Management's Discussion and Analysis

Chinook Energy Inc. | 700, 700 - 2nd Street SW Calgary, Alberta T2P 2W1 TSX:CKE

The following Management's Discussion and Analysis ("MD&A") is dated March 22, 2012 and should be read in conjunction with the consolidated financial statements and accompanying notes of Chinook Energy Inc. ("Chinook" or the "Company") as at and for years ended December 31, 2011 and 2010. The consolidated financial position and results of operations include the accounts of Chinook's wholly-owned direct and indirect subsidiaries and branch offices. Additional information for Chinook, including the Annual Information Form for the year ended December 31, 2011 ("AIF") can be found on SEDAR at www.sedar.com or at www.chinookenergyinc.com. All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except per share amounts or as otherwise noted.

Introduction to Chinook

Chinook is a Calgary-based public oil and natural gas exploration and development company with predominately natural gas and liquids assets in Western Canada and crude oil onshore and offshore in Tunisia, North Africa. Chinook, formerly Storm Ventures International Inc. ("SVI"), is incorporated under the laws of the Province of Alberta, Canada. Chinook's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "CKE". Chinook's head office and principal address is Suite 700, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

International Financial Reporting Standards ("IFRS")

On January 1, 2011, Chinook adopted IFRS. Prior to January 1, 2010, Chinook's financial information was prepared in accordance with previous Canadian generally accepted accounting principles ("Canadian GAAP"). As such, the accounting policies of Chinook have been adjusted to comply with IFRS beginning with the statement of financial position as at the date of transition to IFRS on January 1, 2010. Accordingly, Chinook has prepared its consolidated financial statements for the year ended December 31, 2011 under IFRS and has restated its consolidated financial statements for the year ended December 31, 2010 to comply with IFRS. The financial information presented in this MD&A is derived directly from Chinook's financial statements and as such certain comparative information may differ from what was originally prepared by Chinook using previous Canadian GAAP.

The adoption of IFRS has not had a material impact on Chinook's operations, strategic decisions or cash flow. However, the adoption of IFRS had an impact on Chinook's statements of financial position and statements of operations and comprehensive income (loss). Under IFRS, previously reported Canadian GAAP earnings for the three months and year ended December 31, 2010 improved by $0.7 million and $18.6 million, respectively, as shown in the following reconciliation:

($ thousands)	Three months ended December 31, 2010	Year ended December 31, 2010
Canadian GAAP net loss	$ (12,894)	$ (45,492)
IFRS net income (loss) adjustments from continuing operations	–	–
Gain on disposition of properties and assets	575	25,748
Reduction in depletion expense	3,335	10,147
Reduction in accretion expense (as included in financing expenses)	407	986
Reduction (increase) in stock-based compensation	(212)	371
Reduction (increase) in foreign exchange losses	21	(271)
Increase in exploration and evaluation expense	(2,096)	(10,682)
Increase in deferred income tax expense	(1,354)	(7,671)
Total IFRS adjustments	676	18,628
IFRS net loss	$ (12,218)	$ (26,864)

A comprehensive summary of the significant changes from Canadian GAAP to those prepared under IFRS, is presented in "International Financial Reporting Standards Adoption" as included in this MD&A. The financial information contained in the MD&A and the financial statements for the three months and year ended December 31, 2011, including the comparative information for the 2010 periods, has been prepared in accordance with IFRS and "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), as issued by the International Accounting Standards Board ("IASB") with the exception of non-GAAP measures. Chinook's significant compliant IFRS accounting policies as adopted by Chinook on January 1, 2011 are set out in this MD&A under "Summary of Accounting Policies".

2010 Business Combinations and Asset Acquisitions

On March 11, 2010, Chinook indirectly acquired all of the issued and outstanding shares of Talisman Resources (Tunisia) Limited ("TRTL") for $24.3 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, North Africa. Subsequent to the acquisition its name was changed to Storm Sahara Limited ("SSL"). The results of SSL are included in Chinook's operational and financial results from the date of acquisition.

Two significant Canadian asset acquisitions are accounted for as asset purchases, including the March 1, 2010 and June 30, 2010 acquisitions of crude oil and natural gas assets in West Central Alberta, Canada for combined costs of $220.2 million.

Through a plan of arrangement, on June 29, 2010 (the "Effective Date") SVI acquired all of the issued and outstanding securities of Iteration Energy Ltd. ("Iteration") for net consideration of $366.8 million and upon amalgamation of SVI and Iteration, formed Chinook. Iteration's assets were mainly located in the province of Alberta with the majority of its production from natural gas. Chinook's financial information is a continuance of SVI with the results of operations of Iteration included in the accounts from the date of the arrangement. The former Iteration exploration and producing assets as acquired on June 29, 2010 combined with the West Central Alberta, Canada asset purchases comprised Chinook's entrance into the Western Canadian Sedimentary Basin ("WCSB").

As a result of the 2010 business and asset acquisitions in Western Canada, Chinook's comparative period for the year ended December 31, 2010 does not include an entire period of operational and financial results from these businesses and asset acquisitions. As such, the reader is cautioned that comparison between the years ended December 31, 2011 and 2010 may not be meaningful.

2010 Discontinued Operations

Chinook's indirect wholly-owned subsidiary, Silverstone Energy Limited ("Silverstone"), combined with Bridge Energy Norge AS on March 26, 2010, whereby each company became a subsidiary of a holding company, Bridge Energy ASA ("Bridge Energy"). Chinook's wholly-owned subsidiary Storm Ventures International (BVI) Limited ("SVI (BVI)") formerly owned all of the shares of Silverstone which, at the time, contained Chinook's United Kingdom-North Sea operations. On May 10, 2010, Chinook, through SVI (BVI), distributed all of its acquired Bridge Energy shares to its shareholders such that Chinook no longer has ownership or holdings in the United Kingdom-North Sea. Chinook's former United Kingdom-North Sea operating results have been separately classified and included in net income (loss) from discontinued operations for the comparative period ended December 31, 2010.

Forward-Looking Information

Statements throughout this report that are not historical facts may be considered "forward-looking statements". Investors should read the advisory under the heading "Forward-Looking Statements" in this MD&A..

Business Overview

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

- **Canada –** includes Chinook's WCSB producing properties and undeveloped land predominately located in the Peace River and Grande Prairie areas located along the northern portion of the border between the Provinces of British Columbia and Alberta and extending down to West Central Alberta through multi zone core areas of Gilby and Brazeau.
- **Tunisia –** includes eight blocks totaling over three million gross acres, offshore in the Gulf of Hammamet within the Pelagian Basin (Cosmos, Yasmin and Hammamett Offshore) and Sud Remada, Bir Ben Tartar, Jenein, Adam and Borj El Khadra Blocks, all onshore properties located within the Ghadames Basin.
- **Corporate –** includes derivative transactions and swap option gains and losses, general and administrative costs and assets held corporately.

Segmented financial information is presented after elimination of intercompany transactions.

Financial Summary

Financial and Operating Highlights

	Three months ended December 31		Year ended December 31	
	2011	2010	**2011**	2010
OPERATING				
Production (3)				
Oil *(bbl/d)*	**4,206**	3,553	**3,736**	2,181
Natural gas Liquids *(bbl/d)*	**1,591**	1,410	**1,488**	899
Natural gas *(mcf/d)*	**55,927**	62,346	**56,262**	40,282
Average daily production *(boe/d)*	**15,119**	15,354	**14,602**	9,795
Sales Prices				
Average oil price *($/bbl)*	**$ 97.11**	$ 76.49	**$ 92.96**	$ 73.13
Average natural gas liquids price *($/bbl)*	**$ 71.23**	$ 55.93	**$ 65.98**	$ 53.33
Average natural gas price *($/mcf)*	**$ 3.31**	$ 3.47	**$ 3.75**	$ 3.75
Corporate Netbacks (1)				
Average commodity pricing *($/boe)*	**$ 47.00**	$ 38.34	**$ 44.84**	$ 36.76
Royalties *($/boe)*	**$ (6.03)**	$ (6.10)	**$ (6.72)**	$ (4.84)
Net production expenses *($/boe)* (1)	**$ (17.75)**	$ (11.29)	**$ (17.13)**	$ (11.25)
Cash G&A *($/boe)* (1)	**$ (5.13)**	$ (3.53)	**$ (2.84)**	$ (4.81)
Corporate Netbacks *($/boe)* (1)	**$ 18.10**	$ 17.42	**$ 18.15**	$ 15.86
FINANCIAL *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue, net of royalties	**$ 57,274**	47,227	**$ 202,762**	114,620
Cash flow	**23,950**	22,576	**85,004**	51,729
Per share – basic and diluted (1)	**0.11**	0.11	**0.40**	0.32
Net loss from continuing operations	**(58,077)**	(12,218)	**(63,752)**	(13,324)
Per share – basic and diluted (1)	**(0.27)**	(0.06)	**(0.30)**	(0.08)
Capital expenditures (2)	**26,343**	25,454	**119,701**	235,373
Net debt (1)	**134,900**	169,639	**134,900**	169,639
Total assets	**$ 745,403**	$ 877,017	**$ 745,403**	$ 877,017
Common Shares *(thousands)*				
Weighted average during period – basic and diluted	**214,188**	214,188	**214,188**	162,003
Outstanding at period end	**214,188**	214,188	**214,188**	214,188

(1) Cash flow, net debt, corporate netback, net production expense and cash G & A are non-GAAP measures as defined throughout this MD&A. These terms do not have any standardized meanings as prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies.

(2) Excludes capitalized costs relating to foreign currency translation incurred during the period and decommissioning obligation.

(3) March and June 2010, include acquisitions of Canadian and Tunisian producing assets from the corporate acquisition of Iteration and SSL from the date of acquisition

Financial Highlights

Petroleum and natural gas revenue, net of royalties, of $57.3 million and $202.8 million during the three months and year ended December 31, 2011, respectively, increased relative to the same periods in 2010, mainly due to higher crude oil and natural gas liquids pricing. Chinook's average realized commodity prices of $47.00 per boe and $44.84 per boe during the three months and year ended December 31, 2011, reflect increases of 23% and 22% relative to prices realized during the same periods in 2010. These increases were as a result of improvements in crude oil and natural gas liquids benchmark pricing and Chinook's commodities sales ratio becoming more petroleum weighted in comparison to the same periods in the previous year.

As compared to the third quarter of 2011, petroleum and natural gas revenue, net of royalties increased 6% in the fourth quarter of 2011. This was due to higher petroleum sales volumes and higher average commodity pricing. Petroleum sales volumes during the fourth quarter of 2011 averaged 5,797 barrels per day, a 15% increase relative to the previous quarter. Commodity pricing increased to $47.00 per boe during the fourth quarter of 2011 relative to the $45.63 per boe realized during the previous quarter, primarily as a result of improvements in crude oil and natural gas liquids benchmark pricing.

Improved petroleum and natural gas revenues, net of royalties, resulted in higher cash flow for 2011 than the previous year. In addition to higher commodity sales volumes and pricing, the increase in cash flow during 2011, was positively affected by higher processing & gathering revenue, higher realized derivative transaction gains and certain lower cash expenses. Increased cash flow resulted in higher cash flow per share on a basic and diluted share basis of $0.40 for the year ended December 31, 2011 as compared to $0.32 during 2010. Cash flow of $24.0 million for the three months ended December 31, 2011 also increased relative to the same quarter during 2010. Improved petroleum revenue, higher realized derivative transaction gains and certain lower cash expenses all contributed to cash flow growth. Cash flow per share of $0.11 was unaffected by the increase in cash flow during the three months ended December 31, 2011, as compared to the same quarter in 2010.

Net losses of $58.1 million and $63.8 million for the three months and year ended December 31, 2011, increased relative to the net losses from continuing operations during the same periods in 2010. This increase is mainly due to certain increased non-cash expenses, such as impairment of developed & producing assets, depletion, depreciation and amortization and exploration & evaluation expenses. As compared to the net loss of $3.5 million during the third quarter in 2011, the net loss has increased in the fourth quarter of 2011 as mostly attributable to the aforementioned reasons.

Operation Highlights

Average production volumes of 14,602 boe per day during the year ended December 31, 2011, was an increase of 49% relative to the volumes reported in 2010. This increase was mostly due to the corporate acquisitions of SSL and Iteration and the acquisition of predominately natural gas assets in West Central Alberta. In addition, Chinook's Canadian and Tunisian drilling programs during 2011 and second half of 2010 contributed to increased production volumes.

Chinook's Tunisian production volumes of 1,587 boe per day during the three months ended December 31, 2011, increased by 135% relative to the same quarter during 2010. This primarily reflects the production from Chinook's recent Ordovician oil discovery located on its Bir Ben Tartar Concession. Chinook's Tunisian production increase was offset by decreases in its Canadian production due to production declines and its divestiture program of non-core producing properties. For these reasons, Chinook's Canadian production volumes of 13,532 boe per day for the three months ended December 31, 2011, represented a decrease of 8% relative the same quarter during 2010.

Capital expenditures of $119.7 million for the year ended December 31, 2011 decreased relative to capital expenditures during 2010. Expenditures during 2010 were heavily weighted towards Chinook's entrance into Canadian and Tunisian petroleum operations. Expenditures during 2011 represented organic growth.

For the three months ended December 31, 2011, Chinook's drilling and operating activities focused on the following Canadian and Tunisian projects in its core areas:

Canada

Peace River Arch District –1 (0.75 net) drill and completion

Chinook finished drilling its 74.55% working interest ("WI") Red Creek 13-5-86-21W6 Doig 1200m horizontal ("Hz") well in the fourth quarter of 2011, with cores having been obtained from the Doig and Montney zones. Based on core analysis and offset well performance, completion of the Doig Hz leg and further drilling of seismically defined locations have been deferred. The Montney core analysis, and subsequent petrophysical modeling, suggests that there is up to a 56 bcf per section of original gas in place in the Upper Montney zone at Red Creek. Chinook owns 13 gross sections (9.75 net) of Montney rights in this area. Chinook completed its 74.55% WI Birley D-84-L well in the Montney with encouraging results. The well tested at flow rates and pressures comparable to other offset verticals. Further analysis of results and offset operations is ongoing. There has also recently been significant Montney land sale activity immediately offsetting Chinook's Red Creek acreage, with prices ranging from $1,250 to $2,500 per acre.

In addition, Chinook's 74.55% working interest in a previously drilled Farmington 8-36-80-11W6 Hz Montney well was placed on production in October, 2011. This well was producing 1.1 mmcf per day plus associated liquids at year end.

Plains District

The Company completed the equipping of several Winmore locations drilled in the third quarter of 2011 and commenced production. Chinook's eight well 2011 drilling program was 100% successful with year end production from 12 producing Hz wells of 432 barrels of oil per day gross ("BOPD") (232 BOPD net). Another 16 Hz drilling locations have been identified on Chinook's Winmore acreage, with drilling activity expected to commence in the second quarter of 2012.

West Central District – 1 (1.0 net) drill and completion

Chinook drilled, completed and put its Gilby 5-31 well (100% WI) on production in October, 2011. At year end, the well was producing 663 barrels of oil equivalent per day from the Mannville Formation comprised of 3.3 mmcf per day, 14 BOPD and 30 barrels of natural gas liquids per mmcf of natural gas produced. Several follow up drilling locations have been identified and are planned for 2012. Elsewhere, Chinook farmed out 50% WI in four sections of Duvernay rights at Kaybob to an industry partner, who then drilled a 3500 metre vertical Duvernay well at no cost to Chinook. The well was then plugged back and whipped to drill a Hz Montney oil test, with Chinook participating for 50% interest (37.5% net). Chinook pooled two sections (37.5% WI) of Montney rights with the partner and holds 74.55% WI in three additional sections. The Hz well finished drilling and was completed during the first quarter of 2012. There could be 15 to 25 Hz Montney oil locations on Chinook acreage, along with yet to be defined Duvernay drilling upside. Notably, within three miles of Chinook's acreage, industry competitors reported production of 7 mmcf per day with 658 barrels of condensate per day from recently drilled Hz Duvernay wells, and have licensed three more Hz Duvernay wells.

Grande Prairie District – 6 (3.6 net) drills and completions

Chinook drilled four wells in the Knopcik area during the fourth quarter of 2011. This completed a farm-in drilling commitment in the area and earned Chinook an interest in thirteen sections of land, with an option to earn numerous additional sections via further drilling that is planned for 2012. All four wells were completed, with two brought on production late in the fourth quarter of 2011 at a combined one month average rate of 1,169 boe per day (871 boe per day net), including gross oil production of 236 BOPD. One other well was completed but tie-in was deferred due to gas prices, while the fourth well is waiting on stimulation and tie-in until after breakup. Also of note, Chinook participated in its first two Dunvegan Hz oil tests during the fourth quarter of 2011. The Wapiti 13-6 well (37.5% WI) was completed and tied-in very late in the fourth quarter of 2011 while the Karr 15-18 well (37.5% WI) was completed and tied-in in January 2012. Both are producing oil wells and have set up numerous follow-up Hz drilling locations. Chinook owns 15 gross sections (nine net) currently identified as highly prospective for Hz Dunvegan oil development. This could result in 45 to 60 gross drilling locations. Chinook has drilled three more of these sections during the first quarter of 2012.

Tunisia

Bir Ben Tartar Concession – 2 (1.7 net) drills

During the fourth quarter of 2011, two operated wells, TT7 and TT8, were drilled, and completed including fracture stimulation. TT5 and TT6, which were drilled in the third quarter, were also completed. All four wells have now been brought on production. For the fourth quarter of 2011, net production from this Concession was 1,144 barrels per day from six producing wells. During 2012, Chinook plans workovers of TT2 with the addition of artificial lift, TT4 with an additional frac and the drilling of 10 to 12 development wells.

Sud Remada Permit

Chinook continues its on-going planning for the 2012 exploration program. In 2012 one Ordovician exploration well called BJA-2 was spud on March 20, 2012. Drilling is ongoing. Additional seismic data may be acquired late in the year.

Jenein

The interpretation and evaluation of workover options for the suspended JC#1 well are ongoing. Initial completion results were not consistent with test results and a comparison of the Acacus target interval with the same interval in productive wells to the north and the south warrants further investigation.

Hammamet

Chinook shot a 300 km² marine seismic program using a seismic vessel in the Gulf of Hammamet which met its 2011 work commitment on this off-shore exploration permit. Approximately 80 km² was shot over a northern extension of the Tazerka field and merged with the existing 3D seismic data base. The remaining 220 km² was shot over the Kasserine prospect further to the south on the Block to explore the potential of the Miocene Birsa, Ain Grab and the Cretaceous Abiod Formations. Seismic interpretation is expected to be completed by mid 2012, with the objective of defining a drillable location in support of an extension commitment by mid to late 2012.

Adam – 1 (0.05 net) drills

The fourth quarter of 2011 saw the drilling of the Hawa 4 non-operated well. The well was drilled and completed in the Acacus level and was brought on production late in the fourth quarter of 2011. The Nessma-1 non-operated exploration well was spud on the Concession late in the fourth quarter 2011 with drilling and completion expected to finish in 2012. During 2012, the operator plans to drill two development wells and one exploration well on this Concession. Work is ongoing to install artificial lift in a number of legacy wells to reactivate or reduce the flare volumes by minimizing the use of auto-gas lift. Work is proceeding on the engineering and planning of the sales terminal and gas processing facility which is forecast to start shipping gas in 2015.

Borj El Khadra

The ENI operated Bochra-1 exploration well was tested in the second quarter of 2011 and proved productive from the Ordovician, Tannezuft and Acacus levels. The well is currently suspended as ENI is in the final stages of a concession application, which includes the Bochra-1 well, in addition to the Abir and Nakhil wells, for the northern portion of the Borj El Khadra permit. The operator has submitted an application to extend the permit for an additional two years to 2015 based on acquiring 1,250 km^2 of 3D seismic and the drilling of two additional wells on the permit. The seismic acquisition and at least one well are planned for 2012.

Yasmin

A Plan of Development was submitted to the Tunisian authorities on June 20, 2011.

Cosmos

Seismic reprocessing, construction of a dynamic reservoir model and Front End Engineering Design ("FEED") is in progress and should be complete in mid 2012. Chinook has entered into an agreement with a partner whereby the partner has the option to participate in the development of this Concession located offshore Tunisia. The partner's final investment decision is anticipated upon completion of the FEED. See "Joint Venture Arrangement" for further details.

Results of Operations

Petroleum and Natural Gas Production and Sales Volumes

Three months ended December 31	2011				2010			
	Oil *(bbl/d)*	Natural Gas Liquids *(bbl/d)*	Natural Gas *(mcf/d)*	Total *(boe/d)*	Oil *(bbl/d)*	Natural Gas Liquids *(bbl/d)*	Natural Gas *(mcf/d)*	Total *(boe/d)*
Production								
Canada	**2,757**	**1,591**	**55,099**	**13,532**	3,031	1,410	61,419	14,678
Tunisia	**1,449**	**–**	**828**	**1,587**	522	–	927	676
Total	**4,206**	**1,591**	**55,927**	**15,119**	3,553	1,410	62,346	15,374
Sales								
Canada	**2,757**	**1,591**	**55,099**	**13,532**	3,031	1,410	61,419	14,678
Tunisia	**1,525**	**–**	**828**	**1,663**	1,094	–	927	1,249
Total	**4,282**	**1,591**	**55,927**	**15,195**	4,125	1,410	62,346	15,927

Year ended December 31	2011				2010			
	Oil *(bbl/d)*	Natural Gas Liquids *(bbl/d)*	Natural Gas *(mcf/d)*	Total *(boe/d)*	Oil *(bbl/d)*	Natural Gas Liquids *(bbl/d)*	Natural Gas *(mcf/d)*	Total *(boe/d)*
Production								
Canada	**2,773**	**1,488**	**55,460**	**13,505**	1,744	899	39,614	9,247
Tunisia	**963**	**–**	**802**	**1,097**	437	–	668	548
Total	**3,736**	**1,488**	**56,262**	**14,602**	2,181	899	40,282	9,795
Sales								
Canada	**2,773**	**1,488**	**55,460**	**13,505**	1,744	899	39,614	9,247
Tunisia	**931**	**–**	**802**	**1,065**	481	–	668	592
Total	**3,704**	**1,488**	**56,262**	**14,570**	2,225	899	40,281	9,839

Canadian Production and Sales Volumes

The Canadian operating segment's production and sales volumes for the year ended December 31, 2011, increased to 13,505 boe per day, an increase of 46% from the volumes achieved in 2010. Chinook's corporate acquisition of Iteration and asset acquisitions during 2010 were mainly responsible for the increase. The Canadian operating segment's production and sales volumes for the three months ended December 31, 2011 is lower than the same quarter of 2010 mostly due to natural production declines and a loss of production from non-core property dispositions. Production for the three months and year ended December 31, 2011, was improved by drilling programs primarily on Chinook's Knopcik, Red Creek, Farmington, Gilby and Winmore properties. Chinook's Canadian operating segment's drilling activity has focused on improving its commodities mix in favor of liquid volumes. Liquids increased to approximately 32% and 31% of total boe volumes for the three months and year ended December 31, 2011 compared to approximately 30% and 28% in the previous year's comparative periods.

The Canadian operating segment's production and sales volumes during the fourth quarter of 2011 increased from 13,130 boe per day reported during the third quarter of 2011. This increase in production and sales volumes was mostly attributable to Chinook's 2011 drilling program and the third quarter's operational issues including the temporary shut-in of certain wells resulting from third party facility turnarounds where a portion of Chinook's production is processed.

Tunisian Production and Sales Volumes

The Tunisian operating segment's production volumes for the three months and year ended December 31, 2011, increased to 1,587 boe per day and 1,097 boe per day, respectively, increases of 135% and 100% from the volumes achieved in the same periods in 2010. This Tunisian production volume increase is mainly due to the June 2011 development of Chinook's oil discovery on its Bir Ben Tartar Concession. Chinook's Tunisian operating segment's production increase for the year ended December 31, 2011, relative to the same period in 2010, was also a result of the March 2010 acquisition of an additional 15% working interest in its Sud Remada permit and the addition of a 5% interest in the producing Adam Concession.

The Tunisian operating segment's production volumes during the fourth quarter of 2011 increased 21% relative to the third quarter of 2011, primarily as a result of two new Ordovician oil wells (TT5 and TT6) which commenced production during the fourth quarter of 2011. The TT3 and TT4 wells commenced production in June 2011 and were the primary contributors to a doubling of the Tunisian operating segment's production from the first two quarters to the last two quarters of 2011.

The difference between Chinook's Tunisian production and sales volumes results from crude oil wellhead production being measured in the field versus revenue recognition at the point when crude is loaded onto a tanker after first being transported and stored at a terminal facility at the port in La Skhira. The portion of crude oil production remaining as stored in Chinook's tanks at each reporting date is reported as inventory. For the three months ended December 31, 2011 there was a decrease of Chinook's Tunisian crude oil inventory of approximately 7,000 barrels with sales above production of a like amount. On a 2011 year-to-date basis, there was an increase of crude oil inventory of approximately 11,700 barrels of crude oil production in excess of sales. After giving effect to the change in inventoried crude oil, Chinook's Tunisian sales volumes of 1,663 boe per day and 1,065 boe per day for the three months and year ended December 31, 2011, respectively, increased relative to the same periods in 2010.

Petroleum and Natural Gas Revenue and Realized Pricing

Three months ended December 31	2011			2010		
($ thousands, except per unit amounts)	**Canada**	**Tunisia**	**Total**	Canada	Tunisia	Total
Oil sales	**$ 22,929**	**$ 15,325**	**$ 38,254**	$ 20,145	$ 8,882	$ 29,027
$/bbl	**90.40**	**109.24**	**97.11**	72.25	88.23	76.49
Natural gas liquids sales	**$ 10,425**	**$ –**	**$ 10,425**	$ 7,254	$ –	$ 7,254
$/bbl	**71.23**	**–**	**71.23**	55.93	–	55.93
Natural gas sales	**$ 15,823**	**$ 1,196**	**$ 17,019**	$ 18,915	$ 975	$ 19,890
$/mcf	**3.12**	**15.70**	**3.31**	3.35	11.43	3.47
Petroleum and natural gas revenue	**$ 49,177**	**$ 16,521**	**$ 65,698**	$ 46,314	$ 9,857	$ 56,171
$/boe	**39.50**	**107.99**	**47.00**	34.30	85.80	38.34

Year ended December 31	2011			2010		
($ thousands, except per unit amounts)	**Canada**	**Tunisia**	**Total**	Canada	Tunisia	Total
Oil sales	**$ 88,211**	**$ 37,471**	**$ 125,682**	$ 44,927	$ 14,477	$ 59,404
$/bbl	**87.16**	**110.22**	**92.96**	70.55	82.44	73.13
Natural gas liquids sales	**$ 35,833**	**$ –**	**$ 35,833**	$ 17,506	$ –	$ 17,506
$/bbl	**65.98**	**–**	**65.98**	53.31	–	53.33
Natural gas sales	**$ 72,709**	**$ 4,258**	**$ 76,967**	$ 52,357	$ 2,743	$ 55,100
$/mcf	**3.59**	**14.55**	**3.75**	3.61	11.26	3.75
Petroleum and natural gas revenue	**$ 196,753**	**$ 41,729**	**$ 238,482**	$ 114,790	$ 17,220	$ 132,010
$/boe	**39.91**	**107.34**	**44.84**	34.01	79.64	36.76

Petroleum and natural gas revenue of $65.7 million and $238.5 million during the three months and year ended December 31, 2011, respectively, increased $9.5 million and $106.4 million from the same periods in 2010. These increases were mainly due to higher Tunisian sales volumes and an increase in Chinook's overall realized weighted average price per boe. Another factor for the year-over-year increase included higher Canadian sales volumes.

Canadian Petroleum and Natural Gas Revenues and Prices

Chinook's Canadian petroleum and natural gas revenues for the three months and year ended December 31, 2011, relative to the same periods in 2010, were higher as a result of improved Canadian petroleum prices in addition to a change in the Canadian commodities mix ratio in favour of crude oil, which is priced higher than natural gas relative to their equivalent heating values. In addition, Chinook's Canadian petroleum and natural gas revenue for the year ended December 31, 2011, relative to the same period in 2010, was higher as a result of increased sales volumes.

Tunisian Petroleum and Natural Gas Revenues and Prices

Chinook's Tunisian petroleum and natural gas revenues for the three months and year ended December 31, 2011, relative to the same periods in 2010, were higher as a result of increased sales volumes and realized prices amongst Chinook's Tunisian commodities.

Benchmark Prices

	Three months ended December 31		Year ended December 31	
	2011	2010	**2011**	2010
Oil				
Edmonton par *($/bbl)*	**$ 97.44**	$ 80.33	**$ 95.10**	$ 77.84
Brent *($US/bbl)*	**111.26**	86.54	**109.40**	80.06
Natural gas liquids				
Conway, KS *($US/bbl)*	**54.37**	50.74	**56.79**	47.11
Natural gas				
AECO *($/mcf)*	**$ 3.17**	$ 3.64	**$ 3.62**	$ 4.00

Crude Oil Pricing

Chinook's average crude oil realized price of $97.11 per barrel and $92.96 per barrel during the three months and year ended December 31, 2011, respectively, increased 27% relative to the same periods in 2010. Chinook's Canadian crude oil production is sold at prices based on the Edmonton par benchmark postings and the Tunisian crude oil production is sold at the three day average price for Brent oil quotations after being loaded onto a shipping tanker. Chinook's Tunisian crude oil, which has a low relative density, has historically sold with a minimal price differential relative to the Brent benchmark. The Edmonton par and Brent benchmarks for the three months and year ended December 31, 2011 improved relative to the same periods in 2010.

Natural Gas Liquids Pricing

During 2011, Chinook's Canadian natural gas liquids pricing was benchmarked to the market hub pricing in Conway, Kansas or West Texas Intermediate ("WTI"), depending on the type of condensate sold. Generally, for the three months and year ended December 31, 2011, the Conway, Kansas market hub pricing was on average higher than the applicable benchmark prices in the same periods of 2010. Chinook's realized natural gas liquids pricing for the three months and year ended December 31, 2011 was higher than the applicable benchmark prices as Chinook's gas liquids had a higher ratio of condensates resulting in a more favorable price differential.

Natural Gas Pricing

Consistent with Chinook's Canadian realized natural gas price of $3.12 per mcf and $3.59 per mcf for the three months and year ended December 31, 2011 being lower than the same periods in 2010, the AECO benchmark price decreased during the same periods during 2010.

Managing Commodity Price Risk

To mitigate commodity price risk, Chinook's management, upon approval of the Board of Directors, has entered into financial derivative contracts which assist Chinook in better managing its future cash flows as it knows within a certain commodities price range what it will receive on a portion of its crude oil and natural gas sales volumes. Refer to "Commodity Price Risk Management Contracts and Swap Option" for a further discussion on Chinook's financial derivative contracts. The purpose of Chinook's hedging program is to mitigate the direct commodity price risks inherent in the oil and natural gas business. Chinook is limited by adherence to a Board approved hedging policy which determines which commodities can be hedged, the notional volume of hedged production, the reference indexed price and terms of hedges.

Royalties

Three months ended December 31		**2011**			2010	
($ thousands, except where noted)	**Canada**	**Tunisia**	**Total**	Canada	Tunisia	Total
Royalties	**$ 7,943**	**$ 482**	**$ 8,425**	$ 8,760	$ 184	$ 8,944
Per sales *($/boe)*	**$ 6.38**	**$ 3.15**	**$ 6.03**	$ 6.49	$ 1.60	$ 6.10
Percent of Revenue *(%)*	**16**	**3**	**13**	19	2	16

Year ended December 31		**2011**			2010	
($ thousands, except where noted)	**Canada**	**Tunisia**	**Total**	Canada	Tunisia	Total
Royalties	**$ 33,504**	**$ 2,215**	**$ 35,719**	$ 16,450	$ 940	$ 17,390
Per sales *($/boe)*	**$ 6.80**	**$ 5.70**	**$ 6.72**	$ 4.87	$ 4.35	$ 4.84
Percent of Revenue *(%)*	**17**	**5**	**15**	14	5	13

Despite higher sales volumes, royalties of $8.4 million for the three months ended December 31, 2011, decreased from the same quarter of 2010 as Chinook recognized a true-up of its Canadian gas cost allowance recovery of $1.7 million. This gas cost allowance recovery had the effect of lowering the Canadian operation's royalties per boe and the royalties as a percentage of revenue as reported in the fourth quarter of 2011 relative to the same quarter of 2010. Within the Canadian operations, Chinook is subject to Crown royalties, payable to the provincial governments and freehold and gross overriding royalties payable to individuals and corporations that own the mineral rights from which production is obtained.

Primarily as a result of increased Tunisian crude oil pricing on the Adam Concession's sales volumes, royalties of $0.5 million ($3.15 per boe) during the three months ended December 31, 2011, were higher as compared to the same quarter in 2010. The Adam Concession is under a joint venture contract where there is a royalty paid on crude oil and natural gas production based on a sliding scale calculation with royalty rates of between 2% to 15%. Presently Chinook is paying an average royalty rate on its Adam Concession sales of 9% for natural gas and 7% for crude oil.

During June 2011, Chinook's Tunisian operations commenced production from its Bir Ben Tartar Concession which is governed by a production sharing contract with ETAP, the Tunisian national oil company. Under this contract, Chinook receives a share of the production under a sliding scale formula. The calculation includes a cost oil component which enables Chinook to recover its costs and a profit sharing component whereby profits are split between Chinook and ETAP. Currently Chinook receives an 86% working interest in approximately 62% of the production as cost and profit oil with ETAP receiving 38% and our joint venture partner receiving the remainder of the production. ETAP is responsible for paying all of the royalties and taxes out of its share of production. As Chinook does not pay royalties on its Bir Ben Tartar Concession's production, and given the current reporting periods' increase in this Concession's sales volumes, in comparison to the same periods in 2010, the overall royalty rate in Tunisia, as a percentage of revenue decreased to 3% and 5% during the three months and year ended December 31, 2011, respectively. The overall royalty rate for Chinook's Tunisian operations for the three months and year ended December 31, 2011 were comparable to the same periods in 2010.

Primarily as a result of increased sales volumes and improved realized petroleum pricing, royalties of $35.7 million during the year ended December 31, 2011, increased from the same period in 2010. Also, as a result of increased realized petroleum pricing, royalties per boe increased to $6.72 per boe from $4.84 per boe for the year ended December 31, 2011 relative to 2010.

Production and Operating Expense

Three months ended December 31	2011			2010		
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Production and operating expense	**$ 24,296**	**$ 3,201**	**$ 27,497**	$ 16,618	$ 1,172	$ 17,790
Less:						
Processing and gathering income	**(2,694)**	**–**	**(2,694)**	(1,254)	–	(1,254)
Net production and operating expense [1]	**$ 21,602**	**$ 3,201**	**$ 24,803**	$ 15,365	$ 1,172	$ 16,536
Per sales net production and operating expenses *($/boe)* [1]	**$ 17.36**	**$ 20.92**	**$ 17.75**	$ 11.38	$ 10.20	$ 11.29
Per sales production and operating expenses *($/boe)*	**$ 19.52**	**$ 20.92**	**$ 19.67**	$ 12.31	$ 10.20	$ 12.14

Year ended December 31	2011			2010		
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Production and operating expense	**$ 92,093**	**$ 7,483**	**$ 99,576**	$ 42,018	$ 3,327	$ 45,345
Less:						
Processing and gathering income	**(8,468)**	**–**	**(8,468)**	(5,338)	–	(5,338)
Net production and operating expense [1]	**83,625**	**7,483**	**91,108**	36,681	3,327	40,007
Per sales net production and operating expenses *($/boe)* [1]	**$ 16.96**	**$ 19.25**	**$ 17.13**	$ 10.99	$ 15.39	$ 11.25
Per sales production and operating expenses *($/boe)*	**$ 18.68**	**$ 19.25**	**$ 18.72**	$ 12.43	$ 15.39	$ 12.63

(1) Net production and operating expense and net production and operating expense per boe are non-GAAP measures as calculated as production and operating expense less processing and gathering income. Management use the net production and operating expense non-GAAP measure to determine the current period's cash cost of operating expenses whereas on a boe basis this non-GAAP measure is also used as a benchmark in operational performance against prior periods on a comparable basis. These terms do not have any standardized meanings as prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies.

Operating costs increased as a result of increased sales volumes, scheduled Canadian facility turnaround costs and recompletions of certain Western Canadian Sedimentary Basin ("WCSB") wells for the year ended December 31, 2011 relative to 2010. This increase was partially mitigated through improved processing and gathering income, viewed by management as a recovery of Chinook's operating expenses, for the year ended December 31, 2011 as compared to 2010. Improved processing and gathering income was due to higher third party volumes passing through Chinook's facilities and pipelines.

On a boe basis, Chinook's net production and operating expenses increased to $17.13 per boe during the year ended December 31, 2011 relative to 2010. This increase is partially attributable to scheduled Canadian facility turnarounds and recompletions of certain WCSB wells. The Tunisian increase to $7.5 million of net production and operating expense for the year ended December 31, 2011, relative to 2010, is attributable to increased sales volumes from Chinook's Bir Ben Tartar Concession which commenced production in June 2011. This Concession's sales volumes had the effect of increasing the Tunisian net production and operating expense for the year ended December 31, 2011, relative to 2010, as under the terms of this Concession's profit sharing contract, Chinook pays an 86% working interest of the operating expense at this development stage and receives the equivalent working interest in approximately 53% of the revenue. This profit sharing contract results in a higher reported operating expense on a boe basis than would otherwise be generated by an operation with similar efficiencies. Chinook forecasts improved operating costs on a boe basis for the Bir Ben Tartar production as volumes increase, start-up costs are no longer a factor and the planned facility and sales line come on stream.

Production and operating expense increased to $27.5 million for the fourth quarter of 2011, from the same quarter in 2010, mostly due to increased sales volumes and higher than anticipated Canadian non-operated expenses, including prior reported periods. This increase was also due to higher Canadian clean oil hauling charges primarily associated with the transport of Chinook's Rainbow production which would have otherwise been shut-in due to a third party pipeline failure as repaired during the fourth quarter of 2011. As part of the ongoing effort to reduce Canadian operating costs, facilities are scheduled to be constructed in Winmore and Valhalla in the first half of 2012 to reduce transportation and processing costs.

Processing and gathering income increased to $2.7 million for the fourth quarter of 2011, as compared to the same quarter of 2010, primarily due to prior period corrections to recognize increased third party volumes processed and gathered through Chinook's operations. The combination of higher processing and gathering income and higher operating expenses resulted in an increase to net production and operating expenses per boe for the fourth quarter of 2011 as compared to the same quarter of 2010.

Net production and operating expense during the fourth quarter of 2011 decreased relative to the $27.0 million reported during the third quarter of 2011 when Chinook experienced higher than anticipated Canadian non-operated expenses related to prior reported periods. In addition, Chinook recognized during this prior quarter higher Canadian clean oil hauling charges and a BC Carbon Tax.

General & Administrative Expense ("G&A")

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	**2011**	2010	**2011**	2010
Stock-based compensation	**$ 1,517**	$ 1,921	**$ 5,647**	$ 5,862
Rent and general office costs	**1,492**	1,767	**6,677**	4,187
Staffing, net of capitalized costs and recoveries	**4,116**	1,096	**3,451**	4,785
Legal expenses	**(7)**	227	**692**	2,003
Accounting and audit costs	**221**	763	**867**	1,085
Corporate expenses	**1,084**	1,313	**2,370**	5,227
G&A	**$ 8,423**	$ 7,085	**$ 19,704**	$ 23,149
Per sales *($/boe)*	**$ 6.03**	$ 4.84	**$ 3.71**	$ 6.45
Cash G & A (1)	**$ 7,170**	$ 5,164	**$ 15,114**	$ 17,287
Per sales *($/boe)*	**$ 5.13**	$ 3.53	**$ 2.84**	$ 4.81

(1) Cash G & A is a non-GAAP measure and is calculated as G&A less stock-based compensation and the amortization of the deferred lease liability. Management use this non-GAAP measure to assist them in understanding the current period's cash cost of G&A expenses.

G&A expenses of $19.7 million for the year ended December 31, 2011, decreased from those during 2010. This decrease in G&A expenses is attributable to lower expenses such as legal, corporate and staffing, net of capitalized costs and recoveries. Legal and corporate expenses decreased for the year ended December 31, 2011, relative to 2010, as a result of comparable period costs associated to the 2010 Iteration and SSL corporate acquisitions, in addition to 2010 corporation stock exchange listing and financing costs. Staffing recoveries for the year ended December 31, 2011 of $10.4 million further decreased G&A expenses. Despite increased staffing costs associated with the growth in the Canadian and Tunisian producing assets, Chinook recovered staffing costs for managing producing and exploratory assets for its partners. Capitalized G&A, for the portion of Chinook's staff costs that are directly associated to capital projects, of $2.1 million for the year ended December 31, 2011, is comparable to $2.5 million during 2010. Partially offsetting the decrease in G&A for the year ended December 31, 2011, as compared to 2010, were increased costs related to rent and general office expenses resulting from the formation of Chinook in June 2010.

G&A expenses of $8.4 million for the three months ended December 31, 2011, increased from the same period of 2010. This increase in G&A expenses is attributable to an increase in staffing costs, net of capitalized costs and recoveries, where Chinook lowered its prior period staffing cost recoveries for managing producing and exploratory assets in addition to recognizing a staff bonus. For the three months and year ended December 31, 2011, as compared to the same periods in 2010, stock-based compensation decreased as did the number of granted stock options in addition to a lower assigned fair value per granted option.

Corporate Netbacks

The following tables outline the corporate netbacks [1] by country and on a consolidated basis:

Three months ended December 31	2011			2010		
	Canada [2]	Tunisia	Total	Canada [2]	Tunisia	Total
Per sales *($/boe)*						
Realized sales price	**$ 39.50**	**$ 107.99**	**$ 47.00**	$ 34.30	$ 85.80	$ 38.34
Less:						
Royalties	**(6.38)**	**(3.15)**	**(6.03)**	(6.49)	(1.60)	(6.10)
Net production expense [3]	**(17.36)**	**(20.92)**	**(17.75)**	(11.38)	(10.20)	(11.29)
Cash G & A [4]	**(5.60)**	**(1.28)**	**(5.13)**	(3.61)	(2.53)	(3.53)
Corporate netback	**$ 10.17**	**$ 82.64**	**$ 18.10**	$ 12.82	$ 71.47	$ 17.42

Year ended December 31	2011			2010		
	Canada [2]	Tunisia	Total	Canada [2]	Tunisia	Total
Per sales *($/boe)*						
Realized sales price	**$ 39.91**	**$ 107.34**	**$ 44.84**	$ 34.01	$ 79.64	$ 36.76
Less:						
Royalties	**(6.80)**	**(5.70)**	**(6.72)**	(4.87)	(4.35)	(4.84)
Net production expense [3]	**(16.96)**	**(19.25)**	**(17.13)**	(10.99)	(15.39)	(11.25)
Cash G&A [4]	**(2.83)**	**(3.03)**	**(2.84)**	(4.53)	(9.08)	(4.81)
Corporate netback	**$ 13.32**	**$ 79.36**	**$ 18.15**	$ 13.62	$ 50.83	$ 15.86

(1) Corporate netback is a non-GAAP measure and is calculated as a period's sales of petroleum and natural gas, net of royalties less net production and operating expenses and cash G&A as divided by the period's sales volumes. Management use this non-GAAP measure to assist them in understanding Chinook's profitability relative to current commodity prices and it provides an analysis tool to benchmark changes in operational performance against prior periods on a comparable basis.

(2) Canada also includes all corporate G&A expenses associated with the head office.

(3) See Production and operating expense table where this non-GAAP measure is defined.

(4) See G&A expense table where this non-GAAP measure is defined.

Chinook's corporate netback for the year ended December 31, 2011 increased to $18.15 per boe from that during 2010, and represented 40% of the realized sales prices. This increase in the per boe corporate netback primarily resulted from Chinook's higher realized weighted average commodity price and lower cash G&A per boe. Chinook's corporate netback for the fourth quarter of 2011 also increased 4% from the same quarter in 2010 resulting from a higher realized weighted average commodity price as partially offset by increases, on a boe basis, in net production expenses and cash G&A.

Risk Management Contracts Losses (Gains)

	Three months ended December 31		Year ended December 31	
($ thousands)	**2011**	2010	**2011**	2010
Realized loss (gain) on swap and collar commodity price contracts	**$ 98**	$ (1,782)	**$ 821**	$ (7,354)
Unrealized loss on swap and collar commodity price contracts and swap option	**10,036**	4,819	**3,965**	3,906
	$ 10,134	$ 3,037	**$ 4,786**	$ (3,448)

Swap and collar commodity price contracts and swap option losses for the three months and year ended December 31, 2011, which include a non-cash component, increased as compared to the same periods in 2010. Swap and collar commodity price contracts' realized losses for the three months and year ended December 31, 2011, decreased Chinook's cash flows, relative to the same periods in 2010. For the three months and year ended December 31, 2011, Chinook had contracted its crude oil price on approximately 36% and 40% of its notional crude oil production volumes, respectively, in addition to contracting its natural gas price on 9% and 10% of its notional natural gas production.

With Chinook selling a notional quantity of its natural gas production at prices of $5.00 per GJ and $6.00 per GJ on its derivative natural gas contracts relative to the average realized Canadian natural gas sales price of $3.59 per mcf for the year ended December 31, 2011, Chinook realized a gain of $4.2 million. After including the natural gas derivative contracts realized gain, Chinook received a natural gas price of $3.95 per mcf for the year ended December 31, 2011 as compared to its reported sales price of $3.75 per mcf.

This realized gain on the natural gas derivative contracts was offset by a realized loss of $5.0 million for the year ended December 31, 2011 on Chinook's derivative crude oil contracts where the counterparty buys a notional quantity of Chinook's crude oil production at either USD$85.70 per barrel or USD$85.80 per barrel as compared to the $87.16 per barrel realized Canadian crude oil sales price. After including the crude oil derivative contracts realized loss, Chinook received a crude oil price of $88.47 per barrel as compared to its reported sales price of $92.96 per barrel.

Net Financing Expenses

	Three months ended December 31		Year ended December 31	
($ thousands)	**2011**	2010	**2011**	2010
Interest on bank debt	**$ 1,521**	$ 2,153	**$ 7,158**	$ 4,891
Interest earned on bank deposits	**(62)**	(4)	**(87)**	(89)
Finance charges (recoveries) and fees	**299**	197	**919**	6,772
Accretion of decommissioning obligation	**427**	998	**3,269**	2,675
Net financing expenses	**$ 2,185**	$ 3,344	**$ 11,259**	$ 14,249

Net finance expenses for the three months and year ended December 31, 2011 decreased from the same periods of 2010.

This decrease in comparative quarterly net finance expenses was attributable to a lower effective interest rate and lower average outstanding debt during the current reporting periods. The effective interest on bank debt was 4.3% for the year ended December 31, 2011, as compared to 4.9% during 2010. The outstanding revolving term credit facility accrues interest at either prime plus a margin or at Banker's Acceptance rates plus a margin, depending on the option selected by Chinook.

The decrease in net finance expenses for the year ended December 31, 2011, as compared to 2010, was mostly due to lower finance charges and fees partially offset by increases in interest on bank debt and accretion of the decommissioning obligation. These lower finance charges were mostly due to the comparative reporting period's commitment and financial advising fees on a $167.8 million bridge credit facility related to the corporate acquisition of Iteration, as fully repaid in the third quarter of 2010, in addition to the expensing of the fair value of share purchase warrants issued partially to secure the bridge credit facility. The increase in interest on bank debt was mostly due to a higher average borrowing base throughout 2011, as compared to 2010, partially offset by lower average interest rates and Chinook's partial repayments of debt during the fourth quarter of 2010 and the third and fourth quarters of 2011. The increase in accretion expense resulted from unwinding Chinook's decommissioning obligation throughout 2011 as compared to only a portion of the 2010 when Chinook acquired a majority of its existing decommissioning liability.

Depletion, Depreciation and Amortization ("DD&A")

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	**2011**	2010	**2011**	2010
Canada	**$ 28,774**	$ 26,892	**$ 101,286**	$ 63,723
Tunisia	**4,709**	984	**8,984**	2,022
Corporate	**40**	9	**40**	30
Total	**$ 33,523**	$ 27,885	**$ 110,310**	$ 65,775
Per sales *($/boe)*	**$ 23.98**	$ 19.03	**$ 20.74**	$ 18.29

Chinook records DD&A, in accordance with IFRS, on its developed & producing assets over the assets' useful lives employing the unit-of-production method using proved plus probable reserves and associated estimated future development capital for its petroleum and natural gas assets. Canadian assets in the exploration and evaluation phase are amortized over a term of five years, which approximates the term of Canadian undeveloped land leases, whereas Tunisian assets in this phase are amortized over the respective undeveloped lease term which can vary from one exploration permit to another.

DD&A expenses for the three months and year ended December 31, 2011 increased from the same periods in 2010. For the comparative quarters, the increase in DD&A was mostly due to an increase of estimated future development costs, as included in the depletion calculations associated to Chinook's developed & producing assets, from $116.0 million to $160.8 million. This increase in DD&A was also due to an increase in Tunisian sales volumes and the inclusion of Canadian and Tunisian drilling expenditures in Chinook's depletable pool costs as incurred throughout 2011.

For the year ended December 31, 2011, the increase in DD&A, relative to 2010, was attributable to the current reporting of a full period's depletion expense associated with the sales volumes from the 2010 corporate acquisitions of Iteration and SSL as well as the addition to the Canadian asset acquisitions of producing properties and the amortization of the associated exploration and evaluation properties acquired through these deals. Further contributing to this year-over-year DD&A increase were additional sales volumes from Chinook's Bir Ben Tartar Concession, an increase in the aforementioned future development costs and the inclusion of the current reporting period's Canadian and Tunisian drilling expenditures in Chinook's depletable pool costs. DD&A is calculated on the net book amounts of developed and producing assets prior to impairment.

Impairment of Developed & Producing Assets

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	**2011**	2010	**2011**	2010
Canada	**$ 43,000**	$ –	**$ 43,000**	$ –
Tunisia	**–**	–	**–**	–
Total	**$ 43,000**	$ –	**$ 43,000**	$ –
Per sales *($/boe)*	**$ 30.76**	$ –	**$ 8.09**	$ –

IFRS requires impairments to be recognized when an asset or group of assets' carrying amounts exceed their recoverable value defined as the higher of the value in use or fair value less cost to sell. Any asset impairment is recoverable to its original carrying amount less any associated DD&A should there be indicators that the recoverable amount of the asset has increased in value since the time of recognizing the initial impairment.

At December 31, 2011, Chinook recognized an impairment charge of $43.0 million as triggered through a reduction in North American natural gas pricing. The impairment losses were recorded in a predominately natural gas weighted Canadian cash generating unit ("CGU") as a result of a weakening natural gas price at December 31, 2011, in addition to capital expenditures in this Canadian CGU during 2011, without a corresponding economical increase in its proved and probable reserves. Previous to December 31, 2011, Chinook had not recognized any impairment against this or any of its Canadian CGUs. The impairment tests were carried out at December 31, 2011 and were based on proved and probable reserves, a discount rate of ten percent and the following forward commodity price estimates:

Year	WTI Crude Oil *(US$/bbl)* [1]	Brent Crude Oil *(US$/bbl)* [1]	AECO Gas *($/mmbtu)* [1]	US/Cdn Exchange *(US$/Cdn)* [1]
2012	$ 97.50	$ 107.50	$ 3.50	0.98
2013	$ 97.50	$ 102.60	$ 4.20	0.98
2014	$ 100.00	$ 102.60	$ 4.70	0.98
2015	$ 100.80	$ 103.50	$ 5.10	0.98
2016	$ 101.70	$ 104.40	$ 5.55	0.98
Thereafter	2%	2%	2%	0.98

[1] Source: MacDaniels & Associates price forecast, effective January 1, 2012

As North American natural gas prices have fallen during the first quarter of 2012 from their level at December 31, 2011, and the recoverable amount of the impaired Canadian CGU and Chinook's other Canadian CGUs that are weighted towards natural gas, are sensitive to decreases in natural gas pricing, further impairment charges could be recognized in future reporting periods. Alternatively, an improvement of North American natural gas prices could support reductions of any impairment charges recorded to date, less applicable depletion charges.

Gain on Disposition of Properties

For the year ended December 31, 2011, Chinook has completed the sale of 15 non-core properties and various royalty interests for net proceeds of $83.7 million. The carrying amount of the non-core properties was less than the sales proceeds received partially resulting in a gain of $22.9 million for the year ended December 31, 2011 (versus a gain of $25.7 million for the year ended December 31, 2010).

Exploration and Evaluation Expense

	Three months ended December 31		Year ended December 31	
($ thousands)	**2011**	2010	**2011**	2010
Canada	**$ 2,762**	$ 2,488	**$ 5,096**	$ 2,993
Tunisia	**5,728**	(392)	**6,590**	7,689
Total	**$ 8,490**	$ 2,096	**$ 11,686**	$ 10,682

Exploration & evaluation expenses for the three months and year ended December 31, 2011 increased from those reported in the same periods of 2010. Exploration & evaluation expenses in the current reporting periods mainly pertain to the expensing of Chinook's 300 km² seismic program in the Gulf of Hammamet, offshore Tunisia, which has met its work commitment on this off-shore exploration permit. Seismic analysis is on-going with interpretation to be completed during 2012, with the objective of defining a drillable location in support of an extension commitment by December 2012. In addition to these geological and geophysical costs, exploration and evaluation expenses for the current periods also includes license transfer fees, undeveloped land leases, studies over unlicensed lands or formations and prospecting expenses whereas the prior reporting periods mostly pertained to Tunisian drilling costs of two dry wells. Further contributing to the increase in exploration & evaluation expenditures for the fourth quarter of 2011, relative to the same period in 2010, was the expensing of an increased estimate on the decommissioning obligation of a previous period's expensed Tunisian drilled well. This expense line is new under IFRS.

Income Tax Expense (Recovery)

	Three months ended December 31		Year ended December 31	
($ thousands)	**2011**	2010	**2011**	2010
Current income tax	**$ 263**	$ 2,923	**$ 3,496**	$ 4,245
Deferred income tax (recovery)	**(4,362)**	(2,542)	**(5,208)**	(2,642)
Total	**$ (4,099)**	$ 381	**$ (1,712)**	$ 1,603

Despite an increase in sales volumes from Chinook's Adam Concession since the 2010 corporate acquisition of SSL, current income tax expense for the three months and year ended December 31, 2011 of $0.3 million and $3.5 million, respectively, as payable in Tunisia, has decreased, relative to the same periods in 2010. This decrease is a result of other allowable exploration expenditures and future development costs that reduce Tunisian taxable income. In addition, current taxes for the fourth quarter of 2011 were also lower than the same period in 2010, as a result of prior period adjustments to the Adam Concession's taxable income. The deferred income tax recovery, as recognized in the current reporting periods, results from Canadian net-operating losses as contributed by an increase in DD&A and impairment expenses as well as the disposition of non-core properties which had a lower tax resource pool balance relative to their carrying values.

Net Loss and Comprehensive Loss

	Three months ended December 31		Year ended December 31	
Year ended December 31	**2011**	2010	**2011**	2010
Net loss – continuing operations	**$ (58,077)**	$ (12,218)	**$ (63,752)**	$ (13,324)
Per share – basic and diluted *($/share)*	**(0.27)**	(0.06)	**(0.30)**	(0.08)
Net loss – discontinued operations	**$ –**	$ –	**$ –**	$ (13,540)
Per share – basic and diluted *($/share)*	**–**	–	**–**	(0.08)
Net loss	**$ (58,077)**	$ (12,218)	**$ (63,752)**	$ (26,864)
Per share – basic and diluted *($/share)*	**(0.27)**	(0.06)	**(0.30)**	(0.17)
Comprehensive loss	**$ (60,577)**	$ (14,606)	**$ (60,718)**	$ (51,009)
Per share – basic and diluted *($/share)*	**(0.28)**	(0.07)	**(0.28)**	(0.31)
Weighted average shares outstanding – basic and diluted *(thousands)*	**214,188**	214,188	**214,188**	162,003

Comprehensive losses for the three months and year ended December 31, 2011, which includes Chinook's net losses and other comprehensive income (loss), increased relative to the same periods in 2010. For the year ended December 31, 2011, Chinook reported foreign exchange translation gains of $3.0 million, as compared to foreign exchange translation losses of $24.1 million in 2010. This increase in foreign exchange translation gains is attributable to the US dollar strengthening relative to the Canadian dollar, resulting in an increase in Chinook's Canadian dollar reported Tunisian net assets as denominated in US dollars. The foreign exchange translation losses of $2.5 million for the three months ended December 31, 2011 were comparable to the other comprehensive losses in the same period of 2010.

The reader is referenced to the introduction for a discussion of the 2010 discontinued operations.

Capital Resources, Capital Expenditures and Liquidity

Chinook continues to focus on project economics, scale and repeatability from opportunities in its existing asset base to grow conventional liquids production, test resource play concepts in Canada, and develop large scale growth in Tunisia by accelerating development of discoveries and existing fields. Chinook anticipates that its current production weighting will shift from 85% conventional reserves in Western Canada to a balance of conventional production, international production and Canadian resource plays as it moves forward.

Chinook anticipates it will continue to fund its future work commitments on oil and natural gas properties from cash flow generated from the Canadian and Tunisian operations and by utilizing, when necessary, the available funds from the credit facility in addition to any proceeds received from the sale of non-core properties.

Cash flow for the three months and year ended December 31, 2011, in addition to opening cash balances and proceeds from the disposition of non-core properties, financed the repayment of a portion of Chinook's revolving term credit facility and investment in capital, exploration and evaluation expenditures.

Cash Flow

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	**2011**	2010	**2011**	2010
Cash flow from continuing operations	**$ 41,907**	$ 15,053	**$ 70,800**	$ 53,568
Add back (deduct) investment in (reduction of) non-cash working capital	**(20,992)**	4,106	**11,169**	(5,256)
Add back decommissioning obligation expenditures	**3,035**	3,417	**3,035**	3,417
Cash flow	**$ 23,950**	$ 22,576	**$ 85,004**	$ 51,729
Per share – basic and diluted [1]	**$ 0.11**	$ 0.11	**$ 0.40**	$ 0.32
Per sales *($/boe)* [1]	**$ 17.13**	$ 15.41	**$ 15.98**	$ 14.39

[1] Cash flow, cash flow per share and cash flow per boe are non-GAAP measures. Cash flow is calculated from cash flow from continuing operations adjusted for changes in non-cash working capital and decommissioning obligation expenditures. Cash flow per share or per boe is calculated from cash flow as previously defined divided by the weighted average basic and dilutive shares outstanding during the period or sales volumes, respectively. Management believes that cash flow is a key measure to assess the ability of Chinook's operations to finance 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 IFRS and should not be construed as an alternative to cash flow from operations.

Cash flow for the year ended December 31, 2011 increased relative that reported in 2010 primarily due to higher sales volumes, higher petroleum pricing, and certain lower cash expenditures. This resulted in an increase in cash flow per share on a basic and diluted share basis for the year ended December 31, 2011, compared to that reported during the same period in 2010. For the year ended December 31, 2011, cash flow per boe increased relative to that reported in 2010 due to the aforementioned higher petroleum pricing and certain lower cash expenditures.

Cash flow for the fourth quarter of 2011 increased relative to that reported in the same quarter of 2010 primarily due to higher Tunisian crude oil sales volumes and realized liquids pricing combined with lower certain cash expenses. The resulting cash flow per share was comparable on a basic and diluted share basis. For the fourth quarter of 2011, cash flow per boe increased relative to that reported in the same quarter of 2010 primarily due to a higher petroleum price and lower current taxes.

Cash flow during the fourth quarter of 2011 increased as compared to the $22.1 million reported during the third quarter of 2011, mostly due to higher sales volumes and average commodity prices combined with lower certain cash expenses in addition to other working capital recoveries on certain balances acquired during the Iteration business acquisition.

Chinook generally relies on operating cash flows and its credit facility to fund capital requirements and manage liquidity.

Revolving Term Credit Facility

	December 31,	December 31,
($ thousands)	**2011**	2010
Revolving term credit facility	**$ 137,500**	$ 167,793
Add (less):		
Working deficit (capital) excluding mark to market derivative contracts	**(2,600)**	1,846
Net debt [1]	**$ 134,900**	$ 169,639

[1] Net debt and working capital excluding mark-to-market derivate contracts are non-GAAP measures. Net debt is calculated as bank debt adjusted for working capital excluding mark-to-market derivative contracts. Working capital excluding mark-to-market derivative contracts is calculated as current assets less current liabilities both of which exclude derivative contracts and current liabilities excludes the current portion of debt. Management use net debt to assist them in understanding Chinook's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's intrinsic value or loss.

On December 9, 2011, Chinook's 364 day revolving term credit facility was amended to $200.0 million (the "Revolving Term Credit Facility"). As a result of petroleum property sales, the Revolving Term Credit Facility was further reduced by $6.0 million to $194.0 million as at December 31, 2011. The current revolving period ends on June 25, 2012. In the event that the revolving period is not extended prior to this date, all amounts then outstanding under the Revolving Term Credit Facility must be repaid, at the option of Chinook, before June 25, 2013. The Revolving Term Credit Facility is subject to a semi-annual review and redetermination with the next review and redetermination to be calculated based on year end information prior to June 25, 2012. Changes in the availability of the Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming immediately payable. At December 31, 2011, Chinook had drawn $137.5 million on the Revolving Term Credit Facility (December 31, 2010 – $167.8 million) resulting in available credit on this facility of $56.5 million (December 31, 2010 – $62.2 million).

Chinook's net debt of $134.9 million as at December 31, 2011, decreased relative to $169.6 million as at December 31, 2010 primarily due to an increase of $2.6 million of working capital excluding mark-to-market derivative contracts and a $30.3 million net repayment, financed from cash flow and property sales, made against the outstanding principal on the Revolving Term Credit Facility during the third and fourth quarters of 2011.

The Revolving Term Credit Facility is collateralized by floating charges and security interests over all present and future properties and assets of the Company. Interest payable on amounts drawn on this facility 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 effective interest rate on the Revolving Term Credit Facility for the year ended December 31, 2011, was 4.3% (2010 – 4.2%). The Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt to earnings before interest, taxes, depreciation and amortization cannot be greater than 4:1 as determined on a rolling four quarter basis for the most current fiscal quarter. At December 31, 2011, Chinook was in compliance with this covenant.

Capital Expenditures

Year ended December 31, 2011

($ thousands)	Canada	Tunisia	Corporate	Total
Land and lease	$ 3,048	$ –	$ –	**$ 3,048**
Drilling and completions	56,817	28,727	–	**85,544**
Facilities and equipment	23,161	1,738	–	**24,899**
Field expenditures	83,026	30,465	–	**113,491**
Capitalized G&A	1,651	449	–	**2,100**
Furniture and equipment	–	–	438	**438**
Property acquisitions	–	3,672	–	**3,672**
Total	$ 84,677	$ 34,586	$ 438	**$ 119,701**
Proceeds from dispositions	$ 83,751	$ –	$ –	**$ 83,751**

Canada

For the year ended December 31, 2011, Chinook participated in drilling 35 wells (~22 net) in the WCSB. Chinook's drilling and completion activity occurred throughout 2011 and included the following:

Plains District

Chinook incurred $4.7 million of drilling and completion costs and $1.8 million of facility and equipment expenditures mostly related to its Winmore area, located in Southeast Saskatchewan, where nine Hz Frobisher oil wells were drilled and completed, and another 16 Hz drilling locations have been identified on this acreage, with drilling activity expected to commence in the first quarter of 2012.

Peace River Arch District

Capital expenditures of $9.9 million and $18.8 million were incurred on facilities and drilling and completion activities, respectively, mostly related to Chinook's Red Creek property. This activity included the fourth quarter drilling and completion of the 13-5 Doig Hz well. The Red Creek facility construction was completed during 2011 and allowed the tie-in of the 15-1 well drilled earlier in 2011.

Grande Prairie District

Drilling and completions of $23.9 million and facilities and equipment of $8.0 million were incurred during 2011. These expenditures related to 15 drilling and completion operations mostly at Chinook's Knopcik and Hythe areas of Grand Prairie during the year ended December 31, 2011.

West Central Alberta District

Chinook incurred $9.6 million of drilling and completion expenditures in addition to expenditures of $4.8 million on facilities and equipment during 2011. Chinook completed a 100% working interest well at Gilby 5-31-40-1W5 in the fourth quarter of 2011. Several follow up drilling locations have been identified and are planned for 2012. A 100% working interest well at Brazeau was successfully recompleted for natural gas in the Mid Mannville zone. The well is on production and sets up a number of potential Hz drilling opportunities on existing acreage.

Chinook also acquired more than 8,800 acres of prospective Montney rights in the Birley area of British Columbia. The lands are also prospective for Triassic and Mannville targets. Chinook currently produces approximately 170 boe per day (net) from the area through existing owned and operated infrastructure. Initial plans to evaluate the Montney resource are currently being developed.

Tunisia

A completion program consisting of fracture stimulation of six intervals in three wells, TT2, TT3 and TT4, was conducted and four wells, TT5, TT6, TT7 and TT8 were drilled and completed, including fracture stimulation, with drilling and completion operations of the latter two wells completed in the fourth quarter of 2011. All are producing crude oil wells with production being trucked to the offshore loading terminal at La Skhira.

Operations have commenced planning for a gathering system, central processing facility and an oil sales line in addition to a 10 to 15 development well program on Chinook's Bir Ben Tartar Concession.

A summary of Chinook's drilling activities for the year ended December 31, 2011, is as follows:

Wells Drilled

Year ended December 31, 2011	Tunisia		Canada		Total	
	Gross	Net	Gross	Net	Gross	Net
Exploration						
Oil	2.00	0.15	10.00	5.28	12.00	5.43
Gas	–	–	5.00	4.00	5.00	4.00
	2.00	0.15	15.00	9.28	17.00	9.43
Development						
Oil	6.00	5.16	15.00	8.52	21.00	13.68
Gas	–	–	5.00	3.73	5.00	3.73
	6.00	5.16	20.00	12.25	26.00	17.41
Total	8.00	5.31	35.00	21.53	43.00	26.84

Rationalization of Non-Core Properties

During the year ended December 31, 2011, Chinook has completed the sale of 15 non-core properties for aggregate net proceeds of $83.7 million. These funds were used to partially finance the repayment of a portion of the Revolving Term Credit Facility and the capital programs on Chinook's Canadian and Tunisian core properties. The non-core properties included Lake Alma in Saskatchewan and Carson Creek, Lloydminster, Jarrow, Jayar, Westerose, Paddle River, House Mountain and Judy Creek in Alberta in addition to selling various royalty interests.

Chinook initially assigned fair value from the corporate and asset acquisitions in the first half of 2010 on the same basis to its non-core properties as it did to its core properties. Only after Chinook was able to thoroughly review its acquired property portfolio, was it in a position to identify non-core properties and commence with the property rationalization process. Through this sequence of events, Chinook has reported gains on sales to date on the majority of its property dispositions. The recognition of gains or losses on the disposition of a property is a requirement under IFRS.

During February 2012, Chinook sold its Manyberries, Alberta property for gross proceeds of $36.2 million. Chinook's 2011 average production from Manyberries was approximately 360 barrels of oil equivalent per day. Proceeds of this sale have been used to reduce long-term bank debt.

Joint Venture Arrangement

Chinook entered into an agreement with New Zealand Oil & Gas Ltd. ("NZOG") whereby NZOG has the option to participate in the development of Chinook's Cosmos Concession located offshore Tunisia, where Chinook holds an 80% working interest.

Under the terms of the agreement, NZOG paid to Chinook initial cash consideration of US$3.0 million to secure the right to purchase a 40% working interest. NZOG's election will be made at the point of Final Investment Decision ("FID") subject to regulatory approval, transfer of title and positive project economics. On a positive election, Chinook will retain a 40% working interest in the Cosmos Concession and in consideration NZOG shall pay the first US$19.0 million of Chinook's share of the costs and expenses in respect of the development plan (in addition to its own share). FID is anticipated to be considered by the partners mid 2012 with a recommendation for project sanction following shortly thereafter.

Decommissioning Obligation

At December 31, 2011, Chinook has reported decommissioning obligations of $95.4 million ($125.7 million at December 31, 2010) for the future abandonment and reclamation of Chinook's properties. The estimated obligation includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. This future liability is then discounted at a liability specific risk-free interest rate of 2.0% to 3.0% (3.0% to 4.0% at December 31, 2010).

Accretion charges of $3.3 million and $2.7 million for the year ended December 31, 2011 and 2010, respectively, was recognized in the consolidated statements of operations to reflect the increase in the obligation associated with the passage of time. Actual spending under Chinook's abandonment and reclamation program for the year ended December 31, 2011 and 2010 was $3.0 million and $3.4 million, respectively.

During the fourth quarter of 2011, management evaluated the assumptions included in the estimated decommissioning obligation. The result of this review resulted in a reduction to Chinook's estimated decommissioning obligation of $22.9 million as at December 31, 2011 ($nil at December 31, 2010). This decrease was partially offset by an increase in the estimated decommissioning obligation resulting from the current year's decrease in the specific risk-free interest rate.

Outstanding Share Data

Authorized:

- Unlimited number of common shares
- Unlimited number of first preferred shares
- 1,279,000 share purchase warrants (where each share purchase warrant is exercisable to acquire one common share of Chinook at a price of $3.25 per common share on or before June 30, 2013)

Details of share capital, options and warrants outstanding are as follows:

	December 31, 2011	December 31, 2010
Common shares outstanding	**214,187,681**	214,187,681
Share options	**15,454,854**	12,136,394
Share purchase warrants	**1,279,000**	1,279,000
Fully diluted common shares	**230,921,535**	227,603,075
Weighted average common shares – basic and diluted	**214,187,681**	162,002,937

At March 22, 2012, Chinook had 214,187,681 common shares, 15,186,975 options and 1,279,000 share purchase warrants outstanding.

Commodity Price Risk Management Contracts and Swap Option

Chinook's financial results are influenced by fluctuations in commodity prices. As a means of managing this price volatility, Chinook has entered into commodity price contracts for both crude oil and natural gas. Currently, Chinook's commodity price risk management contracts provide price protection on approximately 12% of its estimated annual production for 2012. Unsettled risk management contracts are recognized at their fair value on the date of the financial statements. Changes in the fair value of a risk management contract result from volatility in commodity prices and the remaining notional volumes through to the contract's term. Changes in fair value between reporting periods are recognized in net income (loss) as unrealized risk management contract gains or losses. Realized risk management contract gains or losses are recognized in net income (loss) on unwinding of the financial derivative contract term. While risk management contracts may have opportunity costs when realized commodity prices exceed the contracted price, 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 December 31, 2011, Chinook had the following commodity price contracts with an estimated fair value of $0.5 million:

Natural Gas Indexed Price	Notional Volumes	Company's Received Price	Remaining period
AECO – C	3,800 GJ/d	$5.00/GJ to $7.70/GJ	January 1, 2012 to March 1, 2012

Crude Oil Indexed Price	Notional Volumes	Company's Received Price	Remaining period
WTI [(1)]	1,000 bbl/d	$98.75 US/bbl	January 1, 2012 to December 31, 2012
Brent	500 bbl/d	$100.00 US/bbl to $107.00 US/bbl	January 1, 2012 to December 31, 2012
Brent	500 bbl/d	$100.00 US/bbl to $133.00 US/bbl	January 1, 2012 to December 31, 2012

[(1)] West Texas Intermediate

On or before December 31, 2012, the counterparty to the $98.75 USD/bbl swap crude oil price contract has the option, but not the obligation, to extend the commodity contract over the period January 1, 2013 to December 31, 2013, at the same strike price, indexed market and notional volume as the original swap crude oil contract. Chinook has recognized a $3.6 million financial liability as the fair value of this swap option as at December 31, 2011.

Commitments and Contingencies

At December 31, 2011, the Company had commitments that require the following minimum future payments:

Year ended December 31	2012	2013	2014	2015	Total
Long-term debt and interest	$ 5,775	$ 140,388	$ –	$ –	$ 146,163
Operating leases	3,171	1,995	916	99	6,181
	$ 8,946	$ 142,382	$ 916	$ 99	$ 152,343

Certain office space has been sublet resulting in a partial recovery of costs for varying terms extending through to July 31, 2012. As a result of the sublet leases, which are not included in the above table, the Company recovers lease payments of approximately $1.3 million and $0.2 million for the years ended December 31, 2012 and 2013, respectively.

Chinook is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on Chinook's results of operations or cash flows.

Off Balance Sheet Arrangements

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

Related Party Transactions

Chinook has determined that the key management personnel consists of its officers and directors. In addition to the salaries and directors fees paid to the officers and directors respectively, the officers and directors participate in the Company's share option plan. The officers salary and directors fees paid, in addition to stock-based compensation and other benefits, as included in general and administrative expenses relating to key management personnel for 2011 was $1.9 million and $2.7 million, respectively (2010 – $1.5 million and $3.1 million, respectively).

Chinook utilizes the services of a law firm in which the Corporate Secretary and a director of the Company are partners. During the year ended December 31, 2011, Chinook expensed $0.6 million (2010 – $1.6 million) on legal services obtained from the firm. At December 31, 2011, $0.1 million remained in accounts payable.

AIMCo is a major shareholder to which Chinook provides certain services to nominees of AIMCo pursuant to an administrative services and cost sharing agreement and manages the working interests of nominees of AIMCo in a limited partnership. The calculated reimbursement during the year ended December 31, 2011 is $3.0 million (year ended December 31, 2010 – $2.3 million), of which $0.3 million as at December 31, 2011, was included in accounts receivable (December 31, 2010 – $2.3 million). At December 31, 2011, a net payable of $0.1 million remained related to the ongoing operations of jointly-held producing and non-producing oil and natural gas properties (at December 31, 2010, a net payable of $6.1 million).

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

Outlook

As a result of the continuing downward pressure on the North American natural gas price and the completion of two disposition transactions, it is appropriate to revise the guidance for 2012 from the initial 2012 budget which was prepared in November 2011. On the basis of current natural gas prices not covering fixed and variable costs and an adequate return on the depletion of certain assets, the Company has shut in a large portion of its Northeast Alberta shallow dry natural gas production which represents approximately 430 boe/d as included in the initial 2012 forecast. In addition, given current AECO spot prices, the natural gas price used in the forecast has been adjusted from $3.74 per mcf to $2.70 per mcf. Given the near term forecast for natural gas prices the Company has deferred approximately $10 million worth of capital from the Canadian capital program with an effect of eliminating approximately 225 boe/d of volumes previously included in the 2012 forecast.

On February 15, 2012, Chinook closed the previously announced disposition of its Manyberries property, located in southeastern Alberta, to the City of Medicine Hat for consideration of approximately $36.2 million. Chinook has also reached an agreement to sell a package of unit interests for $20 million, subject to normal closing adjustments, with an expected closing date of March 27, 2012. Chinook's current bank debt subsequent to the closing of the Manyberries property disposition is $101 million. The Company intends to use the proceeds from the disposition of the unit interests to further reduce debt such that it expects debt to be approximately $80 million after the completion of the sale, prior to factoring in Q1 2012 capital expenditures which are expected to exceed quarterly cash flow by $15-20 million. The production adjustment to previous 2012 guidance as a result of these two 2012 transactions, and two transactions that closed in December 2011 (after previous guidance was released) is an average reduction of 830 boe per day. The Company will also reduce the capital program in Tunisia by $15 million in an attempt to better manage the balance sheet early in the year. This will be accomplished with an expected one quarter delay in the commencement of the central facility and pipeline projects but will not affect forecast production.

Chinook's revised guidance for fiscal 2012 is as follows:

($ millions)	Revised Guidance [1]	Previous Guidance [2]
Production *(boe/d)*	13,500-14,000	15,000-15,400
Cash flow	$120 – 125	$135 – 140
Capital expenditures	$165	$190
Net debt (year end 2012)	$120 – 125	$180 – 190
Debt facility	$182	$194
Net operating expenses *($/boe)*	$16.53	$17.50
G&A expense *($/boe)*	$2.80	$2.50
Cash flow per share (fully diluted)	$0.54	$0.61

(1) Revised guidance is based on: AECO gas price of $2.70/mcf; Edmonton light oil price of $96.20/bbl (CDN); Brent oil price of $104.00/bbl (CAD); 55% natural gas production; 45% liquids.

(2) Previous guidance was based on: AECO gas price of $3.74/mcf; Edmonton light oil price of $95.00/bbl (CDN); Brent oil price of $104.00/bbl (CAD); 55% natural gas production; 45% liquids.

Chinook is able to support the forecast capital program of 1.3 times cash flow which will be focused on developing Chinook's Brent priced oil production in Tunisia. In Canada, the Company will continue to work to improve the netbacks of its domestic natural gas weighted production, focus capital on oil prospects, and dispose of non-core assets as it has successfully done over the last 15 months.

Quarterly Information

Summarized information by quarter for the two years ended December 31, 2011, appears below:

($ thousands, except where noted)	Dec. 31 2011	Sept. 30 2011	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sept. 30 2010	Jun. 30 [4] 2010	Mar. 31 [4] 2010
Petroleum and natural gas revenue,								
net of royalties	$ 57,274	$ 53,920	$ 47,204	$ 44,366	$ 47,227	$ 44,869	$ 17,321	$ 5,193
Cash flow (loss) [1]	23,950	22,114	17,799	21,140	22,575	30,643	(192)	(1,298)
Per share								
Basic and diluted *($/share)*	0.11	0.10	0.08	0.10	0.11	0.14	–	(0.01)
Net income (loss)	(58,077)	(3,543)	(1,890)	(241)	(12,218)	2,496	(1,354)	(2,248)
Per share								
Basic and diluted *($/share)*	(0.27)	(0.02)	(0.01)	–	(0.06)	0.01	(0.01)	(0.02)
Other comprehensive income (loss)	(2,500)	7,026	301	(2,034)	(2,388)	(2,685)	6,008	(25,080)
Average daily production *(boe)*	15,119	14,443	14,196	14,646	15,354	16,089	5,562	1,705
Capital expenditures [2] [3]	$ 26,343	$ 30,687	$ 16,569	$ 46,894	$ 26,827	$ 41,371	$ 267,329	$ 205,999

[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 and decommissioning obligation.

[3] March and June 2010, include acquisitions of Canadian and Tunisian producing assets and assets from the corporate acquisitions of Iteration and SSL.

[4] Before discontinued operations for periods March 2010 - June 2010.

Factors That Have Caused Variations over the Quarters

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

Chinook completed the corporate and asset acquisitions of Canadian and Tunisian producing assets in the first and second quarters of 2010, increasing subsequent quarter's production, revenues and cash flow. Natural gas prices have generally decreased, which triggered a $43.0 million impairment on a Canadian natural gas weighted property, resulting in a higher reported net loss during the fourth quarter of 2011. Meanwhile, petroleum prices have generally increased over the quarterly periods shown above while Chinook's commodity sales mix ratio is changing its relative weight in favor of crude oil which, and when combined with higher crude oil pricing, has contributed to a general increase in commodity revenue. Cash flows during 2011 have been inversely impacted relative to the increase in revenue primarily through higher operating expenses. Chinook's organic growth capital expenditures throughout 2011 and the latter half of 2010, increased significantly due to the capital expenditure programs on the properties as initially acquired through the aforementioned corporate and asset acquisitions.

Please refer to "Results of Operations" and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Chinook's previously issued interim and annual MD&A for changes in prior quarters.

Risk Factors

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in Chinook's other public filings before making an investment decision. If any of the following risks or other risks occur, Chinook's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted.

Additional Risks Relating to Tunisian Operations

Political Risks

During 2011, Tunisia experienced a period of political unrest and civil disobedience of increasing intensity leading to the resignation of the President of Tunisia in favour of an interim government that led the country until a new government was elected on October 23, 2011. Tunisia is bordered by both Algeria and Libya. Due to the recent formation of the current government, it is possible that delays in receipt of approvals, either regulatory or operational, may cause delays in program delivery beyond what Chinook has forecast. There have been isolated incidents where sporadic peaceful demonstrations targeting improved labour conditions have disrupted the movement of crews and equipment. Depending on the stage of Chinook's operations, this could potentially have an impact on the cost or completion of Chinook's operations. Chinook has security protocols and policies in place to manage the eventualities Chinook considers possible in Tunisia. Chinook assesses the situation in the context of what its plans are and how those plans may be impacted by the local, national and international situation at that time. It is possible that the security situation in Tunisia will deteriorate to the point that Chinook deems it appropriate to suspend operations.

Chinook's Tunisian oil and natural gas operations are subject to political, economic and other uncertainties. Those uncertainties include: (i) the risk of war, revolution, border disputes, expropriation, renegotiation or modification of existing contracts, import, export, and transportation regulations and tariffs resulting in loss of revenue, property and equipment; (ii) nationalization of assets by the Tunisian government; (iii) taxation policies, including royalty and tax increases and retroactive tax claims; (iv) exchange controls, currency fluctuations and other uncertainties arising out of Tunisian government sovereignty over oil and gas properties; (v) laws and policies of Canada affecting foreign trade, taxation and investment; and (vi) the possibility of being subjected to the jurisdiction of Tunisian courts in connection with legal disputes and the possible inability to subject foreign persons to the jurisdiction of the courts of Canada, all of which could adversely affect the outcome of a legal dispute. Political instability in Tunisia could result in a new government or the adoption of new policies, laws or regulations that might exhibit a substantially more hostile attitude toward foreign investment in general or Chinook in particular. In an extreme case, such change could result in termination of contract rights (including, without cause) and expropriation or nationalization of assets owned by foreign entities. Any such activity could result in significant loss to Chinook. In addition, Chinook may be at a disadvantage in that it may be required to compete against corporations or other entities from countries that are not subject to Canadian laws and regulations, including the Corruption of Foreign Public Officials Act (or similar legislation of other jurisdictions, including the United States Foreign Corrupt Practices Act).

Furthermore, international oil and natural gas operations in Tunisia involve substantial costs and are subject to certain risks owing to the underdeveloped nature of the oil and gas industry in Tunisia. The oil and natural gas industry in Tunisia is not as developed as the oil and natural gas industry in Canada. As a result, drilling and development operations may take longer to complete and may cost more than similar operations in Canada. The availability of technical expertise, specific equipment and supplies is more limited in Tunisia than in Canada. Such factors may subject oil and gas operations in Tunisia to economic and operating risks not experienced in Canada.

Requirements for Permits and Licenses

The operations of Chinook in Tunisia require licenses, permits and in some cases renewals of existing licenses and permits from the Government of Tunisia (named the Licensing Authority in the Conventions). Chinook believes that it currently holds or has applied for all necessary licenses and permits to carry on the activities, which it is currently conducting under applicable laws and regulations in respect of its properties, and also believes that it is complying in all material respects with the terms of such licenses and permits. However, the ability of Chinook to obtain, sustain or renew such licenses or permits on acceptable terms is subject to change in regulations and policies and to the discretion of the government.

Under the hydrocarbon law in Tunisia, exploration costs incurred on an exploration permit are eligible for cost recovery against the first concession to be put on production out of the permit. Chinook made application to have the prior expenditures made on the Hammamet exploration permit formally recognized by the appropriate Tunisian authorities and credited accordingly. This application was reviewed by the Finance Ministry and Chinook was granted $19.7 million of prior expenditures.

Tunisian Legal System

Tunisia has a less developed legal system than in Canada, which may result in risks such as: (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation, or, in an ownership dispute, being difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders or resolutions; or (v) relative inexperience of the judiciary and courts in such matters.

In addition, the commitment of local businesspeople, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for businesses. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance the joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of an enforcement of such arrangements in Tunisia cannot be assured. As a result of a limited infrastructure present in Tunisia, the land titles systems are not developed to the extent found in many more developed nations. Although Chinook believes that it has good title to its oil and natural gas properties, there is little it can do to control this risk.

Tax Risks Related to Tunisian Operations

Chinook is required to pay tax and royalties on oil and natural gas production from joint venture concessions in Tunisia. Going forward, a change in mix of production between oil and natural gas production or a change in the form of production could have a significant impact on the tax payable by Chinook. In addition, Tunisian tax is calculated on a concession basis and tax losses available for carry forward in one field cannot be offset against taxable profits in other fields. The tax payable going forward in Tunisia could therefore be significantly impacted by which Tunisian fields are profitable and the availability of tax losses to offset those profits.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Chinook depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Chinook may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Chinook's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Chinook will be able to continue to locate satisfactory properties for acquisition or participation therein. Moreover, if such acquisitions or participations are identified, management of Chinook may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Chinook.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. Drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including fire, explosion, blowouts, cratering, sour gas releases, spills or other environmental hazards, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, Chinook may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Chinook. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. In accordance with industry practice, Chinook is not fully insured against all risks, nor are all risks insurable. Although Chinook maintains liability insurance in an amount that it considers consistent with industry practice, the nature of certain risks is such that liabilities could exceed policy limits or not be covered, in either event Chinook could incur significant costs.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels have caused significant volatility in commodity prices. These conditions have caused a decrease in confidence in the global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. This volatility may in the future affect Chinook's ability to obtain equity or debt financing on acceptable terms.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Chinook is and will continue to be affected by numerous factors beyond its control. Chinook's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Chinook may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The prices of oil and natural gas may be volatile and subject to fluctuation. Any material decline in prices could result in a reduction of Chinook's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Chinook's reserves. Chinook might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Chinook's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of Chinook. These factors include economic conditions, in the United States, Canada and Europe, the actions of OPEC, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on Chinook's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Chinook's current natural gas production in Tunisia is subject to the provisions of the Tunisian hydrocarbon law, which provides for sales into the Tunisian domestic market at rates less than those which would be realized in the international market. While Chinook sells the majority of its Tunisian oil to arm's length purchasers priced on a sale by sale basis at prevailing market conditions, a portion of the oil produced by Chinook is required to be sold domestically in Tunisia at rates less than those which would be realized in the international market.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions, sanctions imposed on certain oil producing nations by other countries and the ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Chinook may, in part, be determined by Chinook's borrowing base. A sustained material decline in prices from historical average prices could reduce Chinook's borrowing base, therefore reducing the bank credit available to Chinook which could require that a portion, or all, of Chinook's bank debt be repaid.

Market Price of Common Shares

The trading price of securities of oil and natural gas issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Common Shares of Chinook could be subject to significant fluctuations in response to variations in Chinook's operating results, financial condition, liquidity and other internal factors. Factors that could affect the market price of the Common Shares of Chinook that are unrelated to Chinook's performance include domestic and global commodity prices and market perceptions of the attractiveness of particular industries. The price at which the Common Shares of Chinook will trade cannot be accurately predicted.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

Chinook considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Chinook's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Chinook. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, noncore assets may be periodically disposed of, so that Chinook can focus its efforts and resources more efficiently. Depending on the state of the market for such noncore assets, certain noncore assets of Chinook, if disposed of, could be expected to realize less than their carrying value on the financial statements of Chinook.

Operational Dependence

Other companies operate some of the assets in which Chinook has an interest. As a result, Chinook has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Chinook's financial performance. Chinook's return on assets operated by others therefore depends upon a number of factors that may be outside of Chinook's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

Chinook manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. Chinook's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Chinook's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Chinook's ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Chinook could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Gathering and Processing Facilities and Pipeline Systems

Chinook delivers its products through gathering, processing and pipeline systems some of which it does not own. The amount of oil and natural gas that Chinook can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems, and in particular the processing facilities, could result in Chinook's inability to realize the full economic potential of its production or in a reduction of the price offered for Chinook's production. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm Chinook's business and, in turn, Chinook's financial condition, results of operations and cash flows.

A portion of Chinook's production may, from time to time, be processed through facilities owned by third parties and over which Chinook does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect Chinook's ability to process its production and to deliver the same for sale.

Competition

The petroleum industry is competitive in all its phases. Chinook competes with numerous other entities in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Chinook's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Chinook. Chinook's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "Industry Conditions". Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase Chinook's costs, either of which may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, Chinook will require licenses from various governmental authorities. There can be no assurance that Chinook will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (oil and natural gas) production. The use of hydraulic fracturing is being used to produce commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs or third party or governmental claims, and could increase Chinook's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that Chinook is ultimately able to produce from its reserves.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Chinook to incur costs to remedy such discharge. Although Chinook believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Climate Change

Chinook's exploration and production facilities and other operations and activities emit greenhouse gases and require Chinook to comply with greenhouse gas emissions legislation in Alberta and British Columbia or that may be enacted in other provinces. Chinook may also be required to comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which regulations are expected to be consistent with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits regulated by the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of Chinook. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on Chinook and its operations and financial condition. See "Industry Conditions – Climate Change Regulation".

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. Many of the operational and other expenses incurred by Chinook are paid in US dollars or in Tunisian dinars. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar negatively impact Chinook's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of Chinook's reserves as determined by independent evaluators.

To the extent that Chinook engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Chinook may contract.

An increase in interest rates could result in a significant increase in the amount Chinook pays to service debt, which could negatively impact the market price of the Common Shares of Chinook.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by Chinook is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, Northern Africa and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Chinook's net production revenue.

In addition, Chinook's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of Chinook's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. Chinook does not have insurance to protect against the risk from terrorism.

Substantial Capital Requirements

Chinook anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, Chinook's ability to do so is dependent on, among other factors, the overall state of the capital markets, Chinook's credit rating (if applicable), interest rates, tax burden due to new tax laws and investor appetite for investments in the energy industry and Chinook's securities in particular. Further, if Chinook's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Chinook. The inability of Chinook to access sufficient capital for its operations could have a material adverse effect on Chinook's business financial condition, results of operations and prospects.

Additional Funding Requirements

Chinook's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, Chinook may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. As a result of the global economic volatility, the Corporation, along with many other oil and natural gas entities, may, from time to time, have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause Chinook to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Chinook's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Chinook's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited or unavailable or available on onerous terms, Chinook's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. In addition, the future development of Chinook's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for Chinook's capital expenditure plans may result in a delay in development or production on Chinook's properties.

Credit Facility Arrangements

Chinook currently has a credit facility and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. Chinook is required to comply with covenants under its credit facility which may, in certain cases, include certain financial ratio tests, which from time to time affect the effective interest rate and, in the event that Chinook does not comply therewith, Chinook's access to capital could be restricted or repayment could be required. The failure of Chinook to comply with such covenants, which may be affected by events beyond Chinook's control, could result in the default under Chinook's credit facility which could result in Chinook being required to repay amounts owing thereunder. Even if Chinook is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to Chinook. If Chinook is unable to repay amounts owing, the lenders under the credit facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of Chinook's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, Chinook's credit facility may, from time to time, impose operating and financial restrictions on Chinook that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to Chinook's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

Chinook's borrowing base is determined and re-determined by Chinook's lenders based on Chinook's reserves, commodity prices, applicable discount rate and other factors as determined by Chinook's lenders. A material decline in commodity prices could reduce Chinook's borrowing base, therefore reducing the funds available to Chinook under the credit facility which could result in a portion, or all, of Chinook's bank indebtedness be required to be repaid.

Issuance of Debt

From time to time Chinook may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase Chinook's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Chinook may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither Chinook's articles nor its bylaws limit the amount of indebtedness that Chinook may incur. The level of Chinook's indebtedness from time to time, could impair Chinook's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time Chinook may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that Chinook engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, Chinook's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time Chinook may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Chinook will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Chinook and may delay exploration and development activities.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Chinook's claim which may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. There may be valid challenges to title, or proposed legislative changes which affect title, to the oil and natural gas properties the Corporation controls that, if successful or made into law, could impair Chinook's activities on them and result in a reduction of the revenue received by Chinook.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Chinook's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Chinook's independent reserves evaluators have used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Chinook's oil and gas reserves will vary from the estimates contained in the reserve evaluations, and such variations could be material. The reserve evaluations are based in part on the assumed success of activities Chinook intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluations will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluations. The reserve evaluations are effective as of a specific effective date and have not been updated and thus do not reflect changes in Chinook's reserves since that date.

Insurance

Chinook's involvement in the exploration for and development of oil and natural gas properties may result in Chinook becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although Chinook maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, Chinook may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Chinook. The occurrence of a significant event that Chinook is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Control by Principal Shareholder

Her Majesty the Queen in Right of the Province of Alberta ("HMQ") owns 80,357,142 Common Shares, representing approximately 37.5% of the current outstanding Common Shares, and owns warrants to acquire up to an additional 1,279,000 Common Shares. AIMCo, as investment manager to HMQ, maintains investment control and direction over the Common Shares and warrants for the benefit of HMQ. Accordingly, AIMCo will have significant influence over the business and affairs of Chinook and may have the ability to take shareholder actions irrespective of the vote of any other shareholders, including the ability to prevent certain transactions that it does not believe are in HMQ's best interest. This significant influence may discourage transactions involving a change of control of Chinook, including transactions in which minority shareholders of Chinook might otherwise receive a premium for the Common Shares over the then-current market price.

Furthermore, AIMCo will generally have the right (subject to applicable securities laws) at any time to sell the Common Shares held by HMQ or to sell HMQ's interest in Chinook to a third party without the approval of the minority shareholders and without providing for a purchase of such shareholders' shares. Accordingly, the Common Shares held by minority shareholders may be less liquid and worth less than they would be if AIMCo did not have the ability to influence matters affecting Chinook.

Dilution

Chinook may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Chinook which may be dilutive.

Management of Growth

Chinook may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Chinook to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Chinook to deal with this growth may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Expiration of Licenses and Leases

Chinook's properties are held in the form of licenses and leases and working interests in licenses and leases. If Chinook or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of Chinook's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Dividends

Chinook has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of Chinook, the need for funds to finance ongoing operations and other considerations as the Board of Directors of Chinook considers relevant.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. Chinook is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of Chinook.

Third Party Credit Risk

Chinook may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Chinook, such failures may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Chinook's ongoing capital program, potentially delaying the program and the results of such program until Chinook finds a suitable alternative partner.

Conflicts of Interest

Certain directors of Chinook are also directors of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "Directors and Executive Officers – Conflicts of Interest".

Reliance on Key Personnel

Chinook's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Chinook's business, financial condition, results of operations and prospects. Chinook does not have any key person insurance in effect for Chinook. The contributions of the existing management team to the immediate and near term operations of Chinook are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Chinook will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Chinook.

Management Judgment and Estimation Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverability of asset carrying values

The recoverability of development and production asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of petroleum and natural gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

At December 31, 2011 the recoverable amounts of Chinook's CGUs were estimated as their fair value less cost to sell based on the following information:

a) The net present value, discounted at 10%, of the cash flows from oil and gas reserves of each CGU based on reserves estimated by Chinook's independent reserve evaluator; and

b) Consideration of acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves – assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Oil and natural gas prices – forward price estimates of the oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – the discount rate used to calculate the net present value of cash flows is based on estimates of the Company's weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Impairment tests as carried out at December 31, 2011, were based on proved and probable reserves, using a discount rate of 10 percent and forward commodity price estimates. For the year ended December 31, 2011, the Company recorded an impairment of $43.0 million ($nil for the year ended December 31, 2010). A one percent increase in the assumed discount rate would result in an additional impairment of $4.0 million for the year ended December 31, 2011, while a five percent decrease in the forward commodity price estimate would result in an additional impairment of approximately $10.0 million.

Depletion of oil and gas assets

Depletion of oil and gas assets is determined based on total proved and probable reserve values as well as future development costs as estimated by Chinook's external reserve evaluators. Reserve assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Decommissioning obligation

The provision for site restoration and abandonment is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative instruments

The estimated fair value of derivative instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty.

Stock-based compensation

The stock-based compensation expense recorded for Chinook's Share Option Plan is based on a Black-Scholes option valuation model. The inputs to this model rely on management judgment.

Deferred taxes

Tax interpretations, regulations and legislation are subject to change and as such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Foreign currency

The determination of the Company's Tunisian operation's functional currency requires assessing several factors, including the dominant currency used in transactions such as the settlement of revenues and operational and capital expenditures, and to a lesser extent financing of this operation. Management has determined that the US dollar is the functional currency of its Tunisian operations resulting in the revaluation of this segment's financial results and net assets into Chinook's Canadian dollar reporting currency with translation differences reported through other comprehensive income.

Summary of Accounting Policies

Basis of Consolidation:

Subsidiaries:

Subsidiaries are entities controlled by Chinook. Control exists when Chinook has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled assets:

Chinook conducts many of its petroleum and natural gas production activities through jointly controlled assets and the consolidated financial statements reflect only its proportionate interest in such activities.

Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statement.

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of earnings and comprehensive income. Transaction costs that Chinook incurs in connection with a business combination are expensed as incurred.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids produced by Chinook is recognized when title is transferred from Chinook to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas and natural gas liquids (which includes the deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- Chinook has transferred the significant risks and rewards of ownership of the production to the buyer;
- Chinook retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Chinook; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is presented net of recognized transportation costs. Transportation of crude oil, natural gas and natural gas liquids from the wellhead to the point of title transfer are recognized when the transportation is provided.

Share-based Compensation

Chinook has established a share option plan for certain employees, officers, directors, consultants and other service providers that will settle through the issuance of equity. The fair value of share options granted to optionees is determined on their grant date using a valuation model and recorded as stock-based compensation expense, as included on the line item general & administrative expense as reported on the consolidated statements of operations and comprehensive loss, over the period that the share options vest, with a corresponding increase to contributed surplus, as reported on the consolidated statements of financial position. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual vesting. When share options are exercised, the proceeds, together with the amounts recorded in contributed surplus, are recorded in share capital.

Exploration & Evaluation Assets (“E&E Assets”)

Exploration and evaluation expenditures are capitalized within E&E Assets until the technical feasibility and commercial viability of the project has been determined. Such E&E expenditures may include undeveloped land license acquisitions, certain technical services and studies and exploration drilling and testing. Expenditures incurred prior to obtaining the legal right to explore are expensed as incurred. If an E&E project is determined to be unsuccessful, all associated costs are charged through exploration and evaluation expense as reported on the statement of operations.

If commercial reserves are established for a project classified as an E&E Asset, the relevant cost is transferred from E&E Assets to development & producing assets as presented on the consolidated Statement of Financial Position. The expenditures for an E&E project are reviewed for impairment prior to any such transfer.

Developed & Producing Assets (“D&P Assets”)

D&P Assets, which include petroleum and natural gas development and production assets, in addition to administrative assets, are measured at cost less accumulated depletion, depreciation and amortization and accumulated impairment losses.

Gain and losses on disposal of an item of D&P Assets are partially determined by comparing the proceeds from disposal with the carrying amount of D&P Assets and are reported on the line item gains or losses on disposal of properties on the statement of operations. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of operations.

Overhead costs which are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management are capitalized. These costs include directly attributable compensation costs paid to internal personnel.

Depletion, Depreciation & Amortization (“DD&A”)

D&P Assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

a) Total estimated proved and probable reserves calculated in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities;

b) Total capitalized costs plus estimated future development costs of proved and probable reserves; and

c) Relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

E&E Assets as included in Chinook’s Canadian Segment are amortized over the term of the license, which is generally over a period of five years, whereas E&E Assets in its Tunisian Segment are not amortized.

Depreciation of corporate assets is calculated on a straight-line basis over the useful life of the related assets.

Impairment

D&P Assets

Chinook's D&P Assets are grouped into CGUs for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. Geological formation, product type, proximity to shared infrastructure and internal management are key factors considered when grouping Chinook's oil petroleum and natural gas assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of a CGU's fair value less cost to sell and its current value in use. Any excess of carrying value over recoverable amount is recognized on the statement of operations and comprehensive loss as reported on the line item impairment expense.

If there is an indicator that a previously recognized impairment charge may no longer be valid, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

E&E Assets

E&E Assets are assessed for impairment at the operating segment level. Impairment tests are carried out when E&E Assets are transferred to D&P Assets following the declaration of commercial reserves, and any time that circumstances arise which could indicate a potential impairment.

Decommissioning Obligation

Chinook recognizes a decommissioning obligation in the period in which it has a present legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, management reviews these estimates, and changes, if any, are prospectively applied. The approximated fair value of the estimated decommissioning liability is recorded as a long-term liability, with a corresponding increase to the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the associated proved plus probable reserves. The decommissioning liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in the line item financing expenses as reported on the statement of operations and comprehensive loss. Periodic revisions to the liability specific discount rate, estimated timing of cash flows or to the original estimated undiscounted costs can also result in an increase or decrease to the decommissioning obligation. Actual costs incurred upon settlement of the obligation are recorded against the decommissioning liability to the extent of the liability recorded.

Deferred Taxes

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been substantively enacted by the reporting date.

Deferred income tax expense is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred tax assets and tax liabilities are offset to the extent there is a legal enforceable right to offset the recognized amounts and the intent is to either settle on a net basis or to simultaneously realize the asset and settle the liability.

Financial Instruments

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below:

a) Fair value through profit and loss

   Financial instruments designated as fair value through profit and loss are subsequently measured at fair value with changes in those fair values charged immediately to earnings. Chinook classifies its risk management contracts and swap option as fair value through profit and loss. Cash is also classified as fair value through profit and loss.

b) Held-to-maturity loans and receivables and other financial liabilities

   Held-to-maturity receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Chinook classifies accounts receivable to loans and receivables and accounts payable and accrued liabilities and long-term debt to other financial liabilities.

Foreign Currency Translation

Chinook's Tunisian segment's assets and liabilities, as denominated in the United States dollar, are translated into Canadian dollars, the Company's presentation currency, at the rate of exchange in effect on the date of the Consolidated Statement of Financial Position. The Tunisian Segment's foreign currency revenues and expenses are translated at the period average rates of exchange where translation gains and losses are reported through other comprehensive losses. The Company's Canadian segment's functional currency is Canadian dollars.

Earnings per share

Basic earnings per share is calculated by dividing the net earnings or loss attributable to Chinook's common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net earnings attributable to Chinook's common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as granted options.

New Accounting Policies

Current Year Accounting Changes

Chinook's first year reporting of its financial statements under IFRS is 2011. Accounting standards issued to date effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

Future Accounting Changes

Chinook has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2015, Chinook will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the IASB project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models and financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the new standard on Chinook's consolidated financial statements will not be known until the project is complete.

In May 2011, the IASB released the following new standards: IFRS 10, "Consolidated financial statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosures of interests in other entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. Chinook is currently analyzing the expected impact, if any, that the adoption of the following standards will have on its consolidated financial statements:

- IFRS 10, "Consolidated financial statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities.
- IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operation and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.
- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Disclosure Controls and Procedures

Chinook's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to Chinook is made known to Chinook's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by Chinook in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the financial year-end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial year-end of the Company for the foregoing purposes.

Internal Controls over Financial Reporting

Chinook's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of Chinook's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. No material changes in Chinook's internal controls over financial reporting were identified during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, Chinook's internal controls over financial reporting. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at December 31, 2010 and concluded that the Company's internal controls over financial reporting are effective, at the financial year end of the Company, for the foregoing purpose.

It should be noted that a control system, including Chinook's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

International Financial Reporting Standards Adoption

Chinook prepared its consolidated financial statement in accordance with IFRS on January 1, 2011, and has restated its consolidated financial statements for the year ended December 31, 2010 to comply with IFRS. The financial information presented in this MD&A is derived directly from Chinook's financial statements and as such certain comparative information may differ from what was originally reported by Chinook in accordance with the previous Canadian GAAP. While the adoption of IFRS has not changed Chinook's cash flows, the adoption has resulted in changes to its reported financial position and results of operations as significant differences exist in matters of recognition, measurement and disclosure of certain specific items. A summary of the significant accounting policies that Chinook has adopted in the transition from previous Canadian GAAP to IFRS is presented below:

Opening IFRS Statement of Financial Position as at January 1, 2010

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards were applied retrospectively as at January 1, 2010 with all adjustments to assets and liabilities recognized in retained earnings unless certain exemptions to the general requirement for full retrospective application of IFRS are applied. Chinook has analyzed the various accounting policy choices available under IFRS 1 and has applied the following IFRS 1 exemptions in its IFRS statement of financial position:

Cumulative translation differences

Chinook elected to set the cumulative translation account, which is included in accumulated other comprehensive loss, to nil at January 1, 2010. As a result of IAS 21, The Effects of Changes in Foreign Exchange Rates, the Company recognized $2.6 million of cumulative currency exchange losses as at January 1, 2010 related to its Tunisian segment. Chinook elected at that time to remove the Tunisian segment's cumulative currency exchange losses that would have been reportable as accumulated other comprehensive losses and, accordingly, increase the deficit.

Deemed cost exemption for development and production and exploration and evaluation assets

Chinook elected to report these assets on January 1, 2010 at the deemed Canadian GAAP net carrying value versus retroactive application of IFRS. Crude oil and natural gas assets that were part of the full cost pool and determined to be developed or producing assets under Canadian GAAP were allocated to CGUs pro-rata using reserve values, subject to an impairment test on January 1, 2010.

Decommissioning obligation

In accounting for changes in obligations to dismantle, remove and restore items of development and producing assets, the guidance under IFRS requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, Chinook elected to measure the liability and the related accretion effects at January 1, 2010 which had the effect of increasing the decommissioning liability by $0.1 million, with an offsetting increase to the deficit.

Share-based compensation

Chinook has elected not to apply IFRS 2 "Share-Based Payments" to options which vested before January 1, 2010. As such, a $1.0 million increase in the deficit was made for options that were granted before the Transition Date but had not vested, with an offsetting increase in contributed surplus.

Business combinations

Chinook applied the exemption to not retrospectively report IFRS 3 "Business Combinations" for any business combinations prior to the Transition Date.

Accounting Policies

The following is a listing of Chinook's significant accounting policy differences under IFRS from previous Canadian GAAP:

Re-classification of Exploration and Evaluation Assets from Property and Equipment

Upon transition to IFRS, Chinook reclassified all assets that it determined to be in the E&E stage from PP&E to a separate line item on the consolidated statement of financial position. E&E assets consist of the carrying value of certain undeveloped land that relates to exploration properties and associated capital expenditures leading to the establishment of reserves that are technically feasible and commercially viable. Canadian E&E assets are amortized over five years while Tunisian E&E assets are amortized over the specific term of the exploration permit.

Under IFRS, the Company has also selected the accounting policy to expense all exploratory dry holes and geological and geophysical expenditures as incurred. Under previous Canadian GAAP, Chinook followed the full cost method of accounting for its petroleum and natural gas interests whereby all exploration costs were capitalized and accumulated within geographic cost centres.

For the year ended December 31, 2010, under the Company's IFRS 6 accounting policies, the Company expensed $10.7 million of prospecting and exploration expense most of which pertained to the unsuccessful drilling of exploratory wells on the Company's Tunisian exploration lands as previously capitalized to property, plant and equipment under the previous Canadian GAAP, in addition to amortizing $8.8 million of expenditures mostly associated with its Canadian undeveloped lands.

E&E assets must be assessed for impairment when indicators suggest the possibility of impairment as well as upon transition to developed and producing assets.

Calculation of Depletion Expense for Developed & Producing Assets

Upon transition to IFRS, Chinook has chosen to calculate depletion using a reserve base of proved plus probable reserves, as compared to the previous Canadian GAAP requirement to base depletion expense on proved reserves. Chinook made this accounting policy selection on the basis that proved plus probable reserves is thought to be more reflective of the expected useful life of the underlying assets than proved reserves alone. Chinook determined that its DD&A expense has been reduced by $19.0 million for the year ended December 31, 2010 as a result of applying this new accounting policy.

Impairment of Development & Producing Assets

Canadian GAAP historically used a two-step approach to impairment testing; first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). Under previous Canadian GAAP, Chinook segmented its petroleum and natural gas assets by country and included these carrying amounts into respective cost centers in order to perform impairment tests.

IFRS requires a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use. Under IFRS, impairment of developed and producing assets is calculated at the CGU level.

As required by IFRS 1, impairment tests were performed at January 1, 2010. Impairment tests were also conducted at December 31, 2010 as triggered by observed decreases in North American natural gas prices. No impairment was identified at either period.

IFRS requires that if impairment is recognized, and circumstances change in the future such that that impairment may be reversed, the entity must recover that impairment to the point of the original carrying amount less accumulated depletion and depreciation that would have accrued since the recognition of impairment. Previous Canadian GAAP did not permit the reversal of impairment charges on assets once recorded.

Assets Held for Sale and Disposals of Developed and Producing Assets

IFRS requires that when a long-term asset is available for immediate sale in its present condition and use and the sale is highly probable it be separately classified on the statement of financial positions as an asset held for sale and presented at the lower of carrying amount or fair value less cost to sell. For entities such as Chinook that previously followed the full cost accounting guideline under previous Canadian GAAP, no such presentation was required. IFRS also requires that liabilities directly associated with assets segregated as held for sale be presented separately as current liabilities on the consolidated statement of financial position.

Upon disposal of assets held for sale, a gain or loss is recorded in the consolidated statement of operations equal to the difference between the selling price of the asset (or group of assets) less associated selling costs and the asset's carrying value. For entities that previously followed full cost accounting under previous Canadian GAAP, no gain or loss was recorded on disposals of assets unless the disposal altered the depletion rate of the reporting segment by 20 per cent or more. Under IFRS, during the year ended December 31, 2010, Chinook determined that it had a $25.7 million gain on the disposition of properties.

Decommissioning Obligation

Under IFRS, Chinook is required to revalue its entire decommissioning obligation at each statement of financial position date using a current liability-specific discount rate. Under previous Canadian GAAP, obligations were discounted using a credit-adjusted risk-free rate and, once recorded, the decommissioning obligation was not adjusted for future changes in discount rates. At December 31, 2010, Chinook's decommissioning obligation was increased $50.9 million from $74.7 million to $125.7 million as the liability was revalued to reflect the estimated risk-free rate of interest at that time of 3% to 4%.

The Effects of Changes in Foreign Exchange Rates

Under IFRS, the functional currency of a subsidiary or branch is determined by focusing on the primary economic environment in which it operates with less emphasis placed on factors such as the financing from and operational involvement of the consolidated reporting entity. This resulted in Chinook's Tunisian operations being assessed as having a U.S. dollar functional currency versus Chinook's Canadian dollar reporting currency. As such, the foreign exchange gains or losses that arise between the translation of the Tunisian operational results and statements of financial position into Chinook's reporting currency are recognized in other comprehensive income. Previously, under Canadian GAAP, Chinook considered its Tunisian operations as integrated whereby only exchange differences between the monetary net assets and operational results were reported as foreign exchange gains or losses. For the year ended December 31, 2010, under IFRS, the Company reported a $3.0 million foreign currency translation adjustment as other comprehensive loss upon the revaluation of its Tunisian operational results and statement of financial position.

Deferred taxes

The Company has recognized an additional $7.7 million of deferred income tax expense for the year ended December 31, 2010 resulting from changes in its accounting bases due primarily to the foregoing IFRS adjustments.

Note 24 of Chinook's consolidated financial statements as at and for the years ended December 31, 2011 and 2010 filed on SEDAR at www.sedar.com provides a reconciliation of the differences recorded in the financial statements between previous Canadian GAAP and IFRS upon transition, as at December 31, 2010 and for the year ended December 31, 2010.

Other Information

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 petroleum and natural gas reserves; the expected volume of Chinook's petroleum and natural gas production for the full year 2012; 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; anticipated future cash flows and target debt levels; Chinook's 2012 guidance as set forth in the "Strategic Plan and Outlook" section; future taxes payable and tax pools; future decommissioning liabilities and funding sources for Chinook's capital program.

These forward-looking statements are based on certain key assumptions regarding, among other things: the ability of Chinook to continue to operate in Tunisia with limited logistical, security and operational issues; Chinook's ability to obtain equipment and services in a timely manner to carry out exploration and development activities; Chinook's ability to obtain equity and debt financing on satisfactory terms; future oil and natural gas prices; future well production rates and reserve volumes; Chinook's ability to add commercially viable and economic production and reserves through exploration and development activities; future 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. Chinook's forward-looking statements are 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 general economic conditions.

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: political and security risks associated with Chinook's Tunisian operations; 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; uncertainty associated with credit risk and counterparty credit risk; changes in applicable tax laws; uncertainty associated with partner plans and approvals; stock market volatility and market valuations; geological, technical, drilling and processing risks and other difficulties in exploring for 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. Therefore, Chinook's actual results, performance or achievements could differ materially from those expressed in. or implied by, these forward-looking statements. Many of these risks and uncertainties are discussed in Chinook's annual information form for the year ended December 31, 2011 and other documents that Chinook files with the Canadian Securities Regulatory Authority.

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, except as may be required by applicable securities laws.

Barrels of Oil Equivalent

Barrels of oil equivalent (boe) is calculated using the conversion factor of 6 mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.