Management's Report

The management of Chinook Energy Inc. ("Chinook") is responsible for the preparation of the consolidated financial statements. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management is responsible for the integrity of the consolidated financial statements. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP (the "Auditor") was appointed by Chinook's shareholders to express an audit opinion on the consolidated financial statements. The Auditor's examination included such tests and procedures, as the Auditor considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Audit Committee, with the assistance from the Reserves Committee regarding the annual review of Chinook's petroleum and natural gas reserves. The Audit Committee, composed of independent non-management directors, meets regularly with management and the Auditor to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of KPMG LLP and reviews their fees. The Auditor has access to the Audit Committee without the presence of management.

Matthew Brister

Chief Executive Officer

Geoff Barlow

Vice President, Finance & Chief Financial Officer

Calgary, Alberta

March 26, 2013

Independent Auditors' Report

To the Shareholders of Chinook Energy Inc.

We have audited the accompanying consolidated financial statements of Chinook Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chinook Energy Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 26, 2013
Calgary, Canada

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

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)	December 31 2012	December 31 2011
Assets		
Current		
Cash	$ 30,647	$ 11,475
Accounts receivable *(note 7)*	51,011	48,539
Inventory *(note 8)*	690	452
Derivative contracts *(note 18)*	-	551
Prepaids and deposits *(note 9)*	3,829	6,174
	86,177	67,191
Development & production assets *(note 10)*	522,807	647,512
Exploration & evaluation assets *(note 10)*	13,492	30,700
	$ 622,476	$ 745,403
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities and other *(note 11)*	$ 64,187	$ 60,398
Derivative contracts & swap option *(note 18)*	-	3,580
Deferred disposition proceeds on joint arrangement *(note 10)*	3,051	3,051
Taxes payable	2,185	591
	69,423	67,620
Long-term debt *(note 12)*	89,137	137,500
Decommissioning obligation *(note 13)*	110,453	95,432
Deferred income taxes *(note 14)*	9,333	8,555
Deferred lease obligation	528	1,585
Shareholders' Equity		
Share capital	778,070	778,070
Contributed surplus	19,517	17,240
Deficit	(451,700)	(360,672)
Accumulated other comprehensive (loss) income	(2,285)	73
	343,602	434,711
	$ 622,476	$ 745,403

Commitments (note 19)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of Canadian dollars, except per share amounts)	Year ended December 31 2012	2011
Revenue		
Petroleum & natural gas revenue	**$ 193,795**	$ 238,482
Royalties	**(11,993)**	(35,719)
Petroleum & natural gas revenue, net of royalties	**181,802**	202,763
Processing & gathering revenue	**7,922**	8,468
Petroleum, natural gas & other revenue, net of royalties	**189,724**	211,231
Expense		
Production & operating	**85,579**	99,576
General & administrative	**16,416**	19,704
Exploration & evaluation	**9,566**	11,686
Commodity contract loss (gains) *(note 18)*	**(3,943)**	4,786
Net financing expenses *(note 16)*	**7,767**	11,259
Depletion, depreciation & amortization *(note 10)*	**98,535**	110,310
Impairment of development & production assets *(note 10)*	**82,000**	43,000
Gain on disposition of properties *(note 10)*	**(22,511)**	(22,914)
Foreign exchange loss (gains) & other	**528**	(712)
	273,937	276,695
Loss before income taxes	**(84,213)**	(65,464)
Income taxes expense		
Current income tax expense *(note 14)*	**6,193**	3,496
Deferred income tax expense (recovery) *(note 14)*	**622**	(5,208)
	6,815	(1,712)
Net loss	**(91,028)**	(63,752)
Foreign currency translation (losses) gains on foreign operations	**(2,358)**	3,034
Comprehensive loss	**$ (93,386)**	$ (60,718)
Net loss per share, basic and diluted *(note 15(d))*	**$ (0.42)**	$ (0.30)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance as at December 31, 2010	**214,188**	**$ 778,070**	**$ 11,593**	**$ (296,920)**	**$ (2,961)**	**$ 489,782**
Stock-based compensation *(note 15(c))*	-	-	5,647	-	-	5,647
Other comprehensive gain for the period	-	-	-	-	3,034	3,034
Net loss for the period	-	-	-	(63,752)	-	(63,752)
Balance as at December 31, 2011	**214,188**	**$ 778,070**	**$ 17,240**	**$ (360,672)**	**$ 73**	**$ 434,711**
Stock-based compensation *(note 15(c))*	-	-	2,277	-	-	2,277
Other comprehensive loss for the period	-	-	-	-	(2,358)	(2,358)
Net loss for the period	-	-	-	(91,028)	-	(91,028)
Balance as at December 31, 2012	**214,188**	**$ 778,070**	**$ 19,517**	**$ (451,700)**	**$ (2,285)**	**$ 343,602**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31 2012	2011
Operating Activities		
Net loss	**$ (91,028)**	$ (63,752)
Add (deduct):		
Accretion *(note 13)*	**2,853**	3,269
Depletion, depreciation and amortization *(note 10)*	**98,535**	110,310
Impairment of development & production assets *(note 10)*	**82,000**	43,000
Exploration & evaluation expense	**9,566**	11,686
Unrealized derivative transactions and swap option gain (loss) *(note 18)*	**(3,029)**	3,965
Gain on disposition of properties *(note 10)*	**(22,511)**	(22,914)
Stock-based compensation *(note 15 (c))*	**2,277**	5,647
Deferred income tax expense (recovery)	**622**	(5,208)
Foreign exchange and other non-cash charges	**(588)**	(999)
Decommissioning expenditures *(note 13)*	**(2,982)**	(3,035)
Change in other non-cash working capital *(note 20)*	**8,229**	(11,169)
Cash flow from operating activities	**83,944**	70,800
Financing Activities		
Long-term debt repayment	**(137,500)**	(30,293)
Long-term debt borrowings	**89,500**	-
Deferred financing charges *(note 12)*	**(363)**	-
Change in non-cash working capital *(note 20)*	**-**	(819)
Cash flow from financing activities	**(48,363)**	(31,112)
Investing Activities		
Capital expenditures *(note 10)*	**(79,714)**	(119,701)
Business combination *(note 6)*	**(29,943)**	-
Exploration and evaluation expenditures	**(9,355)**	(11,686)
Proceeds on property dispositions *(note 10)*	**106,287**	83,751
Change in non-cash working capital *(note 20)*	**(3,599)**	(4,030)
Cash flow from investing activities	**(16,324)**	(51,666)
Change in cash, during the period	**19,257**	(11,978)
Cash, beginning of period	**11,475**	23,195
Cash, foreign exchange	**(85)**	258
Cash, end of period	**$ 30,647**	$ 11,475

Other supplementary cash flow information (note 20)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting Entity

Chinook Energy Inc. was incorporated under the laws of the Province of Alberta, Canada, on August 28, 2003.

These consolidated financial statements include the accounts of Chinook Energy Inc. and its directly and indirectly wholly-owned subsidiaries and foreign branches (collectively, "Chinook" or the "Company"), after the elimination of intercompany balances and transactions.

Chinook's current operations are to explore, develop and produce natural gas, crude oil and natural gas liquids in Canada and Tunisia. In addition to the corporate segment, Chinook has treated each country in which it conducts business as an identifiable reporting segment.

Chinook's common shares are listed on the Toronto Stock Exchange under the symbol CKE. The head office and principal address of Chinook is Suite 700, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements are presented under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and were prepared using accounting policies consistent with IFRS. A summary of Chinook's significant IFRS accounting policies are presented in Note 3.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 26, 2013.

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis with the exception of cash and derivative financial instruments which are measured at fair value. The method used to measure fair values is discussed in Note 18.

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars which is also the Company's Canadian and Corporate segments' functional currency. The Tunisian segment's functional currency is the United States dollar.

Management Judgment and Estimation Uncertainty

The preparation of financial statements requires management judgment and estimation uncertainty 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Management judgment that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below:

Cash Generating Units

The recoverability of development and production asset carrying values was assessed at the Cash Generating Unit ("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.

Derivative instruments

The fair values of derivative instruments results in financial assets and liabilities, where the relevant commodity benchmark and market price combined with the forward commodity price curve as subject to measurement judgment.

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

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.

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 petroleum and natural 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 petroleum and natural 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) Petroleum and natural gas prices – forward price estimates of the petroleum 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 – Changes in the general economic environment could result in significant changes to the discount rate used to calculate the net present value of cash flows.

Impairment tests as carried out were based on proved and probable reserves, using a discount rate of 10 percent and forward commodity price estimates. The Company recorded an impairment charge of $82.0 million for the year ended December 31, 2012 ($43.0 million for the year ended December 31, 2011). A one percent increase in the assumed discount rate would result in an additional impairment of $24.4 million for the year ended December 31, 2012, while a five percent decrease in the forward commodity price estimate would result in an additional impairment of approximately $40.8 million.

Depletion of petroleum and natural gas assets

Depletion of petroleum and natural 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 revised.

Decommissioning obligation

The provision for the decommissioning obligation 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.

Stock-based compensation

The stock-based compensation expense recorded for Chinook's Share Option Plan is based on the Black-Scholes option valuation model.

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 loss.

3. 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 statements.

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 on 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 operations and comprehensive loss. 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 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 natural gas transportation costs.

Share-based Compensation

Chinook has established a share option plan for 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 share-based compensation expense, as included in 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 consolidated statements of operations and comprehensive loss.

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 and producing assets as presented on the consolidated statements of financial position. The expenditures for an E&E project are reviewed for impairment prior to any such transfer.

Development & Production 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.

Gains and losses on the disposals of D&P Assets are in part determined by comparing the proceeds from the disposals with the carrying amount of disposed D&P Assets and are reported on the line item gains or losses on disposal of properties on the consolidated statements of operations and comprehensive loss. 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 consolidated statements of operations and comprehensive loss.

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 applicable license, which is generally over a period of five years, whereas E&E Assets in its Tunisian Segment are amortized over the specific exploration permit's term.

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 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 approximate 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 consolidated statements 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 legally 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.

Deferred tax assets are reduced by a valuation allowance unless it is more likely than not that the assets will be realized.

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's previously held risk management contracts and swap options were classified as fair value through profit and loss.

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

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

Chinook classifies its fair value through profit and loss financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- **Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- **Level 3** – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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 statements 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.

Inventory

Crude oil inventory is measured at the lower of cost (on a weighted average cost basis) or net realizable value. As determined on a concession by concession basis, cost is measured as Chinook's expenses related to the operation, depletion and, if applicable, the royalties associated with the production of the crude oil inventory.

4. New Standards and Interpretations Not Yet Adopted

Standards that are issued but not yet effective and that Chinook reasonably expects to be applicable at a future date are listed below:

The IASB released the following new standard effective for annual periods beginning on or after January 1, 2015:

- **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.

The IASB released the following new standards as to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted:

- **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. Joint ventures will be accounted for using the equity method of accounting, whereas joint operations are to be accounted for by recognizing the venturer’s share of the assets, liabilities, revenue and expenses. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting treatment. The standard provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- **IFRS 12**, “Disclosure of Interests in Other Entities” combines into a single standard the disclosure requirement for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- **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.

Chinook has not completed its assessment of the impact of the above standards.

5. DETERMINATION OF FAIR VALUES

A number of Chinook’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Development & Production and Exploration & Evaluation Assets

The fair value of development & production and exploration & evaluation assets recognized in a business combination, is based on market values. The market value of development & production and exploration & evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas interests (included in development & production assets) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

Accounts Receivable, Accounts Payable and Accrued Liabilities and Bank Debt

The fair value of accounts receivable, accounts payable and accrued liabilities and bank debt is estimated using the present value of future cash flows, discounted at the market rate of interest at the reporting date. Attributable transaction costs of these financial instruments are included in the recognized amount of the related financial instrument and are reported over the life of the resulting financial instrument using the effective interest rate method.

Derivatives and Swap Option

The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the reporting date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

Stock Options

The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments and the risk-free interest rate.

6. Business Combination

On December 12, 2012, Chinook acquired property that included working interests in certain facilities and producing wells in the Knopcik area of northwestern Alberta for a cash purchase price of $29.9 million after adjustments.

The estimated fair value of the acquired developed and producing assets was determined using both internal estimates and an independent reserve evaluation. The decommissioning obligation acquired was determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the acquired wells and facilities. A summary of the business combination is as follows:

Estimated fair value of business combination:	
Development and production assets	**$ 30,322**
Exploration and evaluation assets	**250**
Decommissioning obligation	**(629)**
	$ 29,943
Cash consideration, net of adjustments	**$ 29,943**

If this business combination had been effective January 1, 2012, management estimates petroleum and natural gas revenues for the year ended December 31, 2012 would have been $5.4 million.

Between the acquisition date and December 31, 2012, approximately $0.5 million of production revenue was recognized related to this business combination.

7. Accounts Receivable

The Company's accounts receivable is comprised of:

	December 31 2012	December 31 2011
Trade accounts & accrued receivables	**$ 43,909**	$ 43,955
Other receivables	**2,793**	6,278
Cash call receivables	**5,366**	1,229
Allowance for doubtful accounts	**(1,057)**	(2,923)
	$ 51,011	$ 48,539

The Company's accounts receivable balance is aged as follows:

	December 31 2012	December 31 2011
Not past due	**$ 45,092**	$ 43,118
Past due by more than 90 days, net of allowance	**5,919**	5,421
	$ 51,011	$ 48,539

8. Inventory

Inventory is comprised of crude oil produced in Tunisia that is either in transit from the wellheads or is being stored at terminal facilities awaiting delivery to shipping tankers.

During the year ended December 31, 2012, Chinook sold the approximately 10,000 barrels of crude inventory as valued at cost of $0.5 million that it held at December 31, 2011 during the year ended December 31, 2012, as reported through the consolidated statements of operations and comprehensive loss. At December 31, 2012, Chinook had approximately 15,000 barrels of crude oil inventory as valued at cost of $0.7 million.

9. Prepaids and Deposits

Chinook's prepaids and deposits are comprised of:

	December 31 2012	December 31 2011
Prepaids	**$ 1,615**	$ 2,432
Deposits	**$ 2,214**	3,742
	$ 3,829	$ 6,174

10. Development & Production and Exploration & Evaluation Assets

The following table reconciles Chinook's D&P and E&E Assets:

	Development & Production Assets	Exploration & Evaluation Assets	Total
Cost of Assets			
Balance as at December 31, 2010	**$ 803,884**	**$ 61,009**	**$ 864,893**
Capital expenditures	118,238	1,463	119,701
Cost of properties sold	(81,061)	(537)	(81,598)
Transfer from E&E to D&P	3,710	(3,710)	-
Change in decommissioning asset additions	(18,366)	-	(18,366)
Foreign exchange adjustment	3,512	1	3,513
Balance as at December 31, 2011	**$ 829,917**	**$ 58,226**	**$ 888,143**
Capital expenditures	72,509	7,205	79,714
Business combination	30,322	250	30,572
Cost of properties sold	(120,916)	(2,069)	(122,985)
Transfer from E&E to D&P	4,652	(4,652)	-
Change in decommissioning asset additions	30,030	-	30,030
Foreign exchange adjustment	(2,483)	-	(2,483)
Balance as at December 31, 2012	**$ 844,031**	**$ 58,960**	**$ 902,991**
Accumulated Depletion, Depreciation & Amortization			
Balance as at December 31, 2010	**$ (55,513)**	**$ (8,837)**	**$ (64,350)**
Depletion, depreciation & amortization	(91,265)	(19,045)	(110,310)
Impairment	(43,000)	-	(43,000)
Inventoried depletion	(202)	-	(202)
Disposals	8,431	211	8,642
Transfer from E&E to D&P	(145)	145	-
Foreign exchange adjustment	(711)	-	(711)
Balance as at December 31, 2011	**$ (182,405)**	**$ (27,526)**	**$ (209,931)**
Depletion, depreciation & amortization	(79,183)	(19,352)	(98,535)
Impairment	(82,000)	-	(82,000)
Inventoried depletion	(5)	-	(5)
Disposals	22,230	1,410	23,640
Foreign exchange adjustment	139	-	139
Balance as at December 31, 2012	**$ (321,224)**	**$ (45,468)**	**$ (366,692)**
Net Book Values			
Balance as at December 31, 2011	$ 647,512	$ 30,700	$ 678,212
Balance as at December 31, 2012	**$ 522,807**	**$ 13,492**	**$ 536,299**

The Company capitalized $4.1 million of direct G&A costs as related to its exploration and development activity for the year ended December 31, 2012 (2011 - $2.1 million).

Impairment

For the year ended December 31, 2012, Chinook recognized an impairment charge of $82.0 million as a result of triggers at June 30, 2012 and December 31, 2012 as a result of reductions in Canadian petroleum and natural gas prices as listed by McDaniel & Associates Consultants Ltd. As of December 31, 2012, when combined with the impairment of $43.0 million as reported for the year ended December 31, 2011, Chinook's cumulative impairment charges are $125.0 million. At a future date, if there is an indicator that a previously recognized impairment charge may no longer be valid, the recoverable amount of the relevant Canadian CGU will be calculated and compared against the carrying amount. An impairment charge could be recovered to the extent that the Canadian 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.

The impairment tests carried out at December 31, 2012 were based on the same reserve basis and net present value as per the 2012 tests and the following commodity price estimates:

Year	Brent Crude Oil (US$/bbl)[1]	Edmonton Light Crude Oil ($/bbl)[1] [2]	AECO Gas ($/mmbtu)[1] [3]	US/Cdn Exchange (US$/Cdn)[1]
2013	$ 107.50	$ 87.50	$ 3.35	1.000
2014	$ 102.50	$ 90.50	$ 3.85	1.000
2015	$ 101.40	$ 92.60	$ 4.35	1.000
2016	$ 100.80	$ 94.50	$ 4.70	1.000
2017	$ 100.10	$ 96.40	$ 5.10	1.000
Thereafter	2%/yr	2%/yr	2%/yr	1.000

(1) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2013.
(2) Central market point for Canadian crude oil.
(3) Central market point for Canadian natural gas.

The impairment tests as carried out at December 31, 2011, were based on the same reserve basis and net present value as per the 2012 tests and the following commodity price estimates:

Year	Brent Crude Oil (US$/bbl)[1]	Edmonton Light Crude Oil ($/bbl)[1] [2]	AECO Gas ($/mmbtu)[1] [3]	US/Cdn Exchange (US$/Cdn)[1]
2012	$ 107.50	$ 99.00	$ 3.50	0.975
2013	$ 102.60	$ 99.00	$ 4.20	0.975
2014	$ 102.60	$ 101.50	$ 4.70	0.975
2015	$ 103.50	$ 102.30	$ 5.10	0.975
2016	$ 104.40	$ 103.20	$ 5.55	0.975
Thereafter	2%/yr	2%/yr	2%/yr	0.975

(1) Source: McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2012.
(2) Central market point for Canadian crude oil.
(3) Central market point for Canadian natural gas.

Chinook determined that there were no indicators of impairment related to its Tunisian segment at December 31, 2012.

BJA-2 and Nessma Exploration Well

During the year ended December 31, 2012, Chinook drilled its BJA-2 exploration well, located on its Sud Remada exploration permit onshore Tunisia, along with its Nessma non-operated exploratory well near its Adam Concession. These wells were determined to be unsuccessful for petroleum or natural gas reserves and these costs of $3.8 million, along with other exploratory costs of $5.8 million, for the year ended December 31, 2012, were charged directly to exploration and evaluation expense as reported on the consolidated statement of operations and comprehensive loss.

Property Dispositions

During the year ended December 31, 2012, Chinook has completed the sale of several petroleum and natural gas properties for aggregate net proceeds of $106.3 million (2011 - $83.7 million). The carrying amount of these sold properties, less $15.6 million of associated decommissioning obligations (see Note 13), was less than the sales proceeds received resulting in a gain of $22.5 million for the year ended December 31, 2012 ($22.9 million for the year ended December 31, 2011).

Joint Arrangement

On December 14, 2011, SVI Barbados entered into a farmout agreement with a wholly-owned subsidiary of New Zealand Oil and Gas Ltd., NZOG Hammamet Pty. Limited ("NZOG"), whereby NZOG will participate with SVI Barbados in the development of the Cosmos Concession located offshore Tunisia. Under the terms of the farmout agreement, NZOG paid an initial consideration of US$3.0 million to potentially acquire an undivided 40% participating interest in the Cosmos Concession. Subject to a positive final investment decision ("FID") to proceed with the development of the Cosmos Concession under a development plan prepared by SVI Barbados, NZOG would pay 100% of SVI Barbados's share of development costs up to US$19.0 million (in addition to its own share). On March 19, 2013, SVI Barbados and NZOG entered into an agreement pursuant to which each of SVI Barbados and NZOG acknowledged that it had given a negative FID and which amends the farmout agreement so that, if SVI Barbados and NZOG cannot agree on an alternative appraisal program for the Cosmos Concession by April 18, 2013, NZOG's right to complete its earning and acquisition of an interest in the Cosmos Concession will terminate.

11. Accounts Payable, Accrued Liabilities and Other

Chinook's accounts payable, accrued liabilities and other are comprised of:

	December 31 2012	December 31 2011
Trade accounts payable	**$ 16,685**	$ 14,920
Accrued liabilities	**29,812**	30,108
Joint operations accounts payable	**16,240**	12,747
Royalties payable	**394**	1,567
Deferred lease obligation	**1,056**	1,056
	$ 64,187	$ 60,398

12. Debt

Year ended December 31	2012	2011
Canadian revolving term credit facility	**$ 89,500**	$ 137,500
Deferred financing costs	**(363)**	-
Balance, end of period	**$ 89,137**	$ 137,500

On December 11, 2012, Chinook signed a new Canadian reserve-based 364 day revolving credit facility (the "Canadian Revolving Term Credit Facility") with a syndicate of Canadian banks with a maximum availability of $115.0 million, as compared to the previous facility maximum availability of $194.0 million as at December 31, 2011. The reduced availability of Chinook's Canadian Revolving Term Credit Facility is the result of Canadian property sales and continued lower Canadian petroleum and natural gas prices. The current revolving period ends on June 27, 2013. In the event that the revolving period is not extended by the banks prior to this date, all amounts then outstanding under the Canadian Revolving Term Credit Facility must be repaid before June 27, 2014. The Canadian Revolving Term Credit Facility is subject to a semi-annual review and redetermination. Changes in the availability of the Canadian Revolving Term Credit Facility are possible, from one renewal period to the next, with draws in excess of availability becoming payable within 60 days. At December 31, 2012, Chinook had drawn $89.5 million on the Canadian Revolving Term Credit Facility (December 31, 2011 - $137.5 million) resulting in available credit on this facility of $25.5 million (December 31, 2011 - $56.5 million). Approximately $0.4 million in deferred financing costs were recognized at signing and are being amortized through to the expiry of the facility in June 2014.

The new Canadian Revolving Term Credit Facility is guaranteed by Chinook's Canadian subsidiaries and collateralized by floating charges and security interests over all present and future Canadian properties and other Canadian assets of Chinook and its Canadian subsidiaries. Interest payable on amounts drawn on this facility vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptances depending on the borrowing option selected by Chinook. The effective blended interest rate on draws against the debt facilities for the year ended December 31, 2012, was 4.4% (2011 – 4.3%). The Canadian Revolving Term Credit Facility contains a covenant whereby the ratio of Chinook's debt in Canada to the earnings attributable to its Canadian operations 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, 2012, Chinook was in compliance with this covenant.

On March 15, 2013, Chinook signed a US$75.0 million international amortizing reserve-based credit facility (the "International Credit Facility") for a term of five years with an international bank. The initial availability of this facility is US$46.5 million. The International Credit Facility is subject to a semi-annual review and redetermination, where the available amount will be reassessed and outstanding draws must be paid down to the lower of the new available amount or the current repayment commitment. The term of the International Credit Facility can be reduced from the anticipated final maturity date of March 2018 or a date where the estimated reserve recoveries of the borrowing base assets fall below a prescribed rate. The International Credit Facility is collateralized by floating charges and security interests over all of Chinook's Tunisian assets, including the shares of Chinook's international subsidiaries which have an interest in such assets. Interest payable on drawings from the International Credit Facility will vary based on a prescribed margin plus U.S. LIBOR. Chinook incurred approximately US$2.4 million in deferred financial costs at the time of signing the International Credit Facility, which will be amortized through to its expiry.

13. Decommissioning Obligation

The total future decommissioning obligations were estimated by management based on Chinook's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management increased its cost estimate for abandonment and reclamation of wells and facilities for $29.2 million at December 31, 2012 (December 31, 2011 - decrease of $22.9 million). Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $118.2 million ($106.3 million at December 31, 2011). At December 31, 2012 management estimates that these payments are expected to be made over the next 51 years. A risk free rate of 2.5% in 2012 (2011 - 2% to 3%) and an inflation rate of 2% in 2012 (2011 - 2% to 3%) were used to calculate the present value of the decommissioning obligations.

Year ended December 31	2012	2011
Balance, beginning of period	**$ 95,432**	$ 125,653
Dispositions	**(15,569)**	(12,119)
Decommissing obligations after dispositions	**79,863**	113,534
Development activities	**1,024**	4,527
Business combination	**629**	-
Increase (decrease) relating to change in estimates	**29,217**	(22,893)
Settlement	**(2,982)**	(3,035)
Accretion expense	**2,853**	3,269
Foreign exchange adjustment	**(151)**	30
Balance, end of period	**$ 110,453**	$ 95,432

14. Income Taxes

The major components of income tax expense for the years ended December 31 were as follows:

Year ended December 31	2012	2011
Current tax		
Current income tax charge	**$ 6,193**	$ 3,496
Deferred income tax		
Relating to origination and reversal of temporary differences	**$ 622**	$ (5,208)

Current taxes arise from the Tunisia business segment.

The provision for income taxes reflects an effective tax rate which differs from the expected statutory rate. Differences were accounted for as follows:

	December 31 2012	December 31 2011
Loss before tax	**$ (84,213)**	$ (65,464)
Expected tax rate	**25.0%**	26.5%
Expected income tax recovery	**$ (21,053)**	$ (17,348)
Effect on income tax resulting from:		
Difference between current and future tax rates	**-**	1,291
Stock-based compensation	**569**	1,496
Change in unrecognized tax asset	**23,374**	9,652
Difference between foreign tax rates and Canadian tax rates	**(385)**	1,790
Other non-deductible expenses	**4,310**	1,407
Total income tax expense	**$ 6,815**	$ (1,712)

The statutory tax rate consists of the combined federal and provincial tax rates applicable for the Company and its subsidiaries. The combined statutory rate decreased from 26.5% for the year ended December 31, 2011 to 25.0% for the year ended December 31, 2012 due to a reduction in the 2012 Canadian corporate tax rates as part of a series of corporate tax rate reductions previously enacted by the Canadian Federal Government in 2007.

Unrecognized deferred tax assets

At December 31, 2012 the Company had $99.6 million (December 31, 2011 - $30.6 million) of non-capital losses available to reduce income tax in future years that expire in 2017 or later. At December 31, 2012, the Company also had resource pools amounting to $356.0 million (December 31, 2011 - $439.3 million) and other available tax deductions amounting to $39.9 million (December 31, 2011 - $36.6 million). The Company has not recorded deferred tax assets in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31 2012	December 31 2011
Deferred tax liabilities:		
Development and production / exploration and evaluation assets	**$ 34,486**	$ 47,620
Less deferred tax assets:		
Non-capital losses	**(1,081)**	(12,800)
Derivative contracts	**-**	(757)
Provisions	**(24,072)**	(25,508)
Net deferred tax liability	**$ 9,333**	$ 8,555

Movement in deferred taxes related to temporary differences during the year ended December 31, 2012:

	Balance at December 31, 2011	Recognized in statement of loss	Recognized in equity and other	Balance at December 31, 2012
Development & production exploration and evaluation assets	$ 47,620	$ (13,290)	$ 156	**$ 34,486**
Derivative contracts	-		-	**-**
Non-capital tax losses	(12,800)	11,719	-	**(1,081)**
Derivative contracts	(757)	757	-	**-**
Provisions	(25,508)	1,436	-	**(24,072)**
	$ 8,555	$ 622	$ 156	**$ 9,333**

Movement in deferred taxes related to temporary differences during the year ended December 31, 2011:

	Balance at December 31, 2010	Recognized in statement of loss	Recognized in equity and other	Balance at December 31, 2011
Development and production exploration and evaluation assets	$ 51,936	$ (4,316)	-	$ 47,620
Derivative contracts	157	(19)	-	-
Non-capital tax losses	(2,133)	(10,667)	-	(12,800)
Derivative contracts	-	(895)	-	(757)
Provisions	(36,197)	10,689	-	(25,508)
	$ 13,763	$ (5,208)	-	$ 8,555

Uncertain Tax Positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

15. Share Capital

a) Authorized:

An unlimited number of no par value common shares and first preferred shares in addition to 1,279,000 share purchase warrants.

b) Issued and Outstanding:

Common Shares

All common shares are fully paid. The holders of common shares are entitled to share equally in dividends, returns of capital and to vote at shareholders' meetings.

First Preferred Shares

No first preferred shares have been issued.

Warrants

The Company issued 1,279,000 share purchase warrants ("Warrants") on May 27, 2010, in connection with a financing. As at December 31, 2012 and December 31, 2011, all of the Warrants were outstanding. Each Warrant is exercisable to acquire one common share of the Company at a price of $3.25 per common share on or before June 30, 2013.

c) Stock-Based Compensation Plan

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted to employees, directors, officers, and other service providers of the Company. The maximum number of common shares issuable on exercise of options granted pursuant to the share option plan may not exceed 10% of the issued and outstanding common shares of the Company less the number of common shares which are issuable pursuant to all other security based compensation arrangements as defined in the option plan. The outstanding options of the Company vest over a period of three years and expire five years after the date granted.

A summary of options outstanding is as follows:

	Number of Options (thousands)
Balance as at December 31, 2010	**12,136**
Granted	4,743
Forfeited	(1,424)
Balance as at December 31, 2011	**15,455**
Granted	1,279
Forfeited	(2,873)
Balance as at December 31, 2012	**13,861**

The table below summarizes the outstanding stock options and their respective weighted average exercise prices remaining life in years and the number of exercisable options and their respective weighted average exercise prices and remaining life.

	Outstanding Options			Options Exercisable		
Range of Exercise Prices ($/option)	Options Outstanding *(thousands)*	Weighted Average Exercise Prices *($/option)*	Weighted Average Remaining Life *(years)*	Options Outstanding *(thousands)*	Weighted Average Exercise Prices *($/option)*	Weighted Average Remaining Life *(years)*
$1.10 - $1.85	5,048	$ 1.52	3.8	1,578	$ 1.59	3.6
$1.86 - $2.20	5,861	2.10	2.4	4,545	2.08	2.2
$2.21 - $2.72	2,952	2.58	2.3	1,950	2.58	2.3
	13,861	$ 1.99	2.9	8,073	$ 2.11	2.5

Total stock-based compensation, as included in the line item general and administrative expense as reported in the consolidated statements of operations and comprehensive loss, for the year ended December 31, 2012, was $2.3 million, (2011 - $5.6 million). The following factors were used in the Black-Scholes pricing model for the determination of the fair value for options granted during the year ended December 31, 2012 and 2011:

Year ended December 31	2012	2011
Expected average life *(years)*	**1 to 3**	1 to 5
Risk-free interest rate *(%)*	**0.97 to 1.34**	0.86 to 2.84
Estimated forfeiture rate per annum *(%)*	**9.3 to 11.2**	0 to 30
Volatility factor *(%)*	**40 to 55**	44 to 59

The weighted average fair value determined for options granted during the year ended December 31, 2012, was $0.35 per option (2011 - $0.52 per option).

d) Per Share Amounts

The per share amounts for the year ended December 31, 2012 and 2011, were calculated as per the following table. Diluted income per share assumes the exercise of options and Warrants as if issued at the later of the date of grant or the beginning of the period. This calculation takes into account only the options and Warrants that are considered to be “in-the-money”. However, as Chinook has net losses across all reporting periods, the dilutive effect of “in-the-money” options and Warrants has been excluded in the calculation of diluted weighted average shares outstanding because inclusion would result in an anti-dilutive effect.

Year ended December 31	2012	2011
Net loss	**$ (91,028)**	$ (63,752)
Per share - basic and diluted *($/share)*	**$ (0.42)**	$ (0.30)
Weighted average shares outstanding - basic and diluted *(thousands)*	**214,188**	214,188

16. Net Financing Expenses

Year ended December 31	2012	2011
Interest on bank debt and other interest	**$ 4,500**	$ 7,158
Interest earned on bank deposits	**(286)**	(87)
Finance charges and fees	**700**	919
Accretion of decommissioning obligation *(note 13)*	**2,853**	3,269
Net financing expenses	**$ 7,767**	$ 11,259

17. Related Party Transactions

Chinook has determined that the key management personnel consist 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’ salaries and directors fees paid, in addition to other benefits and share-based compensation, as included in general and administrative expenses relating to key management personnel for 2012 was $2.9 million and $1.9 million, respectively (2011 - $1.9 million and $2.7 million, respectively).

Chinook utilizes the services of a law firm in which the Corporate Secretary and a former director of the Company are partners. During the year ended December 31, 2012, Chinook expensed $0.4 million (2011 - $0.6 million) on legal services obtained from the firm. At December 31, 2012, $nil remained in accounts payable (2011 - $0.1 million).

AIMCo is a significant shareholder of Chinook. 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 from the nominees of AIMCo to Chinook during the year ended December 31, 2012 was $3.5 million (year ended December 31, 2011 - $3.0 million), of which $1.9 million as at December 31, 2012, was included in accounts receivable (December 31, 2011 - $0.3 million). At December 31, 2012, a net payable of $10.8 million remained related to the ongoing operations of jointly-held producing and non-producing oil and natural gas properties (at December 31, 2011, a net payable of $0.1 million).

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

18. Financial Instruments and Market Risk Management

Financial Instrument Classification and Measurement

Chinook's financial instruments carried on the consolidated statements of financial position as at December 31, 2012 are carried at amortized cost with the exception of cash which is carried at fair value. Chinook's cash was assessed on the fair value hierarchy as Level 1 as it is transacted in active markets. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

As at December 31, 2012 Chinook had no outstanding financial risk management contracts or swap options.

Market Risk Management

Chinook is exposed to a number of market risks that are part of its normal course of business. Management has primary responsibility for monitoring and managing financial instrument risks under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework. In the sections below, Chinook has prepared a sensitivity analysis in an attempt to demonstrate the effect of changes in these market risk factors on its consolidated statements of operations and comprehensive loss.

Commodity Price Risk

Chinook's operational results and financial condition are largely dependent on the commodity prices received for its crude oil and natural gas production. Commodity prices have fluctuated widely during recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors. Movement in commodity prices could have a significant positive or negative impact on Chinook's statements of operations and comprehensive lose. The use of such instruments is subject to limits established and approved by the Board of Directors. The Company's policy precludes the use of derivative financial instruments for speculative purposes.

Chinook is constantly exposed to the risk of changing commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also global economic events that dictate the levels of supply and demand. To partially mitigate exposure to commodity price risk, Chinook entered into various financial derivative instruments (see Risk Management Contracts) during the year ended December 31, 2012. No financial risk management contracts were outstanding at December 31, 2012.

Interest Rate Risk

Changes in interest rates would result in a change in the amount Chinook pays to service variable interest rate debt. If interest rates applicable to Chinook's variable rate debt were to increase by 100 basis points it is estimated that Chinook's statements of operations and comprehensive loss would increase by $0.9 million.

Foreign Exchange Risk

North American crude oil and natural gas prices are based, directly or indirectly, upon US dollar denominated commodity prices. As a result, the price received by Chinook is affected by the Canadian/US dollar exchange rate that may fluctuate over time.

The Company's Tunisian production revenues are received in US dollars and a significant portion of this segment's operational and capital expenditures are paid in United States dollars. Chinook translates the financial results and net assets of its Tunisian segment from US dollars to Canadian dollars using the average rate for the period and the spot rate in effect on the date of the statement of financial position, respectively. Translation gains or losses are reported on the line item foreign currency translation gains (losses) of foreign operations as included within the consolidated statements of operations and comprehensive loss. The following table illustrates the effects on Chinook's Tunisian segment's net book value at December 31, 2012 of a 10 percent increase or decrease in the US dollar relative to the Canadian dollar:

	Decrease in USD/CAD	Increase in USD/CAD
Other comprehensive income increase (decrease) due to revaluation of USD to CAD	$ 10,273	$ (10,745)

As at December 31, 2012 and 2011, the Company had no risk management contracts in place to reduce foreign exchange risk.

Risk Management Contracts

Chinook uses commodity price risk management contracts to reduce its exposure to fluctuations in commodity prices. In December 2012, Chinook entered into a Canadian Revolving Term Credit Facility with a syndicate of banks that required the settlement of all outstanding risk management contracts held by counter parties not within this syndicate. Chinook settled these risk management contracts for a nominal amount prior to the end of their terms, as included on the line item commodity contract losses of the consolidated statements of operations and comprehensive loss.

The impact on Chinook's consolidated statements of operations and comprehensive loss from commodity price risk management contracts and the swap option contract for the years ending December 31, 2012 and 2011 were as follows:

Year ended December 31	2012	2011
Realized (gain) loss on commodity contracts	**$ (914)**	$ 821
Unrealized (gain) loss on commodity contracts	**(3,029)**	3,965
	$ (3,943)	$ 4,786

As at December 31, 2012, there were no outstanding risk management contracts or swap options. As at December 31, 2011, the swap option and commodity price contracts were reported at their fair values as determined through the difference in the referenced market forward prices of the respective commodity over the remaining period of the contract as compared to Chinook's received price multiplied by the notional volumes during the remaining period. As at December 31, 2011, the swap option was reported at fair value as determined by a Black-Scholes model which includes the inputs of a forward WTI price and expected WTI price volatility over the remaining term of the swap option.

Subsequent to year end but prior to March 26, 2013, Chinook entered into a Brent crude costless collar contract to sell a notional quantity of 500 barrels per day with a lower and upper strike price of US$95.00 per barrel and US$115.50 per barrel, respectively, commencing February 1, 2013 for a term of eleven months, without a contract premium, in addition to an AECO natural gas swap contract commencing on April 1, 2013 for a term of nine months, to sell a notional quantity of 7,000 GJ per day pursuant to which Chinook will receive a fixed price of $3.20 per GJ and pay a floating price based on the AECO spot rate.

Financial Assets and Credit Risk

Credit risk is the risk of financial loss to Chinook if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligations. Chinook is exposed to credit risk with respect to its accounts receivable. Most of Chinook's accounts receivable relate to oil and natural gas sales and are subject to typical industry credit risk. The majority of the credit exposure on accounts receivable at December 31, 2012 pertains to accrued revenue for December 2012 sales volumes. Chinook transacts with a number of commodity end users ("purchasers"). Purchasers typically remit amounts to Chinook prior to end of the month following production. Joint interest receivables are typically collected within one to three months following production. At December 31, 2012, no one counterparty accounted for more than 25 percent of the total accounts receivable balance.

Chinook's allowance for doubtful accounts is $1.1 million as at December 31, 2012 (2011 - $2.9 million). When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Chinook considers all amounts greater than 90 days after the due date to be past due. As at December 31, 2012, $6.9 million of accounts receivable are past due, all of which are considered to be collectible except for $1.1 million. During the year ended December 31, 2012, Chinook wrote off $0.4 million (2011 -$nil) of Joint venture Accounts Receivable directly to bad debt expense.

Maximum credit risk is calculated as the total recorded value of cash and accounts receivable assets at the statement of financial position date.

Financial Liabilities and Liquidity Risk

Liquidity difficulties would emerge if Chinook was unable to meet its financial obligations as they fell due within normal credit terms. The Company prepares annual budgets, which are monitored and updated as required. Generally the Company will, over a reasonable period of time, limit its capital programs to available funds. The Company frequently evaluates the options available, with respect to sources of short and long-term capital. Management believes that future cash flows generated from these sources will be adequate to settle Chinook's financial liabilities.

The following table details Chinook's financial liabilities as at December 31, 2012:

	Within 1 year	1 to 2 years
Accounts payable and accrued liabilities	$ 64,186	$ -
Long-term debt	-	89,500
Total financial liabilities	$ 64,186	$ 89,500

Chinook actively maintains credit and working capital facilities to ensure that it has sufficient available funds to meets its financial requirements at a reasonable cost. Refer to Note 12 for further details on available amounts under the existing credit facilities.

19. Commitments and Contingencies

At December 31, 2012, the Company had commitments that require the following minimum future payments:

Year ended December 31	2013	2014	Total
Long-term debt and interest	$ 3,938	$ 91,469	**$ 95,407**
Operating leases	2,226	941	**3,167**
	$ 6,164	**$ 92,410**	**$ 98,574**

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. Chinook does not currently have any commitments beyond 2014.

20. Supplemental Disclosures

a) Consolidated statements of operations and comprehensive loss presentation

Chinook's statements of operations and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items.

The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the statements of operations and comprehensive loss.

Year ended December 31	2012	2011
Operating	**$ 14,115**	$ 18,806
General and administrative	**6,379**	9,098
Total employee compensation costs	**$ 20,494**	$ 27,904

b) Consolidated statements of cash flows

Changes in non-cash working capital

Year ended December 31	2012	2011
Accounts receivable	**$ (3,038)**	$ (7,778)
Accounts payable and accrued liabilities	**4,163**	(6,823)
Inventory	**(403)**	-
Prepaids, deposits and other	**2,314**	894
Taxes payable	**1,595**	(2,311)
	$ 4,631	$ (16,018)
Operating activities	**$ 8,230**	$ (11,169)
Investing activities	**(3,599)**	(4,030)
Financing activities	**-**	(819)
	$ 4,631	$ (16,018)

Other supplemental cash flow information:

Year ended December 31	2012	2011
Cash taxes paid	**$ 4,599**	$ 5,896
Cash interest paid	**$ 4,430**	$ 7,190

21. Segmented Information

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

- **Canada** – includes the Company's Western Canadian Sedimentary Basin producing properties and undeveloped land predominately in the Peace River and Grande Prairie areas located along the northern portion of the border between the provinces of British Columbia and Alberta.
- **Tunisia** – includes eight blocks: three offshore in the Gulf of Hammamet within the Pelagian Basin (Cosmos, Yasmin and Hammamet) with five onshore properties located on the Sud Remada, Bir Ben Tartar, Jenein, Adam and Borj El Khadra Blocks, all within the Ghadames Basin.
- **Corporate** –includes general and administrative costs and assets held corporately.

Selected Segment Information

Year ended December 31				2012				2011
	Canada	Tunisia	Corporate	Consolidated	Canada	Tunisia	Corporate	Consolidated
Capital expenditures and business combination	**$ 58,550**	**$ 51,038**	**$ 69**	**$ 109,657**	$ 88,351	$ 30,913	$ 437	$ 119,701
As at				December 31, 2012				December 31, 2011
Development & production and exploration & evaluation assets	**$ 411,768**	**$ 121,343**	**$ 3,188**	**$ 536,299**	$ 579,690	$ 95,395	$ 3,127	$ 678,212
Total assets	**$ 465,576**	**$ 141,140**	**$ 15,760**	**$ 622,476**	$ 631,048	$ 103,614	$ 10,741	$ 745,403

Results by Segment

		Canada		Tunisia		Corporate		Consolidated
Year ended December 31	2012	2011	2012	2011	2012	2011	2012	2011
Revenue								
Petroleum, natural gas & other revenue, net of royalties	**$ 112,251**	$ 171,717	**$ 77,473**	$ 39,514	**$ -**	$ -	**$ 189,724**	$ 211,231
Expenses								
Production & operating	**67,769**	92,093	**17,810**	7,483	**-**	-	**85,579**	99,576
General & administrative	**3,914**	-	**1,950**	1,118	**10,552**	18,586	**16,416**	19,704
Exploration & evaluation	**3,589**	5,096	**5,977**	6,590	**-**	-	**9,566**	11,686
Commodity contract losses (gains)	**-**	-	**-**	-	**(3,943)**	4,786	**(3,943)**	4,786
Net financing expenses	**7,619**	11,161	**145**	93	**3**	5	**7,767**	11,259
Depletion, depreciation & amortization	**75,540**	101,286	**22,995**	8,984	**-**	40	**98,535**	110,310
Impairment of development & production assets	**82,000**	43,000	**-**	-	**-**	-	**82,000**	43,000
Gain on disposition of properties	**(22,511)**	(22,914)	**-**	-	**-**	-	**(22,511)**	(22,914)
Foreign exchange loss (gain) & other	**79**	-	**389**	174	**60**	(886)	**528**	(712)
	218,000	229,722	**49,266**	24,442	**6,671**	22,531	**273,937**	276,695
(Loss) income before income taxes	**(105,749)**	(58,005)	**28,207**	15,072	**(6,671)**	(22,531)	**(84,213)**	(65,464)
Income taxes								
Current income tax expense	**5**	7	**6,188**	3,488	**-**	-	**6,193**	3,496
Deferred income tax expense (recovery)	**(893)**	(7,181)	**1,515**	1,973	**-**	-	**622**	(5,208)
	(887)	(7,174)	**7,703**	5,462	**-**	-	**6,815**	(1,712)
Net (loss) income	**$(104,861)**	$ (50,831)	**$ 20,504**	$ 9,610	**$ (6,671)**	$ (22,531)	**$ (91,028)**	$ (63,752)