**567**	**877**	**20,710**	**4,896**	-	-	-	-
Tunisia	**540**	**-**	**756**	**666**	94	-	-	94
Total	**1,107**	**877**	**21,466**	**5,562**	94	-	-	94

Second Quarter

Average production for the quarter was 5,468 boe/day higher compared to the same period in 2009 as a result of:

- Production from the Canadian assets acquired in March 2010;
- Production from the Adam concession in Tunisia acquired in March 2010;
- Increased production in Sud Remada, Tunisia due to an increased working interest;
- Production from Iteration, post amalgamation.

Six Months Ended June 30	**2010**				2009			
	Oil ***(bbl/d)***	**NGL** ***(bbl/d)***	**Gas** ***(mcf/d)***	**Total** ***(boe/d)***	Oil *(bbl/d)*	NGL *(bbl/d)*	Gas *(mcf/d)*	Total *(boe/d)*
Canada	**436**	**528**	**13,962**	**3,291**	-	-	-	-
Tunisia	**398**	**-**	**481**	**478**	47	-	-	47
Total	**834**	**528**	**14,443**	**3,769**	47	-	-	47

Six Months

Average production for the six months grew 3,722 boe/day over 2009, primarily due to the acquisition of assets in Canada and Tunisia.

6.3. Operating Netbacks

The following tables outline the operating netbacks by country for the three and six months ended June 30, 2010, and 2009. It should be noted that corporate general and administrative costs associated with head office that are included in 2009 total operating netbacks, which with the low sales volumes skew per unit calculations.

Three Months Ended June 30		**2010**			2009	
	Tunisia	**Canada** [(2)]	**Total**	Tunisia	Canada	Total [(3)]
Sales volumes						
Oil *(bbls)*	**68,463**	**51,606**	**120,069**	8,519	-	8,519
NGL *(bbls)*	**-**	**79,817**	**79,817**	-	-	-
Gas *(mmcf)*	**69**	**1,885**	**1,954**	-	-	-
Total sales *(boe)*	**79,924**	**445,533**	**525,457**	8,519	-	8,519
-(boe/d)	**878**	**4,896**	**5,774**	94	-	94
Per sales *(boe)*						
Realized sales price	**$ 73.86**	**$ 33.75**	**$ 39.85**	$ 70.75	$ -	$ 70.75
Royalties	**8.10**	**6.67**	**6.89**	-	-	-
Production expense	**18.86**	**14.10**	**14.82**	22.50	-	22.50
General and administration [(1)]	**(1.66)**	**12.76**	**10.57**	(0.07)	-	46.15
Corporate netback	**$ 48.56**	**$ 0.22**	**$ 7.57**	$ 48.32	$ -	$ 2.10

[(1)] General and administration expenses by country exclude all non-cash stock-based compensation.
[(2)] Canada also includes overall corporate general and administrative expenses associated with head office.
[(3)] Includes overall corporate general and administrative expenses associated with head office.

Six Months Ended June 30		**2010**			2009	
	Tunisia	**Canada** [(2)]	**Total**	Tunisia	Canada	Total [(3)]
Sales volumes						
Oil *(bbls)*	**68,703**	**78,964**	**147,667**	8,519	-	8,519
NGL *(bbls)*	**-**	**95,542**	**95,542**	-	-	-
Gas *(mmcf)*	**87**	**2,527**	**2,614**	-	-	-
Total sales *(boe)*	**83,224**	**595,679**	**678,903**	8,519	-	8,519
-(boe/d)	**460**	**3,291**	**3,751**	47	-	47
Per sales *(boe)*						
Realized sales price	**$ 73.51**	**$ 35.59**	**$ 40.24**	$ 70.75	$ -	$ 70.75
Royalties	**8.23**	**6.90**	**7.06**	-	-	-
Production expense	**21.35**	**13.25**	**14.24**	22.50	-	22.50
General and administration [(1)]	**9.04**	**12.51**	**12.08**	(0.07)	-	97.05
Corporate netback	**$ 34.89**	**$ 2.93**	**$ 6.86**	$ 48.32	$ -	$ (48.80)

[(1)] General and administration expenses by country exclude all non-cash stock-based compensation.
[(2)] Canada also includes overall corporate general and administrative expenses associated with head office.
[(3)] Includes overall corporate general and administrative expenses associated with head office.

Gross Revenue

($ thousands, except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Oil sales	**8,694**	603	**10,813**	603
Per *(bbl)*	**$ 72.41**	$ 70.75	**$ 73.22**	$ 70.75
NGL sales	**3,878**	-	**4,860**	-
Per *(bbl)*	**$ 48.58**	$ -	**$ 50.87**	$ -
Natural gas sales	**8,370**	-	**11,644**	-
Per *(mcf)*	**$ 4.28**	$ -	**$ 4.45**	$ -
Total oil and gas revenue	**20,942**	603	**27,317**	603
Per *(boe)*	**$ 39.85**	$ 70.75	**$ 40.24**	$ 70.75

Second Quarter

Total gross oil and natural gas revenue increased $20.3 million in the second quarter when compared to the quarterly sales of 2009 as a result of:

- Production related to the acquisition of the Canadian assets in March 2010;
- Production from the acquisition of the Adam concession in Tunisia in March 2010;
- Crude oil sales in Tunisia from the Sud Remada field from production built up in the first quarter, at a higher working interest;
- 2% increase in realized crude oil prices.

Six Months

For the six months ended June 30, 2010, gross revenues increased $26.7 million due to:

- Increased sales volumes with acquisition of assets in Canada and Tunisia;
- Increased sales volume in Sud Remada with the increased working interest from 71% to 86%;
- 3% increase in realized crude oil prices.

Royalties

($ thousands, except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Total	**3,621**	-	**4,793**	-
Percent of revenue	**17**	-	**18**	-

There are no royalties incurred for Sud Remada as the operations are governed by a production sharing contract with ETAP, the Tunisian national oil company. Under the contract, the Company receives 62.625% of the production with ETAP receiving the remaining 37.375% of the production. The share that is received by ETAP is then used to pay the royalties and taxes on behalf of the Company.

Within the Adam concession in Tunisia, there is a royalty paid on oil and gas production which is based on a sliding scale calculation with royalty rates of 2–15%. Presently the Company is paying an average royalty rate of 9% for gas and 12% for oil.

Within the Canadian operations, the Company is subject to Crown royalties, payable to the provincial government, and freehold and gross overriding royalties payable to individuals and corporations that own the mineral rights on which production is obtained.

Second Quarter and Six Months

With increased production from the acquisitions of assets in Canada and Tunisia, both are subject to royalties which in Canada were 20% of Canadian revenue and in Tunisia 11% of Tunisian revenue.

Production Expense

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands, except per unit amounts)	**2010**	2009	**2010**	2009
Total	**7,790**	192	**9,669**	192
Per sales *(boe)*	**$ 14.82**	**$** 22.50	**$ 14.24**	**$** 22.50

Second Quarter

Operating costs of $7.8 million ($14.82 per sales boe), were recorded in 2010, an increase of $7.6 million from $0.1 million ($22.50 per sales boe) recorded in 2009. The increased operating costs were primarily from the acquisitions of assets in the first quarter of 2010. Canada's operating costs averaged $14.10 per boe while Tunisia averaged $18.86 per boe.

Six Months

For the six months ended June 30, 2010, operating expenses increased $9.5 million with new production in Canada and increased production in Tunisia.

General Administration Expenses ("G&A")

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands, except per unit amounts)	**2010**	2009	**2010**	2009
Stock-based compensation	**3,313**	613	**4,312**	1,459
Rent and general office costs	**607**	205	**1,109**	375
Staffing - net	**1,408**	49	**2,308**	45
Legal expenses	**887**	3	**1,277**	21
Accounting and audit costs	**15**	9	**284**	75
Corporate expenses	**2,635**	127	**3,225**	311
Total G&A	**8,865**	1,006	**12,515**	2,286
Per sales *(boe)*	**$ 16.87**	$ 118.10	**$ 18.43**	$ 268.34
Cash G&A	**5,553**	393	**8,203**	827
Per sales *(boe)*	**$ 10.57**	$ 46.15	**$ 12.08**	$ 97.05

Second Quarter

G&A expenses for the second quarter were $7.9 million higher than the same period in 2009 due to:

- Increased stock-based compensation cost for the modification of the exercise price on stock options following the reduction and return of equity with the Bridge Energy shares;
- Increased staff costs associated with the increased Canadian and international producing assets;
- A change in accounting policy related to business combinations such that in 2009 costs associated with asset or corporate acquisitions were capitalized, but in 2010 the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook section 1582 requiring these costs to be expensed;
- Increased legal expense relating to the amalgamation and formation of the new company.

Six Months

For the six months ended June 30, 2010, G&A expenses increased $10.2 million mainly due to:

- Increased stock-based compensation due to the granting of and modification of price on stock options held by employees, directors, officers and other service providers;
- Costs associated with the amalgamation and formation of Chinook;
- Increased personnel related costs as a result of higher staff levels to support the growth of the Company.

6.4. Interest and Financing Charges

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Canada	**4,288**	1	**6,888**	4
Tunisia	**14**	1	**16**	3
Total	**4,302**	2	**6,904**	7

Second Quarter

Interest and financing charges increased $4.3 million in the second quarter when compared to the same period in 2009 primarily as a result of the fair value of the share purchase warrants associated with the bridge facility of $2.6 million, commitment fees on the new syndicated revolving credit facility of $1.3 million and $0.4 million for facility interest costs.

Six Months

For the six months ended June 30, 2010, interest and financing charges increased $6.9 million and included the fair value of the share purchase warrants associated with the bridge facility of $2.6 million, commitment fees of $2.2 million and financial advising fees of $1.5 million. The credit facility was established with Société Générale in the first quarter of 2010 and had $0.4 million of interest costs for the six months.

6.5. Tax Expense

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Current tax expense (recovery)	**1,322**	-	**1,322**	-
Future tax expense (recovery)	**(4,800)**	-	**(5,728)**	-
Total	**(3,478)**	-	**(4,406)**	-

Second Quarter and Six Months

Current tax expense of $1.3 million is payable in Tunisia on the Adam concession producing assets. The future tax recovery results from the realization of a previously unrecognized Canadian tax asset.

6.6. Non-Cash Items

Depletion and Depreciation and Accretion (“DD&A”)

($ thousands, except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Canada	**8,697**	-	**11,852**	-
Tunisia	**2,183**	177	**2,281**	180
Corporate	**45**	13	**87**	19
Total	**10,925**	190	**14,220**	199
Per sales *(boe)*	**$ 20.79**	$ 22.28	**$ 20.95**	$ 23.41

Second Quarter

DD&A increased $10.7 million in the second quarter when compared with the same period of 2009 with the addition of producing assets in Canada and Tunisia in 2010.

Six Months

For the six months ended June 30, 2010, DD&A increased $14 million primarily as a result of the depletion charge associated with the acquired Canadian assets.

6.7. Net Income/Loss

Second Quarter

A net loss of $14.6 million for the three months ended June 30, 2010, is lower than the net income in the comparable period in 2009 of $2.0 million. The loss arises from continuing operations of $10.2 million and discontinued operations of $4.3 million.

Six Months

For the six months ended June 30, 2010, the net loss increased $25.5 million over the same period in 2009. Primarily the increase resulted from:

- $15 million from discontinued operations in the UK;
- $14 million increase in depletion and amortization;
- $10 million increase in general administrative costs;
- $7 million increase in interest and financing charges.

Partially offset by:

- $12 million increase in revenue net of production expenses from acquired Canadian and Tunisian assets;
- $6 million recovery in future income taxes;
- $3 million gain on derivative instruments.

6.8. Capital Expenditures

($ thousands, except per unit amounts) [1]	Three Months Ended June 30 **2010**	2009	Six Months Ended June 30 **2010**	2009
Tunisia	**(4,083)**	855	**26,550**	2,981
Canada	**265,815**	-	**442,057**	-
Corporate	**106**	118	**286**	135
Total	**261,838**	973	**468,893**	3,016

[1] *Excludes discontinued operations.*

Second Quarter

On June 29, 2010, assets of Iteration were amalgamated with SVI via a plan of arrangement (see Note 3 of the interim consolidated financial statements). The Company also acquired certain oil and natural gas assets in West Central Alberta on June 30, 2010. Non-core oil and natural gas assets in Alberta were sold in early June 2010.

Six Months

In addition to the assets acquired in the second quarter, the Company purchased certain producing oil and natural gas assets from a senior producer in Canada in the first quarter of 2010. The acquisition was the Company's entrance into the Western Canadian Sedimentary Basin with the assets being located in West Central Alberta. On the international operations, the Company acquired another company from a senior producer that held a 5% interest in the Adam concession in Tunisia and a 10% interest in the Borj El Khadra and also purchased another 15% interest in the Sud Remada field from an operating partner.

7. Quarterly Information

Summarized information by quarter for the two years ended June 30, 2010, appears below:

($ thousands, except per unit amounts) [5]	**June 30 2010**	Mar. 31 2010	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008
Production revenue net of royalties	**17,321**	9,554	3,718	2,659	5,217	9,275	4,620	553
Cash flow [1]	**(190)**	2,386	2,856	3,139	8,010	5,517	2,871	333
Per share								
Basic *($)*	**-**	0.02	0.04	0.04	0.11	0.07	0.04	0.01
Diluted *($)*	**-**	0.02	0.04	0.04	0.10	0.07	0.04	0.01
Net income (loss)	**(14,570)**	(11,902)	(16,327)	(2,303)	1,987	(2,975)	(10,499)	6,311
Per share								
Basic *($)*	**(0.12)**	(0.13)	(0.23)	(0.03)	0.03	(0.04)	(0.14)	0.16
Diluted *($)*	**(0.12)**	(0.13)	(0.23)	(0.03)	0.03	(0.04)	(0.14)	0.15
Average daily production *(boe)*	**5,562**	3,196	1,424	1,173	1,905	2,174	794	85
Capital expenditures [2] [3] [4]	**261,838**	207,055	4,990	2,141	4,892	6,394	315,089	34,841

[1] *Cash flow is a non-GAAP measurement and is defined under the non-GAAP measures section of this MD&A.*
[2] *Excludes capitalized costs relating to foreign currency translation incurred during the period.*
[3] *December 2008 includes assets acquired through a corporate acquisition.*
[4] *March and June 2010 includes acquisitions of Canadian and Tunisian producing assets and assets from the amalgamation with Iteration.*
[5] *Includes discontinued operations for periods September 2008 – March 2010.*

Factors That Have Caused Variations Over the Quarters

The factors described below only apply to the quarterly information presented above.

During the second quarter of 2008, production in the North Sea, UK commenced and continued to build throughout 2008. The Company previously owned 33.15% of the North Sea business and completed the consolidation of the North Sea business operations on December 24, 2008, with the acquisition of the remaining 66.85% of the shares outstanding, resulting in Chinook consolidating 100% of the revenue, costs and production in 2009. Production from the North Sea, UK in the third quarter of 2009, was curtailed for approximately 30 days to allow a third party the time needed to replace a pipeline. Production in Tunisia commenced in the second quarter of 2009 resulting in an increase to both revenue and cash flows. Natural gas prices were at their peak, for the periods presented above, during the first quarter of 2009. With the Company's 100% interest in Silverstone being fully included in the results for the first quarter of 2009, that period's net production revenue was the highest presented. Natural gas prices have slumped in the intervening period resulting in lower net production revenue. A significant increase in the depletion charge in the fourth quarter of 2009 resulted in that period's large net loss. The Company's proved reserves relating to the North Sea, UK business were independently evaluated and revised downward in the fourth quarter of 2009, resulting in a material charge for the period when compared to the prior periods presented. The Company completed the acquisition of Canadian and Tunisian producing assets in March 2010, increasing production, revenues and cash flow. The Company sold its interest in Silverstone in May 2010 and presented its operations as discontinued for financial reporting.

8. Outstanding Share Data

Authorized:

- Unlimited number of common shares;
- Unlimited number of first preferred shares.

Details of share capital and options outstanding are as follows:

	June 30 2010	December 31 2009
Common shares outstanding	**213,787,681**	75,224,490
Share options	**5,231,000**	4,089,800
Warrants	**1,279,000**	-
Fully diluted common shares	**220,297,681**	79,314,290
Weighted average common shares - basic and diluted	**108,499,245**	73,680,985

At June 30, 2010, the Company had 213.8 million shares and 5.1 million options outstanding. One shareholder, the Alberta Investment Management Corporation which manages certain pension funds on behalf of the province of Alberta, held approximately 38% of the issued and outstanding shares of the Company at June 30, 2010. As at August 12, 2010, there were 213.8 million shares outstanding, 7.59 million options outstanding and 1.3 million share purchase warrants outstanding.

9. Contractual Obligations and Commitments

Other than those commitments associated with office premises, debt repayment and construction commitments as disclosed in section 3 of this MD&A, the Company does not have any other contractual obligations.

The Company has claims that have arisen out of the normal course of business. The outcome of such is not determinable.

10. Risk Factors

Chinook is exposed to certain risks and uncertainties inherent in the oil and gas industry which include but are not limited to the following:

- Commodity price fluctuations for both crude oil and natural gas, which are subject to a myriad of factors, are outside of the Company's control;
- Risks arising from exploration and development activities;
- Production risks associated with the depletion and deliverability of reservoirs and the ability to market production;
- The availability and cost of labor, materials and equipment to efficiently, effectively and safely undertake capital projects;
- Environmental and safety concerns;
- Availability of incremental reserves of oil and natural gas, whether sourced from exploration, development or acquisitions.

Chinook operates in a foreign country and is exposed to other risks including:

- Exchange rate between the Canadian and the US dollar for not only commodity prices but also capital spending and expenses;
- Changes to government fiscal, monetary and other financial policies;
- Evolution of changing domestic and international climate and environmental policies;
- Terrorism or militant targeted protests directed at international operations;
- Political risk;
- Price controls and varying forms of fiscal regimes or changes thereto.

Chinook is exposed to financing risks such as:

- The cost and availability of capital, which is dependent upon a number of factors including the general economic and market conditions that are beyond the Company's control;
- Interest rate risk;
- Credit risk.

All, but not limited to, the above risks may impair Chinook's ability to: conduct profitable operations; realize on its assets; or capitalize on opportunities which might become available to it. The success of the Company's capital programs, as embodied in its productivity and reserve base, could also impact its prospective liquidity and pace of future activities. Control of finding, development, operating and overhead costs on a per unit basis are important criteria in determining Company growth, success and access to new capital sources.

The Company attempts to mitigate its business and operational risk exposures by: maintaining comprehensive insurance coverage on its assets and operations; employing or contracting competent technicians and professionals; instituting and maintaining operational health, safety and environmental standards and procedures; employing a commodity hedging program with the goal of minimizing significant downward commodity price movements; and maintaining a prudent approach to exploration and development activities. Chinook attempts to minimize risks associated with exploration by generating exploration prospects internally, targeting high quality projects and attempting to operate the projects.

Being part of the oil and natural gas industry and operating in a foreign country, the Company is subject to various governmental regulations which change from time to time and which are quite extensive. The Company is committed to operating as a good corporate citizen in a responsible manner. The Company is committed to a continual program of exploration and development, guided by a very experienced and qualified team.

11. Application of Critical Accounting Policies and Estimates

The Company's financial statements were prepared in accordance with Canadian GAAP. A summary of the significant accounting policies can be found in Note 2 of the Consolidated Financial Statements. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of any contingent assets and liabilities at the date of the consolidated financial statements; and (iii) revenues and expenses during the period. Chinook's management reviews its estimates, including those related to accruals, environmental and asset retirement obligations, recoverability of assets, income taxes, fair values of derivative assets and liabilities, capital adequacy, and the estimation of reserves on an ongoing basis.

The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Chinook attempts to mitigate this risk by employing individuals with appropriate skill sets and knowledge to make reasonable estimates; developing internal reporting systems, and comparing past estimates to actual results.

The Company's financial and operating results include critical accounting estimates in the following areas:

- Determination of reserves – the process of estimating reserves requires complex judgments and decision-making based on available geological, geophysical, engineering and economic data;
- Depletion and depreciation based on estimates of oil and natural gas reserves – such estimates use the unit-of-production method based on estimated proved reserves and such estimates can have a significant impact on earnings;
- Estimated recoverability of long-lived assets in performing impairment tests – cash flow estimates for impairment assessments require assumptions about future prices and costs, reserves and discount rates, such elements require judgment about highly uncertain future events;
- Estimated operating expenses and royalties for which actual costs have not been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated amount of the asset retirement obligation – the total amount is based on an estimate of the Company's net ownership in wells and facilities, estimated costs and timing to abandon and reclaim the wells and facilities, and changes in environmental regulations;
- Determination of fair value of stock options – the calculation of the fair value requires management to assess such variables as volatility in the stock price, potential forfeiture rates and risk-free interest rates with such estimates affecting the stock-based compensation reported and an impact on earnings;
- Legal and other contingent matters;
- Income tax accounting – requires the interpretation of complex laws and regulations involving multiple jurisdictions, which are subject to audit and potential reassessments.

12. New and Pending Accounting Standards

Future Changes in Accounting Policies

In January 2009, the CICA issued section 1582, "Business Combinations", which will replace 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 at the date of the exchange. The new guidance will require all costs of the acquisition to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the enterprise. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582, is effective on January 1, 2011, with prospective application and early adoption is permitted. Chinook has elected to early adopt this new standard with respect to current business combinations.

In January 2009, the CICA issued section 1601, "Consolidated Financial Statements", which will replace CICA section 1600 of the same name. This guidance requires consistent application of accounting policies throughout all consolidated entities. Section 1601, is effective on January 1, 2011. The adoption of this standard will have no impact on Chinook's consolidated financial statements.

In January 2009, the CICA issued section 1602, "Non-controlling Interests", which will replace CICA section 1600, Consolidated Financial Statements. This standard establishes the accounting for a non-controlling interest in a subsidiary in 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. Section 1602, is effective on January 1, 2011. The adoption of this standard resulted in the Company recording an adjustment to Retained Earnings (Deficit) associated with the loss on the dilution of its ownership of a controlled subsidiary.

13. Conversion to International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Chinook for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

IFRS will replace current Canadian GAAP for those enterprises. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS. As a result, the transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company will adopt IFRS, which will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures.

The Company has completed the diagnostic assessment phase by performing comparisons between Canadian GAAP and IFRS and is currently assessing the effects of adoption and implications from its conversion to IFRS. The project is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company's adoption to IFRS. The Company's auditors will be involved throughout the process to ensure Chinook's policies are in accordance with the new standards. Initial assessments of impacts completed to date include accounting for property plant and equipment, foreign operations and the recognition of foreign exchange provisions, asset retirement obligations and income taxes. The Company has started to make progress in the implementation phase and will continue over the period to 2011 to focus on analyzing and developing implementation strategies and processes for presentation and disclosure under IFRS.

The Company has reviewed first time adoption exemptions and elections available upon initial transition that provide relief from retrospective application in the January 1, 2010, opening Balance Sheet. The Company intends to utilize exemptions including those available for past business combinations, the allocation of oil and gas asset balances based on full cost accounting rules to IFRS categories of exploration and evaluation assets and development and producing properties, resetting cumulative translation differences for all foreign operations to zero and specific exemptions for share based payments.

Management has not yet finalized its accounting policies, and as such, it is currently unable to quantify the impact of adopting IFRS on the financial statements. The Company will continue to monitor any changes in the adoption of IFRS, it will implement those policies determined to be the most appropriate for the Company and will update its plan as necessary.

At this time, Chinook has identified key differences that will impact the financial statements as follows:

- Exploration and Evaluation ("E&E") expenditures. On transition to IFRS, Chinook will reclassify all E&E expenditures that are currently included in the property and equipment ("PP&E") balance on the consolidated balance sheet. This will consist of the book value of undeveloped land and unevaluated seismic data that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist;
- Depletion expense. On transition to IFRS, Chinook has the option to base the depletion calculation on either proved reserves or proved plus probable reserves. Chinook has not concluded at this time which method it will use;
- Impairment of PP&E assets. Under IFRS, impairment tests of PP&E must be performed at the cash generating unit level using either total proved or proved plus probable reserves. Canadian GAAP allows an impairment test to be performed on a country cost centre basis;
- Due to the recent withdrawal of the exposure draft on IAS 12 "Income Taxes" in November 2009 and the issuance of the exposure draft on IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in January 2010, management is still determining the impact of these revised standards on its IFRS transition.

Chinook is determining which additional changes to internal controls over financial reporting will be required to deal with the changes in accounting policies. This will be ongoing throughout 2010, to ensure all changes in accounting policies include appropriate additional controls and procedures for future IFRS reporting requirements. Throughout 2010, Chinook will be assessing the impact the adoption of IFRS will have on its accounting system. Modifications will be required to allow the Company to report under both Canadian GAAP and IFRS statements and track E&E costs, transfer costs from E&E to PP&E and allocate PP&E into cash generating units.

14. Internal Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding required disclosure. Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. As a result of the reverse takeover of Iteration and amalgamation into Chinook on June 29, 2010, management cannot certify that the control systems over financial reporting are effective, however management has concluded, having exercised reasonable diligence, that the interim financial statements do not contain any untrue statements nor omit any material facts. Chinook's Chief Executive Office and Chief Financial Officer can provide reasonable assurance as to the process regarding the reliability of the financial reporting for the interim period and the preparation of the financial statements for the interim period.

Management has taken measures to implement additional controls and procedures over financial reporting for subsequent interim reporting such that increased representations can be communicated to and relied upon by the readers of these interim filings.

Note to Reader

In contrast to the usual certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), namely, Form 52-109F1, the Form 52-109F1 – IPO/RTO relating to these interim filings does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of an issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 in the first financial period following:

- completion of the issuer's initial public offering in the circumstances described in s. 4.3 of NI 52-109;
- completion of a reverse takeover in the circumstances described in s. 4.4 of NI 52-109; or
- the issuer becoming a non-venture issuer in the circumstances described in s. 4.5 of NI 52-109;

may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

15. Other Information

15.1. Forward-Looking Statements

In the interest of providing Chinook's shareholders with information regarding Chinook, including management's assessment of Chinook's future plans and operations, certain statements in this MD&A are "forward-looking statements". In some cases, forward-looking statements can be identified by terminology such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "objective", "ongoing", "outlook", "potential", "project", "plan", "should", "target", "would", "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this MD&A speak only as of the date of this document and are expressly qualified by this cautionary statement.

Specifically, this MD&A contains forward-looking statements relating to: the volumes and estimated value of Chinook's oil and natural gas reserves; the value of Chinook's undeveloped land holdings; the volume of Chinook's oil and natural gas production; future results from operations; future costs and expenses; future exploration and development activities (including drilling plans) and related capital expenditures; Chinook's liquidity and financial capacity; and funding sources for Chinook's capital program.

These forward-looking statements are based on certain key assumptions regarding, among other things: Chinook's ability to obtain equity and debt financing on satisfactory terms; oil and natural gas prices; well production rates and reserve volumes; Chinook's ability to add commercially viable and economic production and reserves through exploration and development activities; capital expenditure levels; the availability and cost of labour and other industry services; and interest and foreign exchange rates. The reader is cautioned that such assumptions, although considered reasonable by Chinook at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; fluctuations in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; delays resulting from or inability to obtain required regulatory approvals; ability to access sufficient capital from internal and external sources; and other factors, many of which are beyond the control of Chinook.

There is no representation by Chinook that actual results achieved during the forecast period will be the same in whole or in part as those forecast and Chinook does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise.

The Company's presentation of forward-looking information is based on internally generated budgets relating to drilling plans and related costs, expected results from drilling as well as estimated royalties, operating costs and administrative expenses. Chinook bases the commodity pricing for budget purposes on a range of publicly available pricing forecasts and also considers the general economic conditions.

15.2. Non-GAAP Measures

Throughout this MD&A, the Company uses terms "cash flow", "cash flow per share", "operating netback". These terms do not have any standardized meaning as prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures presented by other companies.

Cash flow is calculated based on cash flow from continuing operating activities before changes in non-cash working capital. Cash flow per share is calculated based on cash flow from continuing operating activities before changes in non-cash working capital from continuing operations. Management believes that cash flow is a supplemental measure and utilizes it as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Cash flow as presented is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP and should not be construed as an alternative to cash flow from operations. The following table shows the reconciliation from cash flow from continuing operating activities to cash flow:

($ thousands)	Three Months Ended June 30 2010	2009	Six Months Ended June 30 2010	2009
Cash flow from continuing operating activities	**7,145**	166	**1,812**	(417)
Change in non-cash working capital from continuing operations	**(7,335)**	809	**(3,302)**	908
Cash flow	**(190)**	975	**(1,490)**	491

Operating netback is calculated as production revenue less royalties, production expenses and cash G&A. Operating netback is considered important to management as a measure of the Company's profitability relative to current commodity prices and it provides an analysis tool to better measure performance against prior periods on a comparable basis.

15.3. 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. During the six months ended June 30, 2010, the Company incurred $0.5 million (2009 - $0.08 million) on legal services obtained from the firm. During the three months ended June 30, 2010, the Company incurred $0.3 million (2009 - $0.02 million) on legal services obtained from the firm.

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

15.4. Off Balance Sheet Arrangements

The Company did not enter into any off balance sheet arrangements during the reporting period.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010

Consolidated Balance Sheets

(unaudited)

($ thousands)		**June 30 2010**		December 31 2009
Assets				
Current				
Cash and cash equivalents	**$**	**31,467**	$	8,027
Accounts receivable and other *(Note 4)*		**50,556**		23,737
		82,023		31,764
Investments		**-**		64
Long-term derivative contracts		**500**		-
Property and equipment *(Note 5)*		**761,281**		362,372
	$	**843,804**	$	394,200
Liabilities and shareholders' equity				
Current				
Accounts payable and accrued liabilities	**$**	**68,198**	$	10,263
Current portion of long-term debt *(Note 6)*		**197,593**		8,170
Current portion of future income taxes		**1,724**		-
		267,515		18,433
Long-term debt *(Note 6)*		**-**		11,166
Asset retirement obligation and other long-term liabilities *(Note 7)*		**68,887**		6,193
Future income taxes *(Note 8)*		**13,354**		29,552
Shareholders' equity				
Share capital *(Note 11)*		**777,905**		344,703
Contributed surplus *(Note 11)*		**9,064**		4,137
Retained earnings (deficit)		**(292,921)**		(6,298)
Accumulated other comprehensive income		**-**		(13,686)
		494,048		328,856
Basis of presentation *(Note 1)*				
Commitments *(Note 10)*				
Subsequent Events *(Note 18)*				
	$	**843,804**	$	394,200

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Revenue				
Production revenue	**$ 20,942**	$ 603	**$ 27,317**	$ 603
Royalties	**(3,621)**	-	**(4,793)**	-
	17,321	603	**22,524**	603
Interest income and other	**689**	10	**950**	47
	18,010	613	**23,474**	650
Expenses				
Production expenses	**7,790**	192	**9,669**	192
Derivatives (gain) loss *(Note 13)*	**84**	-	**(3,191)**	-
Foreign exchange (gain) loss	**(236)**	317	**696**	299
General and administrative	**8,865**	1,006	**12,515**	2,286
Interest and financing charges	**4,302**	2	**6,904**	7
Depletion, depreciation and accretion	**10,925**	190	**14,220**	199
	31,730	1,707	**40,813**	2,983
Net income (loss) before income tax	**(13,720)**	(1,094)	**(17,339)**	(2,333)
Current taxes	**1,322**	-	**1,322**	-
Future income tax expense (recovery)	**(4,800)**	-	**(5,728)**	-
	(3,478)	-	**(4,406)**	-
Net income (loss) from continuing operations	**(10,242)**	(1,094)	**(12,933)**	(2,333)
Discontinued operations *(Note 17)*	**(4,328)**	3,081	**(13,540)**	1,345
Net income (loss)	**(14,570)**	1,987	**(26,473)**	(988)
Other comprehensive income (loss)				
Cumulative foreign currency translation adjustment	**1,322**	16,786	**(21,179)**	18,244
Available for sale assets fair value adjustment	**-**	(4)	**(5)**	(66)
	1,322	16,782	**(21,184)**	18,178
Comprehensive income (loss)	**$ (13,248)**	$ 18,769	**$ (47,657)**	$ 17,190

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Retained Earnings (Deficit) and Accumulated Other Comprehensive Income (Loss)

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	**2010**	2009	**2010**	2009
Retained earnings, beginning of period	**$ (46,186)**	$ 10,345	**$ (6,298)**	$ 13,320
Net income (loss)	**(14,570)**	1,987	**(26,473)**	(988)
Dilution adjustment on investment in Bridge Energy *(Note 9)*	**-**	-	**(27,985)**	-
Return of equity on Bridge Energy distribution *(Note 17)*	**(232,165)**	-	**(232,165)**	-
Retained earnings (deficit), end of period	**$ (292,921)**	$ 12,332	**$ (292,921)**	$ 12,332
Accumulated other comprehensive (loss), beginning of period	**$ (36,192)**	$ (8,341)	**$ (13,686)**	$ (9,737)
Other comprehensive income (loss)				
Cumulative foreign currency translation adjustment	**1,322**	16,786	**(21,179)**	18,244
Available for sale assets fair value adjustment	**-**	(4)	**(5)**	(66)
Distribution of Bridge Energy *(Note 17)*	**34,870**	-	**34,870**	-
Accumulated other comprehensive income (loss), end of period	**$ -**	$ 8,441	**$ -**	$ 8,441

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited)

($ thousands)	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Operating activities				
Net income (loss) from continuing operations	**$ (10,242)**	$ (1,094)	**$ (12,933)**	$ (2,333)
Add non-cash items:				
Accretion	**602**	-	**788**	-
Depletion and amortization	**10,323**	190	**13,432**	199
Unrealized derivative (gain) loss	**850**	-	**(2,172)**	-
Foreign exchange gain (loss)	**(236)**	1,266	**696**	1,166
Shares issued	**-**	-	**115**	-
Stock based compensation	**3,313**	613	**4,312**	1,459
Future income tax	**(4,800)**	-	**(5,728)**	-
Change in non-cash working capital *(Note 12)*	**7,335**	(809)	**3,302**	(908)
Cash flow from continuing operating activities	**7,145**	166	**1,812**	(417)
Cash flow from discontinued operations before change in non-cash working capital	**742**	7,035	**3,672**	13,036
Change in non-cash working capital from discontinued operations *(Note 12)*	**(2,271)**	(8,174)	**1,047**	(2,243)
Cash flow from discontinued operations	**(1,529)**	(1,139)	**4,719**	10,793
Cash flow from operating activities	**5,616**	(973)	**6,531**	10,376
Financing activities				
Issue of share capital	**125,000**	-	**288,584**	-
Long-term debt issue	**148,843**	-	**178,258**	-
Proceeds from exercise of stock options	**-**	-	**49**	-
Share issue costs	**-**	-	**(5)**	-
Change in non-cash working capital *(Note 12)*	**(416)**	53	**(2,400)**	54
Financing activities from continuing operations	**273,427**	53	**464,486**	54
Long-term debt repayment from discontinued operations	**-**	(1,912)	**-**	(3,714)
Change in non-cash working capital from discontinued operations *(Note 12)*	**-**	-	**-**	-
Financing activities from discontinued operations	**-**	(1,912)	**-**	(3,714)
Cash flow from financing activities	**273,427**	(1,859)	**464,486**	(3,660)
Investing activities				
Property and equipment - net	**(261,838)**	(973)	**(468,893)**	(3,017)
Proceeds on dilution	**(54,872)**	-	**-**	-
Cash, acquired on acquisition of subsidiary	**(17,450)**	-	**(6,210)**	-
Change in non-cash working capital *(Note 12)*	**12,031**	(10,377)	**30,370**	27
Investing activities from continuing operations	**(322,129)**	(11,350)	**(444,733)**	(2,990)
Property and equipment - net from discontinued operations	**(1,072)**	(3,920)	**(2,128)**	(8,270)
Change in non-cash working capital from discontinued operations *(Note 12)*	**-**	-	**-**	-
Investing activities from discontinued operations	**(1,072)**	(3,920)	**(2,128)**	(8,270)
Cash flow from investing activities	**(323,201)**	(15,270)	**(446,861)**	(11,260)
Change in cash and cash equivalents during the period	**(44,158)**	(18,102)	**24,156**	(4,544)
Change and cash equivalents, beginning of period	**75,625**	38,055	**8,027**	24,365
Cash and cash equivalents, foreign exchange	**-**	(624)	**(716)**	(492)
Cash and cash equivalents, end of period	**$ 31,467**	$ 19,329	**$ 31,467**	$ 19,329

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, through a plan of arrangement, Storm Ventures International Inc. ("SVI") acquired all of the 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 interim 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.

The interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2009, except as noted below. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. Certain information and disclosures normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, the interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of SVI and the notes thereto for the year ended December 31, 2009.

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

2. Changes in Accounting Policies

Inventory

Inventory of oil products is valued at the lower of cost (determined weighted average method) or market. The cost of production inventoried is determined on a property-by-property basis, consisting of lifting and transportation costs and depletion.

Business Combinations

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. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

- 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 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.

International Financial Reporting Standards

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). Canadian public reporting issuers will be required to report under IFRS, which will replace Canadian GAAP for years beginning on or after January 1, 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on Chinook's financial results of operations, financial position and disclosures.

3. Business Combinations

Iteration Energy Ltd.

On June 29, 2010, pursuant to a plan of arrangement, SVI acquired all of the issued and outstanding securities of Iteration for $555 million, including Iteration bank debt net of cash acquired 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 has resulted in the newly amalgamated company, Chinook, being a publicly traded company listed on the Toronto Stock Exchange.

The plan of arrangement was an arm's length transaction and has been accounted for as an acquisition of Iteration by SVI using the purchase method with SVI being deemed 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 SVI 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	$	619,002
Unrealized gain on financial instruments		4,486
Asset retirement obligation		(54,033)
Future income tax liability		(13,515)
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

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

Talisman Resources (Tunisia) Limited ("TRTL")

On March 11, 2010, Storm Ventures International (Barbados) Limited acquired all of the issued and outstanding shares of TRTL for USD $23.7 million. TRTL owned 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:

		USD$
Net assets acquired		
Cash	$	10,950
Working capital		(1,647)
Property and equipment		21,636
Future income tax		(7,103)
Asset retirement obligation		(186)
Total consideration transferred	$	23,650

Consideration given:		
Cash	$	23,650

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

4. Accounts Receivable and Other

The Company's accounts receivable, inventory and prepaid charges is comprised of:

		June 30 2010		December 31 2009
Prepaid acquisition deposit - Western Canada assets	**$**	**-**	$	10,000
Prepaid acquisition deposit - International		**-**		2,093
Receivable from industry partner on sale of working interest in Gulf of Hammamet		**-**		4,339
Refundable deposits		**4,869**		523
Joint venture partner receivables		**12,238**		4,617
Production revenue receivable		**22,344**		629
Unrealized gain on financial instruments		**6,159**		-
Cash call balances		**952**		1,075
Prepaids		**1,626**		325
Inventory		**725**		24
Other		**1,643**		112
Total	**$**	**50,556**	$	23,737

5. Property and Equipment

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

	June 30 2010	December 31 2009
North Sea, UK	**-**	372,553
Canada	**705,156**	-
Tunisia	**70,988**	45,308
Office furniture and equipment	**862**	576
	777,006	418,437
Accumulated depletion and depreciation	**15,725**	56,065
	$ 761,281	$ 362,372

On March 1, 2010, the Company completed the acquisition of certain 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 million associated with the purchase had been placed in trust and was reflected in accounts receivable and prepaid 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 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 certain oil and natural gas assets in Alberta for proceeds of $7.2 million plus interim adjustments. The proceeds were used to pay down debt.

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

The Company capitalized $0.7 million (2009 - $1.2 million) of interest and direct general and administrative costs as related to its exploration and development activity for the six months ended June 30, 2010. Included in the depletion calculation were future development costs of $35.5 million (2009 - nil).

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

	June 30 2010
Canada	**$ -**
Tunisia	**31,347**
	$ 31,347

6. Debt

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. The Company obtained an extendible revolving term credit facility allowing the Company 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 thereof to $190 million and the operation portion thereof to $25 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 million as a result of the additional property purchase and reserve values associated with those properties. At June 30, 2010, the Company had drawn $179.8 million on the revolving term credit facility and drawn $nil on the operating credit 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 is subject to a semi-annual review and re-determination which is scheduled next for October 1, 2010. The facility contains a covenant whereby the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio cannot be greater than 4:1 at the end of any fiscal quarter. At June 30, 2010, the Company was in compliance with the covenant.

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 a one time in-kind payment on the drawn amount through the transfer of approximately a 25% working interest in all of the Iteration properties to the lender. The in-kind payment reduced the drawn amount by $150 million. At June 30, 2010, the balance outstanding on the bridge facility was $17.8 million. The bridge facility loan is due on December 31, 2010 and bears interest at a rate of 15% per annum and is secured by a second floating charge and security interest over all present and future Canadian property and assets. On August 9, 2010, the Company repaid the bridge credit facility amount outstanding of $17.8 million plus accumulated interest of $0.3 million.

The 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 Silverstone Energy Limited and has formed the discontinued operations at June 30, 2010 (Note 17).

7. Asset Retirement Obligation and Other Long-term Liabilities

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 expenditures are estimated to be incurred starting in 2015 until 2051 in Canada and in 2014 in Tunisia.

	June 30 2010	December 31 2009
Beginning of year	**$ 6,031**	$ 12,987
Provision	**-**	715
Acquired on acquisition of Western Canadian Assets	**26,495**	-
Acquired on acquisition of TRTL	**191**	-
Acquired on amalgamation of Iteration, net of disposition	**40,525**	-
Disposition of North Sea, UK assets	**(3,332)**	-
Revision	**168**	(7,090)
Foreign currency adjustment	**(1,979)**	(718)
Accretion	**788**	137
End of period	**$ 68,887**	$ 6,031

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 indirectly wholly-owned subsidiary. This liability no longer exists following the sale of Silverstone Energy Limited (Notes 9 and 17).

8. Income Taxes

At June 30, 2010, the Company had Canadian losses available to reduce future taxable income in Canada and Barbados, as well as other cumulative tax deductions in excess of net book values. The income tax benefit of these losses and deductions relating to the Tunisia project has not been recognized in the consolidated financial statements since their recoverability is uncertain at this time.

The future income tax liability at June 30, 2010, is comprised of the tax effect of temporary differences as follows:

	June 30 2010	December 31 2009
Future tax liability		
Property, plant and equipment	**$ 18,154**	$ 111,005
Future tax asset		
Loss carry forwards	**4,800**	81,453
	$ 13,354	$ 29,552

9. Dilution Adjustment

On March 30, 2010, Chinook's indirect wholly-owned subsidiary, Silverstone Energy Limited, 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 28,776,000 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 16,225,000 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, in accordance with the new Business Combinations standard of the CICA handbook.

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 million.

10. Commitments

At June 30, 2010, the Company had commitments that require the following minimum future payments:

	2010	2011	2012	2013	2014	Total
Long-term debt and interest	$ 198,928	$ -	$ -	$ -	$ -	$ 198,928
Operating leases	1,428	2,751	2,761	2,556	1,135	10,631
Engineering and construction commitments	1,061	-	-	-	-	1,061
Total	$ 201,417	$ 2,751	$ 2,761	$ 2,556	$ 1,135	$ 210,620

The office space occupied by a predecessor company has been sublet on a full-recovery flow through basis commencing June 1, 2008, through until September 30, 2012. As a result of the sublet, the Company recovers lease payments of approximately $1.27 million per annum.

On July 23, 2010, the Company paid the full engineering commitment reducing such future commitment to nil.

The Company has claims that have arisen out of the normal course of business which individually and in the 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	219		768
Private placements	85,847		288,584
Options exercised	344		1,997
Issued on acquisition of Iteration	52,153		141,857
Less: Issue costs			(4)
Balance as at June 30, 2010	**213,788**	**$**	**777,905**

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 $13.58 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 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 million. The proceeds were released from trust on June 29, 2010, in conjunction with the purchase of all of the outstanding securities of Iteration. Pursuant to the private placement and the provision of the bridge credit facility, the Company issued to AIMCo, on behalf of certain of its clients, warrants to purchase up to 1,279,000 common shares at an exercise price of $3.25 per share exercisable at any time on or before June 30, 2013.

On June 29, 2010, the Company issued a total of 52,153,225 common shares in connection with the acquisition of Iteration pursuant to the plan of arrangement. Of this amount, 5,938 common shares were issued to holders of unexercised Iteration in-the-money options and the remaining 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 the six months ended June 30, 2010, the Company issued 33,000 common shares to directors for deemed proceeds of $0.1 million as consideration for the provision of services.

During the six months ended June 30, 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 the six months ended June 30, 2010, the Company issued 344,000 common shares pursuant to the exercise of stock options during the period. Associated with the exercise of the options $2.0 million was transferred from Contributed Surplus.

C) Warrants

The Company issued 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 $3.25per 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 ten percent 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 period	2,355
Exercised during the period	(344)
Forfeited during the period	(870)
Balance as at June 30, 2010	**5,231**

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 outstanding stock options of the Company were re-valued following the reduction and return of capital associated with the distribution of the Bridge Energy shares (Note 9). 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 $5.4 million of fair value that will be charged to stock based compensation expense over the vesting period of the options.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Weighted average exercise price - outstanding options	**$2.36**	$4.38	**$2.36**	$4.38
Average remaining life	**4.0 years**	3.3 years	**4.0 years**	3.3 years
Number exercisable at end of period	**425,000**	1,393,000	**425,000**	1,393,000
Option price	**$0.37 - $2.72**	$0.01 - $6.25	**$0.37 - $2.72**	$0.01 - $6.25

	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
$ 0.00 - 0.37	425	$ 0.01	0.01	425	$ 0.37
$ 1.50 - 1.97	2,451	$ 0.87	1.95	-	-
$ 2.40 - 2.72	2,355	$ 1.52	2.03	-	-
	5,231	**$ 2.36**	**4.0**	**425**	**$ 0.37**

Total stock-based compensation charges for the three months ended June 30, 2010, was $3.3 million (2009 - $0.6 million) and for the six months ended June 30, 2010, was $4.3 million (2009 - $1.5 million). The following factors were used in the Black-Scholes pricing model for the determination of the fair value:

	Employees	Non-Employees
Expected average life	4.16 - 4.86 years	4.16 - 4.86 years
Risk-free interest rate	2.91%	2.91%
Volatility factor		1.01

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	1,374
Modification of price on stock options	2,938
Exercise of stock options	(1,997)
Stock-based compensation costs - warrants	2,612
Balance as at June 30, 2010	**$ 9,064**

F) Per Share Amounts

The calculation of the per share amounts for the interim period ended June 30, 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 in-the-money at June 30, 2010. Based on the Company's share price at June 30, 2010, no options were considered to be dilutive and the weighted average number of dilutive shares outstanding is the same as the weighted average number of shares outstanding.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Net income (loss) - continuing operations	**$ (10,242)**	$ (1,094)	**$ (12,933)**	$ (2,333)
Basic and diluted per share	**(0.08)**	(0.01)	**(0.12)**	(0.03)
Net income (loss) - discontinued operations	**(4,328)**	3,081	**(13,540)**	1,345
Basic and diluted per share	**(0.03)**	0.04	**(0.12)**	0.02
Comprehensive income (loss)	**(13,248)**	18,769	**(47,657)**	17,190
Basic and diluted per share	**$ (0.11)**	$ 0.26	**$ (0.44)**	$ 0.23
Weighted average shares outstanding *(thousands)*	**124,124**	73,599	**108,499**	73,599

12. Supplemental Cash Flow Information

A) Changes in non-cash working capital:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Accounts receivable & prepaid charges	**$ (34,717)**	$ 19,249	**$ (26,540)**	$ 3,912
Accounts payable	**51,396**	(38,556)	**58,859**	(6,982)
Changes in non-cash working capital	**$ 16,679**	$ (19,307)	**$ 32,319**	$ (3,070)
Relating to:				
Financing activities	**$ (416)**	$ 53	**$ (2,400)**	$ 54
Investing activities	**12,031**	(10,377)	**30,370**	27
Operating activities	**5,064**	(8,983)	**4,349**	(3,151)
	$ 16,679	$ (19,307)	**$ 32,319**	$ (3,070)

B) Other cash flow information:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Cash taxes paid	**$ 3,441**	$ -	**$ 3,441**	$ -
Cash interest paid	**$ 363**	$ -	**$ 393**	$ -

13. Financial Instruments and Risk Management

Financial instruments carried at fair value on the Company's balance sheet include cash and cash equivalents and publicly traded investments. The Company's other financial instruments including accounts receivable, non-publicly traded investments, accounts payable and accrued liabilities and long-term debt are carried at cost or amortized cost. There are no significant differences between the carrying value of these instruments and their estimated fair value. The carrying value of the Company's short-term receivables and payables approximates their fair value because the instruments are near maturity.

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 June 30, 2010, the Company had approximately $6.0 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.

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.

Commodity prices

The Company is constantly exposed to the risk of declining commodity prices. 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.

Concurrent with the acquisition of the western Canadian assets in March 2010, the Company entered into the following commodity contracts on natural gas production with the following terms:

	Volume	Sell Call	Buy Put	Term
Natural gas - Contract 1	6,400 *GJ/d*	$5.00/*GJ*	$5.41/*GJ*	March 2010 to December 2010
Natural gas - Contract 2	4,500 *GJ/d*	$5.00/*GJ*	$6.40/*GJ*	January 2011 to December 2011
Natural gas - Contract 3	3,800 *GJ/d*	$5.00/*GJ*	$7.70/*GJ*	January 2012 to March 2012

The fair value of the contracts at June 30, 2010, is estimated at $2.2 million and the unrealized financial instrument provision is recorded as an asset.

With the acquisition of Iteration, the Company assumed the following commodity contracts with the terms indicated below:

	Volume	Sell Call	Buy Put	Term
Crude oil - Contract 1	200 *bbl/d*	$70.00/*bbl*	$91.00/*bbl*	January 1 2010 to December 31 2010
Crude oil - Contract 2	200 *bbl/d*	$70.00/*bbl*	$97.00/*bbl*	January 1 2010 to December 31 2010
Crude oil - Contract 3	800 *bbl/d*	$85.10/*bbl*		July 1 2010 to September 30 2010
Gas - Contract 1	3,500 *GJ/d*	$4.98/*GJ*		November 1 2009 to October 31 2010
Gas - Contract 2	2,000 *GJ/d*	$6.00/*GJ*		November 1 2010 to October 31 2011
Gas - Contract 3	15,800 *GJ/d*	$5.54/*GJ*		July 1 2010 to September 30 2010

The fair value of the contracts at June 30, 2010, is estimated at $4.5 million and the unrealized financial instrument provision is recorded as an asset.

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 June 30, 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 June 30, 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 Brent US$1.00/*(bbl)*	$	480
Change in AECO-C gas price $0.10/*(mcf)*	$	781
Interest rate risk		
Change in interest rate 1%	$	1,976

Liquidity risk

Liquidity difficulties would emerge if the Company was unable to meet its financial obligations as they fell due within normal credit terms. 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 June 30, 2010, the Company had available unused committed bank credit facilities in the amount of $60.2 million on the Canadian credit facility. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable commitments.

The following are the contractual maturities of financial liabilities as at June 30, 2010:

	Within 1 year	1 to 2 years	2 - 4 years	Thereafter
Long-term debt and interest	$ 198,928	$ -	$ -	$ -
Accounts payable and accrued liabilities	68,198	-	-	-
Total	$ 267,126	$ -	$ -	$ -

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 June 30, 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	$ 6,659	$ -	$ 6,659	$ -
Total financial assets	$ 6,659	$ -	$ 6,659	$ -

Gains on Level 2 instruments of $1.0 million are presented in derivatives (gain) loss in the income statement.

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. During the six months ended June 30, 2010, the Company incurred $0.5 million (2009 - $0.08 million) on legal services obtained from the firm. During the three months ended June 30, 2010, the Company incurred $0.3 million (2009 - $0.02 million) on legal services obtained from the firm. At June 30, 2010, the Company owes this related party nil.

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

15. Capital Disclosures

Capital management is fundamental to the Company's objective to create value and provide returns to its shareholders through being profitable in the upstream energy business in Western Canada. The Company's capital structure comprises shareholders' equity and debt, defined as long-term debt including the current portion. Management of capital involves the preparation of an annual budget, which may only be implemented after approval by the Company's Board of Directors. The Company also monitors its capital structure using non-GAAP financial metrics consisting of debt to EBITDA. These metrics are used to steward the Company's overall debt position as measures of the Company's overall financial strength. Chinook targets a debt to EBITDA of less than 1.5 times.

As the Company's business evolves during the fiscal year, the budget may be amended; however, any changes are again subject to approval by the Board of Directors. The Company adjusts its capital structure to maintain flexibility while achieving corporate objectives. Such flexibility maintenance may include adjusting capital spending, issuance of new shares, entering into new debt or repayment of existing debt.

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

Notes to the Consolidated Financial Statements
Three and Six Months Ended June 30, 2010 *(unaudited)*
Tabular amounts in thousands, except per share amounts

Segment and Geographic Information

Property and Equipment and Total Assets by Segment

	Tunisia		Canada		North Sea, UK		Corporate		Consolidated	
Three Months Ended June 30	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Capital expenditures [(1)(2)]	**$ (4,083)**	$ 855	**$ 265,815**	$ -	**$ -**	$ 8,582	**$ 106**	$ 119	**$ 261,838**	$ 9,556
Property and equipment - net	**$ 68,513**	$ 45,128	**$ 692,055**	$ -	**$ -**	$ 395,486	**$ 713**	$ 332	**$ 761,281**	$ 440,946
Total assets	**$ 87,046**	$ 49,887	**$ 749,032**	$ -	**$ -**	$ 411,001	**$ 7,726**	$ 19,685	**$ 843,804**	$ 480,573

[(1)] Excludes capitalized costs relating to foreign currency translation incurred during the period.
[(2)] North Sea, UK is discontinued operations effective 2010.

	Tunisia		Canada		North Sea, UK		Corporate		Consolidated	
Six Months Ended June 30	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Capital expenditures [(1)(2)]	**$ 26,550**	$ 2,981	**$ 442,057**	$ -	**$ -**	$ 8,170	**$ 286**	$ 136	**$ 468,893**	$ 11,287
Property and equipment - net	**$ 68,513**	$ 45,128	**$ 692,055**	$ -	**$ -**	$ 395,486	**$ 713**	$ 332	**$ 761,281**	$ 440,946
Total assets	**$ 87,046**	$ 49,887	**$ 749,032**	$ -	**$ -**	$ 411,001	**$ 7,726**	$ 19,685	**$ 843,804**	$ 480,573

[(1)] Excludes capitalized costs relating to foreign currency translation incurred during the period.
[(2)] North Sea, UK is discontinued operations effective 2010.

Results of Continuing Operations

	Tunisia		Canada		Corporate		Consolidated	
Three Months Ended June 30	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Production revenue	**$ 5,903**	$ 603	**$ 15,039**	$ -	**$ -**	$ -	**$ 20,942**	$ 603
Royalties	**(647)**	-	**(2,974)**	-	**-**	-	**(3,621)**	-
	5,256	603	**12,065**	-	**-**	-	**17,321**	603
Interest income and other	**3**	2	**693**	-	**(7)**	8	**689**	10
	5,259	605	**12,758**	-	**(7)**	8	**18,010**	613
Expenses								
Production expenses	**1,507**	192	**6,283**	-	**-**	-	**7,790**	192
Derivatives (gain) loss	**-**	-	**84**	-	**-**	-	**84**	-
Foreign exchange (gain) loss	**(186)**	243	**164**	-	**(214)**	74	**(236)**	317
General and administrative	**(491)**	(28)	**8,965**	-	**391**	1,034	**8,865**	1,006
Interest and financing charges	**5**	-	**4,293**	-	**7**	2	**4,302**	2
Depletion and amortization	**2,183**	177	**8,742**	-	**-**	13	**10,925**	190
	3,018	584	**28,531**	-	**184**	1,123	**31,730**	1,707
Net Income (loss) before income taxes	**2,241**	21	**(15,773)**	-	**(191)**	(1,115)	**(13,720)**	(1,094)
Current income taxes	**1,322**	-	**-**	-	**-**	-	**1,322**	-
Future income taxes	**-**	-	**(4,800)**	-	**-**	-	**(4,800)**	-
Net income (loss)	**$ 919**	$ 21	**$ (10,973)**	$ -	**$ (191)**	$ (1,115)	**$ (10,242)**	$ (1,094)

	Tunisia		Canada		Corporate		Consolidated	
Six Months Ended June 30	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Production revenues	**$ 6,118**	$ 603	**$ 21,199**	$ -	**$ -**	$ -	**$ 27,317**	$ 603
Royalties	**(685)**	-	**(4,108)**	-	**-**	-	**(4,793)**	-
	5,433	603	**17,091**	-	**-**	-	**22,524**	603
Interest income and other	**19**	2	**930**	-	**1**	45	**950**	47
	5,452	605	**18,021**	-	**1**	45	**23,474**	650
Expenses								
Production expenses	**1,777**	192	**7,892**	-	**-**	-	**9,669**	192
Derivatives (gain) loss	**-**	-	**(3,191)**	-	**-**	-	**(3,191)**	-
Foreign exchange (gain) loss	**7**	295	**164**	-	**525**	4	**696**	299
General and administrative	**393**	(155)	**11,763**	-	**359**	2,441	**12,515**	2,286
Interest and financing charges	**7**	-	**6,888**	-	**9**	7	**6,904**	7
Depletion and amortization	**2,281**	180	**11,939**	-	**-**	19	**14,220**	199
	4,465	512	**35,455**	-	**893**	2,471	**40,813**	2,983
Net income (loss) before income taxes	**987**	93	**(17,434)**	-	**(892)**	(2,426)	**(17,339)**	(2,333)
Current income taxes	**1,322**	-	**-**	-	**-**	-	**1,322**	-
Future income taxes	**-**	-	**(5,728)**	-	**-**	-	**(5,728)**	-
Net income (loss)	**$ (335)**	$ 93	**$ (11,706)**	$ -	**$ (892)**	$ (2,426)	**$ (12,933)**	$ (2,333)

17. Discontinued Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
Revenue				
Production revenue	**1,803**	4,795	**6,510**	14,859
Royalties	**(137)**	(181)	**(493)**	(970)
	1,666	4,614	**6,017**	13,889
Interest income and other	**4**	18	**15**	(7)
	1,670	4,632	**6,032**	13,882
Expenses				
Production expenses	**156**	1,507	**772**	3,343
General and administration	**726**	105	**1,330**	1,013
Derivatives (gain) loss	**(134)**	(6,963)	**(930)**	(6,573)
Foreign exchange (gain) loss	**(2)**	(870)	**4**	(872)
Depletion, depreciation and accretion	**9,507**	9,366	**31,672**	19,823
Interest expense	**45**	1,128	**258**	1,697
	10,298	4,273	**33,106**	18,431
Net income (loss) before tax	**(8,628)**	359	**(27,074)**	(4,549)
Future income tax expense (recovery)	**(4,300)**	(2,722)	**(13,534)**	(5,894)
Net loss from discontinued operations	**(4,328)**	3,081	**(13,540)**	1,345

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 Income (Loss) and Comprehensive Income (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 million.

18. Subsequent Events

On July 14, 2010, the Company issued an addition 2.3 million stock options at a price of $2.42 per share to staff of Chinook Energy Inc.

On July 28, 2010, the Company sold its interests in the Judy Creek property, located in Alberta, for $14.5 million, before adjustments. The proceeds from the sale were used for debt repayment of the bridge credit facility.

On August 9, 2010, the Company repaid the bridge credit facility amount outstanding of $17.8 million plus accumulated interest of $0.3 million.

CORPORATE INFORMATION

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

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

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

REGISTRAR & TRANSFER AGENT
Alliance Trust Company, Calgary, Alberta

EXECUTIVE OFFICES
Suite 700, 700 – 2nd Street S.W.
Calgary, Alberta T2P 2W1
Telephone: (403) 261-6883
Fax: (403) 266-1814
Website: www.chinookenergyinc.com

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
mcf	thousands of cubic feet
mcf/d	thousands of cubic feet per day
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.

CHINOOK ENERGY INC.

Suite 700, 700 – 2nd Street SW
Calgary, Alberta T2P 2W1
Telephone: (403) 261-6883
Fax: (403) 266-1814

Website: www.chinookenergyinc.com