2012 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") reports on the financial condition and the results of operations of Chinook Energy Inc. ("Chinook" or the "Company") for the years ended December 31, 2012 and 2011 and should be read in conjunction with Chinook's consolidated financial statements and accompanying notes as at and for the years ended December 31, 2012 and 2011. This MD&A is based on information available as at March 26, 2013.

The terms "fourth quarter" and "year ended 2012" or similar terms are used throughout this document and refer to the three months and year ended December 31, 2012, respectively. The term "current reporting periods" or similar terms are used throughout this document to refer to both the three months and year ended December 31, 2012. The term "same period of 2011" or similar terms are used throughout this document and refer to the three month and/or year ended December 31, 2011 depending on the 2012 period under discussion.

Additional Information

Additional information for Chinook, including the Annual Information Form for the year ended December 31, 2012 ("AIF") can be found on SEDAR at www.sedar.com or at www.chinookenergyinc.com.

Basis of Presentation

The consolidated financial statements and comparative information for the years ended December 31, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial position and results of operations include the accounts of Chinook's direct and indirect subsidiaries all of which are wholly owned. 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. Certain financial measures referred to in this MD&A, such as cash flow, cash flow per share, corporate netbacks, net debt, net production expense, cash G&A, etc., are not prescribed by IFRS and, therefore, may not be comparable with the calculations of similar measures presented by other companies.

Introduction to Chinook

Chinook is a Calgary-based public oil and natural gas exploration and development company with predominately natural gas and liquids reserves in Western Canada and crude oil reserves onshore and offshore in Tunisia, North Africa. Chinook 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.

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

- **Canada** – includes Chinook's Western Canadian Sedimentary Basin producing properties and undeveloped land predominately located in the Peace River and Grande Prairie areas located along the northern portion of the border of the Provinces of British Columbia and Alberta.
- **Tunisia** – includes eight blocks totaling three million gross acres offshore in the Gulf of Hammamet within the Pelagian Basin (Cosmos, Yasmin and Hammamet Offshore) and the 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 the elimination of intercompany transactions.

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.

Financial and Operating Highlights

	Three months ended December 31		Year ended December 31	
	2012	2011	**2012**	2011
OPERATIONS				
Production				
Oil *(bbl/d)*	**4,035**	4,206	**3,642**	3,736
Natural gas liquids *(bbl/d)*	**1,003**	1,591	**1,117**	1,488
Natural gas *(mcf/d)*	**39,585**	55,927	**44,548**	56,262
Average daily production *(boe/d)*	**11,636**	15,119	**12,184**	14,602
Sales Prices				
Average oil price *($/bbl)*	**$ 97.72**	$ 97.11	**$ 96.61**	$ 92.96
Average natural gas liquids price *($/bbl)*	**$ 57.71**	$ 71.23	**$ 60.26**	$ 65.98
Average natural gas price *($/mcf)*	**$ 3.39**	$ 3.31	**$ 2.55**	$ 3.75
Corporate Netbacks (1)				
Average commodity pricing *($/boe)*	**$ 51.30**	$ 47.00	**$ 43.58**	$ 44.84
Royalties *($/boe)*	**$ (0.64)**	$ (6.03)	**$ (2.70)**	$ (6.72)
Net production expenses *($/boe)*(1)	**$ (18.98)**	$ (17.75)	**$ (17.46)**	$ (17.13)
Cash G&A *($/boe)*(1)	**$ (4.48)**	$ (5.13)	**$ (3.42)**	$ (2.84)
Corporate netbacks *($/boe)*(1)	**$ 27.20**	$ 18.10	**$ 20.00**	$ 18.15
Wells Drilled *(net)*				
Oil	**2.96**	6.12	**8.09**	19.11
Gas	**-**	1.02	**1.00**	7.73
Dry	**-**	-	**0.96**	-
Total wells drilled *(net)*	**2.96**	7.14	**10.05**	26.84
FINANCIAL *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue, net of royalties	**$ 55,303**	$ 57,274	**$ 181,802**	$ 202,762
Cash flow (1)	**$ 28,757**	$ 23,950	**$ 78,696**	$ 85,004
Per share - basic and diluted *($/share)*	**$ 0.13**	$ 0.11	**$ 0.37**	$ 0.40
Net loss	**$ (36,708)**	$ (58,077)	**$ (91,028)**	$ (63,752)
Per share - basic and diluted *($/share)*	**$ (0.17)**	$ (0.27)	**$ (0.42)**	$ (0.30)
Capital expenditures and business combinations	**$ 50,456**	$ 26,343	**$ 109,657**	$ 119,701
Net debt (1)	**$ 72,383**	$ 134,900	**$ 72,383**	$ 134,900
Total assets	**$ 622,476**	$ 745,403	**$ 622,476**	$ 745,403
Common Shares *(thousands)*				
Weighted average during period				
- basic and diluted	**214,188**	214,188	**214,188**	214,188
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 not IFRS 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.

Operations

Petroleum and Natural Gas Production and Sales Volumes

Three months ended December 31				2012				2011
	Oil (bbl/d)	Natural Gas Liquids (bbl/d)	Natural Gas (mcf/d)	Total [1] (boe/d)	Oil (bbl/d)	Natural Gas Liquids (bbl/d)	Natural Gas (mcf/d)	Total [1] (boe/d)
Production								
Canada	**1,514**	**1,003**	**38,529**	**8,939**	2,757	1,591	55,099	13,532
Tunisia	**2,521**	**-**	**1,055**	**2,697**	1,449	-	828	1,587
Total[1]	**4,035**	**1,003**	**39,584**	**11,636**	4,206	1,591	55,927	15,119
Sales								
Canada	**1,514**	**1,003**	**38,529**	**8,939**	2,757	1,591	55,099	13,532
Tunisia	**2,750**	**-**	**1,055**	**2,926**	1,525	-	828	1,663
Total[1]	**4,264**	**1,003**	**39,584**	**11,865**	4,282	1,591	55,927	15,195

Year ended December 31				2012				2011
	Oil (bbl/d)	Natural Gas Liquids (bbl/d)	Natural Gas (mcf/d)	Total [1] (boe/d)	Oil (bbl/d)	Natural Gas Liquids (bbl/d)	Natural Gas (mcf/d)	Total [1] (boe/d)
Production								
Canada	**1,790**	**1,117**	**43,510**	**10,159**	2,773	1,488	55,460	13,505
Tunisia	**1,852**	**-**	**1,038**	**2,025**	963	-	802	1,097
Total[1]	**3,642**	**1,117**	**44,548**	**12,184**	3,736	1,488	56,262	14,602
Sales								
Canada	**1,790**	**1,117**	**43,510**	**10,159**	2,773	1,488	55,460	13,505
Tunisia	**1,819**	**-**	**1,038**	**1,992**	931	-	802	1,065
Total[1]	**3,609**	**1,117**	**44,548**	**12,151**	3,704	1,488	56,262	14,570

(1) Totals may not be additive as a result of rounding.

Chinook's predominately crude oil Tunisian production volumes of 2,697 boe per day and 2,025 boe per day during the fourth quarter and year ended 2012, increased by 70% and 85%, respectively, relative to the same periods of 2011. These increases entirely reflect the production from Chinook's Ordovician oil discovery located on the Bir Ben Tartar Concession ("BBT"). During 2012, for the first time in Chinook's history, its Tunisian produced crude oil volumes exceeded that of its Canadian operations. During the fourth quarter of 2012, Chinook drilled and completed its BBT TT11 horizontal well (0.86 net) which accessed the Ordovician Quartzite reservoir. The fourth quarter and year-over-year Tunisian production volume increases also resulted from the BBT TT13 and BBT TT16 horizontal wells which both began producing from the Ordovician Quartzite reservoir during the third quarter of 2012 (1.72 net wells). These new horizontal wells increased Chinook's average production for the fourth quarter of 2012 by approximately 1,300 barrels per day relative to the same quarter in 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 being measured at the point when crude oil 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 stored in Chinook's tanks at each reporting date is reported as inventory. For the fourth quarter, crude oil sales exceeded production as Chinook sold approximately 37,000 barrels that were produced in the third quarter of 2012. As at December 31, 2012, Chinook had fourth quarter production of 15,000 barrels remaining in inventory.

Production levels of Chinook's Canadian segment decreased approximately 3,350 boe per day, or 25%, for the year ended 2012 as compared to the same period of 2011. This decrease includes 2,900 boe per day of production associated with the non-core property and various unit interest dispositions made during 2011 and 2012 in addition to 400 boe per day resulting from the shut-in in 2012 of some of Chinook's dry gas fields, located primarily in north-eastern Alberta.

Production levels of Chinook's Canadian segment decreased approximately 4,600 boe per day, or 34%, for the fourth quarter as compared to the same quarter in 2011. This decrease includes 2,100 boe per day of average production associated with the non-core property and various unit interest dispositions made primarily during 2012, the shut-in of certain dry gas fields as noted above,and natural reservoir production declines.

Drilling and completion expenditures for the fourth quarter totaled $15.8 million (comparable quarter of 2011 - $26.0 million), which included Chinook's Tunisian segment's drilling and completion expenditures of $12.0 million (comparable quarter in 2011 - $10.2 million). Fourth quarter Tunisian activity included the drilling and completion of Chinook's BBT TT11 horizontal well (0.86 net) and the drilling of the BBT TT10 horizontal well (0.86 net) which was completed in 2013. Along with the BBT TT13 and TT16 horizontal wells, which were completed during the third quarter of 2012, these horizontal wells are the first multi-stage hydraulically fractured horizontal wells in Tunisia, the largest completed to date on the African continent and a successful application of North American drilling and completion technology.

Chinook's Canadian segment's drilling and completion expenditures for the fourth quarter totalled $3.8 million (comparable quarter of 2011 - $15.8 million) and included the drilling of three (1.24 net) well and the completion of one (0.25 net) well.

Petroleum and Natural Gas Revenue and Realized Pricing

Three months ended December 31			2012			2011
($ thousands, except per unit amounts)	Canada	Tunisia	Total [1]	Canada	Tunisia	Total [1]
Oil sales	**$ 10,925**	**$ 27,418**	**$ 38,343**	$ 22,929	$ 15,325	$ 38,254
$/bbl	**78.43**	**108.37**	**97.72**	90.40	109.24	97.11
Natural gas liquids sales	**$ 5,325**	**$ -**	**$ 5,325**	$ 10,425	$ -	$ 10,425
$/bbl	**57.71**	**-**	**57.71**	71.23	-	71.23
Natural gas sales	**$ 10,947**	**$ 1,387**	**$ 12,334**	$ 15,823	$ 1,196	$ 17,019
$/mcf	**3.09**	**14.29**	**3.39**	3.12	15.70	3.31
Petroleum and natural gas revenue	**$ 27,197**	**$ 28,805**	**$ 56,002**	$ 49,177	$ 16,521	$ 65,698
$/boe	**33.07**	**106.99**	**51.30**	39.50	107.99	47.00

Year ended December 31			2012			2011
($ thousands, except per unit amounts)	Canada	Tunisia	Total [1]	Canada	Tunisia	Total [1]
Oil sales	**$ 54,011**	**$ 73,601**	**$ 127,612**	$ 88,211	$ 37,471	$ 125,682
$/bbl	**82.44**	**110.55**	**96.61**	87.16	110.22	92.96
Natural gas liquids sales	**$ 24,637**	**$ -**	**$ 24,637**	$ 35,833	$ -	$ 35,833
$/bbl	**60.26**	**-**	**60.26**	65.98	-	65.98
Natural gas sales	**$ 35,644**	**$ 5,902**	**$ 41,546**	$ 72,709	$ 4,258	$ 76,967
$/mcf	**2.24**	**15.53**	**2.55**	3.59	14.55	3.75
Petroleum and natural gas revenue	**$ 114,292**	**$ 79,503**	**$ 193,795**	$ 196,753	$ 41,729	$ 238,482
$/boe	**30.74**	**109.05**	**43.58**	39.91	107.34	44.84

(1) Totals may not be additive as a result of rounding.

Petroleum and natural gas revenues of $56.0 million and $193.8 million during the fourth quarter and year ended 2012 decreased $9.7 million and $44.7 million, respectively, from the same periods in 2011. These decreases were mostly due to lower Canadian petroleum and natural gas sales volumes and Canadian pricing. These decreases were partially offset by increased Tunisian sales volumes.

Canadian Petroleum and Natural Gas Revenues and Prices

Chinook's Canadian petroleum and natural gas revenue for the fourth quarter and year ended 2012, relative to the same periods in 2011, decreased as a result of lower Canadian petroleum and natural gas prices in addition to lower sales volumes resulting from the 2012 non-core property dispositions, the temporary shut-in of predominantly dry gas fields and natural reservoir pressure declines.

Tunisian Petroleum and Natural Gas Revenues and Prices

Chinook's Tunisian petroleum and natural gas revenues for the current reporting periods, relative to the same periods in 2011, was higher as a result of increased crude oil sales volumes, and to a lesser extent, natural gas sales volumes. These increases in Tunisian petroleum and natural gas revenues for the year ended 2012 was further supported by higher commodity pricing.

Benchmark Prices

	Three months ended December 31		Year ended December 31	
	2012	2011	**2012**	2011
Oil				
Edmonton par ($/bbl)	**$ 84.03**	$ 97.44	**$ 86.19**	$ 95.10
Brent ($US/bbl)	**$ 110.44**	$ 111.26	**$ 111.96**	$ 109.40
Natural gas liquids				
WTI[1] ($US/bbl)	**$ 88.18**	$ 94.01	**$ 94.23**	$ 95.11
Natural gas				
AECO ($/mcf)	**$ 3.26**	$ 3.17	**$ 2.42**	$ 3.62

(1) West Texas Intermediate

Crude Oil Pricing

Chinook's year ended 2012 average crude oil realized price of $96.61 per barrel was four percent higher relative to the same period in 2011. This increase resulted from a higher proportion of Tunisian sales volumes during 2012 as compared to 2011 as well as from higher Brent benchmark pricing as Chinook's Tunisian crude oil production is sold at the three day average price for Brent oil quotations after being loaded onto a shipping tanker. The Brent benchmark continued to trade at a premium relative to WTI during the current reporting periods. Chinook's Canadian conventional crude oil production is sold at prices based on the Edmonton par benchmark postings, which during 2012 traded at a significant discount relative to WTI versus trading close to parity during 2011. When this discounted Edmonton par price is combined with a weakening WTI benchmark, Chinook's Canadian crude oil sales price has decreased 13% during the fourth quarter and 5% during the year ended 2012 as compared to the same periods in 2011.

Natural Gas Liquids Pricing

Chinook's Canadian natural gas liquids price is a blend of prices received for a range of liquids from ethane through to condensates that are produced in association with natural gas. There are various benchmarks for natural gas liquids, depending on the type sold; however Chinook benchmarks its liquids in reference to Edmonton par or WTI pricing. For the fourth quarter and year ended 2012, Chinook's realized natural gas liquids prices of $57.71 per barrel and $60.26 per barrel, respectively, approximated 69% and 70% of Edmonton par. These prices include the price received for propane, which continued to decrease with an ever widening discount relative to its reference price. When combined with lower Edmonton par benchmarks, Chinook's natural gas liquids prices decreased during the current reporting periods relative to the comparable periods.

Natural Gas Pricing

Chinook's Canadian realized natural gas price of $3.09 per mcf for the fourth quarter of 2012 showed significant improvement from the $1.99 per mcf reported for the first nine months of 2012 and returning it to a price that was relatively consistent with the price realized during the same quarter in 2011. Despite natural gas pricing showing significant improvement in the fourth quarter of 2012, Chinook's Canadian realized natural gas price of $2.24 per mcf for the year ended 2012, was significantly lower than the price realized during the same period in 2011, reflecting the decreases in the AECO benchmark price.

Managing Commodity Price Risk

To mitigate commodity price risk, Chinook's management, upon approval of the Board of Directors, had entered into financial derivative contracts which assist Chinook in better managing its future cash flows as it knows within certain commodities price ranges 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			2012			2011
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Royalties	**$ 125**	**$ 574**	**$ 699**	$ 7,943	$ 482	$ 8,425
Per sales ($/boe)	**$ 0.15**	**$ 2.13**	**$ 0.64**	$ 6.38	$ 3.15	$ 6.03
Percent of revenue (%)	**0**	**2**	**1**	16	3	13

Year ended December 31			2012			2011
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Royalties	**$ 9,963**	**$ 2,030**	**$ 11,993**	$ 33,504	$ 2,215	$ 35,719
Per sales ($/boe)	**$ 2.68**	**$ 2.78**	**$ 2.70**	$ 6.80	$ 5.70	$ 6.72
Percent of revenue (%)	**9**	**3**	**6**	17	5	15

For the fourth quarter and year ended 2012, Chinook's royalties of $0.7 million and $12.0 million, respectively, decreased relative to the same periods in 2011. These decreases were the result of lower Canadian petroleum and natural gas revenues combined with an increase in the gas cost allowance recovery from prior periods. 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 and year ended 2012 relative to the same periods of 2011. The lower Canadian royalties per boe were also impacted by the effect of the lower realized average Canadian pricing.

Chinook does not pay royalties on its Tunisian BBT Concession's sales volume which is governed by a profit sharing contract between Chinook and the Tunisian petroleum authority, ETAP ("Entreprise Tunisienne d'Activités Petrolières"). The current reporting periods' increase in Tunisian petroleum revenues was the result of higher sales volumes from this Concession, in comparison to the same periods in 2011. However, Chinook does pay royalties on a sliding scale calculation with royalty rates of between 2% to 15% from its Adam Concession's sales volumes which is governed by a joint venture contract. Presently, Chinook is paying an average royalty rate on its Adam Concession sales of 9% for natural gas and 12% for crude oil. As a result of the increased weighted average sales volumes from Chinook's BBT Concession, the overall Tunisian royalty rate, as a percentage of revenue decreased to 2% and 3%, and on a per boe basis to $2.13 per boe and $2.78 per boe, respectively, for the fourth quarter and year ended 2012 as compared to the same periods in 2011.

Production and Operating Expense

Three months ended December 31			2012			2011
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Production and operating expense	**$ 16,703**	**$ 6,707**	**$ 23,410**	$ 24,296	$ 3,201	$ 27,497
Less:						
Processing and gathering revenue	**(2,693)**	**-**	**(2,693)**	(2,694)	-	(2,694)
Net production and operating expense [(1)]	**$ 14,010**	**$ 6,707**	**$ 20,717**	$ 21,602	$ 3,201	$ 24,803
Per sales net production and operating expenses ($/boe) [(1)]	**$ 17.04**	**$ 24.91**	**$ 18.98**	$ 17.36	$ 20.92	$ 17.75
Per sales production and operating expenses ($/boe)	**$ 20.31**	**$ 24.91**	**$ 21.45**	$ 19.52	$ 20.92	$ 19.67

Year ended December 31			2012			2011
($ thousands, except where noted)	Canada	Tunisia	Total	Canada	Tunisia	Total
Production and operating expense	**$ 67,769**	**$ 17,810**	**$ 85,579**	$ 92,093	$ 7,483	$ 99,576
Less:						
Processing and gathering revenue	**(7,922)**	**-**	**(7,922)**	(8,468)	-	(8,468)
Net production and operating expense [(1)]	**$ 59,847**	**$ 17,810**	**$ 77,657**	$ 83,625	$ 7,483	$ 91,108
Per sales net production and operating expenses ($/boe) [(1)]	**$ 16.10**	**$ 24.43**	**$ 17.46**	$ 16.96	$ 19.25	$ 17.13
Per sales production and operating expenses ($/boe)	**$ 18.23**	**$ 24.43**	**$ 19.24**	$ 18.68	$ 19.25	$ 18.72

(1) Net production and operating expense and net production and operating expense per boe are not IFRS measures and are calculated as production and operating expense less processing and gathering income. Management uses the net production and operating expense non-IFRS measure to determine the current periods' cash cost of operating expenses and the net production and operating expense per BOE is used to measure operating efficiency on a comparative 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.

For the fourth quarter and year ended 2012, production and operating expense of $23.4 million and $85.6 million decreased relative to the same periods in 2011 because of lower Canadian sales volumes; however, the increase in sales volumes from Chinook's Tunisian segment resulted in higher operating costs per boe. In Canada, the $16.7 million and $67.8 million of production and operating expense for the fourth quarter and year ended 2012, respectively, decreased relative to the same periods in 2011; but with relatively similar operating costs per boe. The decreased operating cost resulted from Canadian dispositions of properties during 2012 and Chinook's focus on cost savings. The decrease for the year ended 2012, as compared to 2011, is also partially due to 2011 Canadian dispositions of property. Chinook continues to focus on improving its Canadian operating cost structure which has resulted in various process changes and cost saving initiatives.

Offsetting these costs savings, are the following events which resulted in Chinook continuing to incur production expenses with relatively little to no associated production volumes:

- the shut-in of certain dry gas fields which now includes the Red Creek field located in north eastern British Columbia in addition to Chinook's north-eastern Alberta dry gas fields; and
- third party facility turnarounds and pipeline downtime.

In Tunisia, an increase in the BBT Concession's sales volumes had the effect of increasing the Tunisian production and operating expenses for the fourth quarter and year ended 2012, relative to the same periods in 2011 as under the terms of BBT's profit sharing contract, Chinook pays an 86% interest of the operating expense at this development stage and receives a revenue interest at approximately 53%. In addition, operating costs and operating costs per boe for the year ended 2012 increased as optimization work took place with velocity strings installed in the TT6, TT7 and TT9 wells to stabilize and improve production rates combined with the workover of the TT2 well. Chinook forecasts improved BBT operating costs on a boe basis as production volumes increase and the planned facility and in-field gathering system come on stream, as anticipated to occur in 2013.

Processing and gathering revenue is modestly lower for the year ended 2012 as compared to the same period in 2011. During the third quarter of 2012, Chinook made certain unfavourable adjustments to reconcile previous estimates and billed rates totaling $1.2 million.

General & Administrative Expense ("G&A")

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	**2012**	2011	**2012**	2011
Rent and general office costs	**$ 1,585**	$ 1,492	**$ 6,125**	$ 6,677
Staffing, net of capitalized costs and recoveries	**2,008**	4,116	**4,102**	3,451
Share-based compensation	**(312)**	1,517	**2,277**	5,647
Corporate expenses	**688**	1,084	**1,950**	2,370
Accounting and audit costs	**260**	221	**1,508**	867
Legal expenses	**84**	(7)	**454**	692
G&A	**$ 4,313**	$ 8,423	**$ 16,416**	$ 19,704
Per sales ($/boe)	**$ 3.95**	$ 6.03	**$ 3.69**	$ 3.71
Cash G&A [(1)]	**$ 4,890**	$ 7,170	**$ 15,195**	$ 15,114
Per sales ($/boe)	**$ 4.48**	$ 5.13	**$ 3.42**	$ 2.84

(1) Cash G&A is not an IFRS measure and is calculated as G&A less stock-based compensation and the amortization of the deferred lease liability. Management uses this non-IFRS measure to assist them in understanding the current period's cash cost of G&A expenses.

G&A expenses for the fourth quarter and year ended 2012 was lower as compared to the same periods in 2011. On November 1, 2012, Chinook reduced its Canadian office staffing levels to address the effect of the Canadian non-core property dispositions during 2011 and 2012. Included in the current reporting periods' staffing expense are severance costs resulting from reducing the Canadian office staff levels and an estimate for a retention bonus payable to certain Canadian non-officer and non-director staff. In addition, the effect of lower Canadian overhead recoveries due to the decreases in Canadian capital expenditures and operating activities have impacted G&A expenses.

Share-based compensation decreased for the fourth quarter and year ended 2012 from the same periods in 2011 as there were less share options granted, a lower assigned fair value and less fair value remaining to expense on options that vested in the current reporting periods. Chinook also recognized a decrease of $0.8 million in share-based compensation for the fourth quarter and year ended December 31, 2012 mostly to reconcile share-based compensation recoveries on unvested forfeited options as partially offset by lower forfeitures relative to that initially estimated.

Corporate expenses for the fourth quarter and year ended 2012 includes the recovery of accounts receivables of approximately $0.7 million and $1.8 million, respectively, that was previously assessed and expensed as uncollectible, but that was collected during the current reporting periods as partially offset by the write-off of accounts receivable directly to corporate expenses.

Corporate Netbacks

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

Three months ended December 31			2012			2011
Per sales *($/boe)*	Canada [2]	Tunisia	Total	Canada [2]	Tunisia	Total
Realized sales price	**$ 33.07**	**$ 106.99**	**$ 51.30**	$ 39.50	$ 107.99	$ 47.00
Less:						
Royalties	**(0.15)**	**(2.13)**	**(0.64)**	(6.38)	(3.15)	(6.03)
Net production expense [3]	**(17.04)**	**(24.91)**	**(18.98)**	(17.36)	(20.92)	(17.75)
Cash G & A [4]	**(4.72)**	**(3.75)**	**(4.48)**	(5.60)	(1.28)	(5.13)
Corporate netback [1]	**$ 11.16**	**$ 76.20**	**$ 27.20**	$ 10.17	$ 82.64	$ 18.10

Year ended December 31			2012			2011
Per sales *($/boe)*	Canada [2]	Tunisia	Total	Canada [2]	Tunisia	Total
Realized sales price	**$ 30.74**	**$ 109.05**	**$ 43.58**	$ 39.91	$ 107.34	$ 44.84
Less:						
Royalties	**(2.68)**	**(2.78)**	**(2.70)**	(6.80)	(5.70)	(6.72)
Net production expense [3]	**(16.10)**	**(24.43)**	**(17.46)**	(16.96)	(19.25)	(17.13)
Cash G & A [4]	**(3.06)**	**(5.22)**	**(3.42)**	(2.83)	(3.03)	(2.84)
Corporate netback [1]	**$ 8.90**	**$ 76.62**	**$ 20.00**	$ 13.32	$ 79.36	$ 18.15

(1) Corporate netback is not an IFRS 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 uses this non-IFRS measure to assist them in understanding Chinook's profitability relative to current commodity prices and it provides an analytical tool to benchmark changes in operational performance against prior periods.

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

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

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

For the fourth quarter and year ended 2012, Chinook's corporate netback increased as a result of the proportionately higher weighted average netback resulting from its Tunisian segment's crude oil sales volumes. This resulted in corporate netbacks of $27.20 per boe and $20.00 per boe which respectively represented 53% and 46% of the average realized sales price, both increases as compared to the same periods in 2011.

Despite an increase in Chinook's corporate netback on a boe basis, both of its operating segments are reporting lower netbacks for the year ended 2012 as compared to the same period in 2011. The decrease, on a boe basis, in the Canadian corporate netback resulted from reductions in Canadian petroleum and natural gas pricing and higher Cash G&A as partially offset by lower royalties and net production expense. The Canadian segment charged a fee to the Tunisian segment to appropriately reflect the extent of Canadian resources dedicated to supporting the Tunisian operations. This Canadian segment's Cash G&A adjustment is offset in the Tunisian segment's Cash G&A and correspondingly has no effect on Chinook's Cash G&A and corporate netback. The Tunisian segment's netback for the year ended 2012, relative to the comparable period in 2011, on a boe basis, decreased due to higher net production expenses and Cash G&A expenses, as partially offset by higher crude oil and natural gas prices and lower royalties. In addition to the management fee, on a boe basis, the Tunisian segment's Cash G&A is higher due to increased staffing levels and office costs for anticipated increased production levels.

Exploration and Evaluation Expense

	Three months ended December 31		Year ended December 31	
($ thousands)	2012	2011	2012	2011
Canada	**$ 871**	$ 2,762	**$ 3,589**	$ 5,096
Tunisia	**1,293**	5,728	**5,977**	6,590
Total	**$ 2,164**	$ 8,490	**$ 9,566**	$ 11,686

Exploration and evaluation expense for the fourth quarter and year ended 2012 decreased to $2.2 million and $9.6 million, respectively, from that reported during the same periods of 2011. During the fourth quarter of 2012, exploration and evaluation expenses were incurred for undeveloped land leases, studies over licensed lands or formations and prospecting expenses. Specifically, Chinook spent $0.8 million acquiring 2D and 3D seismic data to evaluate existing and prospective acreage during the year ended related to its Canadian operations.

Tunisian exploration and evaluation expense for the year to date 2012 included the drilling costs of two exploratory wells (0.96 net) located onshore Tunisia, including the BJA-2 well (0.86 net). During the year ended 2012, the costs to complete and plug the BJA-2 well were also expensed. The exploration and evaluation expense for the year ended 2012 also included a non-cash charge for the BJA-2 well related to its decommissioning obligation. Tunisian dry hole charges totalled $3.8 million. A 3D seismic study over Chinook's Borj El Khadra onshore exploration permit in addition to other studies totaling $2.2 million for the year ended 2012 made up the $5.9 million exploration and evaluation expenses for the year ended 2012.

Exploration & evaluation expenses in the comparable reporting periods of 2011 mainly pertained to the expensing of Chinook's 300 km^2 seismic program in the Gulf of Hammamet, offshore Tunisia, which met this exploration permit's work commitment.

Risk Management Contracts Losses (Gains)

	Three months ended December 31		Year ended December 31	
($ thousands)	2012	2011	2012	2011
Realized (gain) loss on commodity contracts	**$ (591)**	$ 98	**$ (914)**	$ 821
Unrealized (gain) loss on commodity contracts	**(2,055)**	10,036	**(3,029)**	3,965
	$ (2,646)	$ 10,134	**$ (3,943)**	$ 4,786

Chinook uses commodity price risk management contracts to reduce its exposure to fluctuations in commodity prices. In December 2012, Chinook entered into a new debt facility agreement with a syndicate of banks that required the settlement of all outstanding risk management contracts held by counter parties not within this banking syndicate. Chinook settled the then risk management contracts for a nominal amount prior to the end of their terms. As a result, at December 31, 2012, there were no outstanding risk management contracts or swap options. As at December 31, 2011, the swap commodity price contracts were reported at their fair value 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 included the inputs of a forward WTI price and expected WTI price volatility over the remaining term of the swap option.

The settlement of the swap and collar commodity price contracts for the current reporting periods resulted in gains whereas Chinook reported a loss during the comparable periods in 2011. For the fourth quarter of 2012, prior to its early settlement, Chinook reported a realized derivative gain as WTI averaged below the fixed WTI price that Chinook received on its swap crude oil contract. For the year ended 2012, in addition to realizing gains on its WTI swap crude oil contract, Chinook reported gains on its natural gas swaps, which expired in the first quarter of 2012. These realized gains in the current reporting periods were partially offset as Brent averaged above the fixed Brent price that Chinook received on one of its crude oil price collars prior to its early settlement. After including the net realized gains on the crude oil derivative contracts, Chinook received an adjusted crude oil price of $99.23 per barrel as compared to its reported sales price of $97.72 per barrel for the fourth quarter and an adjusted crude oil price of $97.31 per barrel as compared to its reported sales price of $96.61 per barrel for the year ended 2012.

Net Financing Expenses

	Three months ended December 31		Year ended December 31	
($ thousands)	2012	2011	2012	2011
Interest on bank debt	**$ 1,076**	$ 1,521	**$ 4,500**	$ 7,158
Interest earned on bank deposits	**(279)**	(62)	**(286)**	(87)
Finance charges and fees	**71**	299	**700**	919
Accretion of decommissioning obligation	**699**	427	**2,853**	3,269
Net financing expenses	**$ 1,567**	$ 2,185	**$ 7,767**	$ 11,259

The decrease in net finance expenses for the fourth quarter and year ended 2012, as compared to the same periods in 2011, resulted from lower average outstanding debt during the current reporting periods. For the year ended 2012, the effective blended interest rate on Chinook's debt facilities was 4.4%, which was relatively unchanged from 4.3% for the comparable period of 2011.

The accretion expense decrease during the year ended 2012, as compared to the same period in 2011, resulted from a comparatively lower risk free discount rate, in addition to a lower average decommissioning obligation, due to non-core property dispositions.

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

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	2012	2011	2012	2011
Canada	**$ 17,503**	$ 28,774	**$ 75,540**	$ 101,286
Tunisia	**9,123**	4,749	**22,995**	9,024
Total	**$ 26,626**	$ 33,523	**$ 98,535**	$ 110,310
Per sales ($/boe)	**$ 24.39**	$ 23.98	**$ 22.16**	$ 20.74

DD&A expenses for the current reporting periods decreased from the same periods in 2011 due to decreases in sales volumes from Chinook's Canadian properties as a result of property dispositions during 2012 and 2011, in addition to the current reporting periods' voluntary shut-ins. These decreases was partially offset by increases in Chinook's BBT sales volumes which commenced production in September 2011 and has since increased production each successive quarter.

For the fourth quarter and year ended 2012, DD&A was $24.39 per boe and $22.16 per boe, respectively, increases relative to the same periods in 2011. The BBT Concession had the most notable impact on Chinook's depletion rate as BBT's sales volumes increased over the comparative periods, mostly replacing lower Canadian sales volumes, but with a higher depletable rate. BBT's higher depletion rate resulted from the terms of the profit sharing contract with ETAP, as Chinook includes 86% of the future development costs relative to a maximum of approximately 53% of the petroleum reserves. However, the economics of this higher BBT depletion rate are offset through Chinook not having to pay either petroleum royalties or income taxes from this Concession's sales volumes.

Impairment of Developed & Producing Assets

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	2012	2011	2012	2011
Canada	**$ 55,500**	$ 43,000	**$ 82,000**	$ 43,000
Tunisia	**-**	-	**-**	-
Total	**$ 55,500**	$ 43,000	**$ 82,000**	$ 43,000
Per sales ($/boe)	**$ 50.84**	$ 30.76	**$ 18.44**	$ 8.09

Impairment is 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 or group of assets has increased in value since the time of recognizing the initial impairment.

For the year ended 2012, Chinook recognized an impairment charge of $82.0 million as triggered 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 Consulting Ltd. As at 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 were carried out at December 31, 2012 and were based on proved and probable reserves, a discount rate of ten percent 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.

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.

If North American petroleum and natural gas prices continue to fall during 2013 relative to their level as estimated at December 31, 2012, then further Canadian impairment charges could be recognized in future reporting periods. Alternatively, 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.

Chinook determined that there were no indications of impairment related to its Tunisian segment.

Gain on Disposition of Properties

During the year ended December 31, 2012, Chinook has completed the sale of several petroleum and natural gas properties and various unit interests mostly located throughout Alberta, Canada, for aggregate net proceeds of $106.3 million when combined with the final statements of operating adjustments on prior period petroleum and natural gas property sales (2011 - $83.7 million). The carrying amount of these sold properties, including the disposed decommissioning obligation, 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).

Income Tax Expense (Recovery)

	Three months ended December 31		Year ended December 31	
($ thousands)	2012	2011	2012	2011
Current income tax	**$ 1,534**	$ 263	**$ 6,193**	$ 3,496
Deferred income tax (recovery)	**-**	(4,362)	**622**	(5,208)
Total	**$ 1,534**	$ (4,099)	**$ 6,815**	$ (1,712)

Current income taxes relate to Chinook's Adam Concession, located onshore Tunisia. Current income tax increased to $1.5 million and $6.2 million during the fourth quarter and year ended 2012, respectively, as compared to the same periods of 2011. Contributing to this increase were lower deductions from declining tax bases, despite similar sales volumes and pricing, from Chinook's Adam Concession.

Deferred income taxes recognized in the year ended 2012, resulted from deductions of exploration expenditures allowed from the Adam Concession's taxable income less a Canadian deferred income tax liability reconciliation. Chinook has not reported deferred tax assets because it is not probable that future taxable profit will be available against which it can utilize the benefits.

Net Loss and Comprehensive Loss

	Three months ended December 31		Year ended December 31	
($ thousands, except per share amounts)	2012	2011	2012	2011
Net loss	**$ (36,708)**	$ (58,077)	**$ (91,028)**	$ (63,752)
Per share - basic and diluted *($/share)*	**(0.17)**	(0.27)	**(0.42)**	(0.30)
Comprehensive (loss)	**$ (35,607)**	$ (60,577)	**$ (93,386)**	$ (60,718)
Per share - basic and diluted *($/share)*	**(0.17)**	(0.28)	**(0.44)**	(0.28)
Weighted average shares outstanding - basic and diluted *(thousands)*	**214,188**	214,188	**214,188**	214,188

Chinook's net loss of $91.0 million for the year ended 2012 increased relative to the same period in 2011. This increase was due to lower Canadian sales revenue and a higher Canadian impairment charge and current tax expenses. Chinook's net loss of $36.7 million for the fourth quarter decreased relative to the same quarter in 2011. This decrease in the net loss was mostly due to gains on commodity contracts and gains on the disposition of properties.

The comprehensive loss, which includes Chinook's net loss and foreign currency translation gain, decreased for the fourth quarter of 2012 as compared to the same quarter in 2011. This decrease in comprehensive loss is consistent with the decrease in net loss plus a foreign currency translation gain on marking-to-market Chinook's Tunisian US dollar denominated net assets to the weakening December 31, 2012 Canadian dollar spot rate. For the year ended 2012, the Canadian dollar spot rate strengthened, relative to the previous Canadian to US dollar spot rates, resulting in a decrease in Chinook's reported Tunisian net assets.

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 production growth in Tunisia by accelerating the development of discoveries and existing fields.

During the fourth quarter of 2012, Chinook completed the sale of non-core properties with associated volumes totalling approximately 550 boe per day.

Cash flow for the current reporting periods in addition to decreases in non-cash working capital and proceeds from the disposition of Canadian non-core properties financed the investment in capital and exploration and evaluation expenditures. In addition, during the year ended 2012 these cash inflows also financed the net repayment of a portion of Chinook's drawn debt.

Cash Flow

	Three months ended December 31		Year ended December 31	
($ thousands, except per unit amounts)	2012	2011	2012	2011
Cash flow from operations	**$ 38,054**	$ 41,907	**$ 83,944**	$ 70,800
(Deduct) add back change in operating non-cash working capital	**(9,769)**	(20,992)	**(8,229)**	11,169
Add back decommissioning obligation expenditures	**473**	3,035	**2,982**	3,035
Cash flow [1]	**$ 28,758**	$ 23,950	**$ 78,697**	$ 85,004
Per share - basic and diluted [1]	**$ 0.13**	$ 0.11	**$ 0.37**	$ 0.40
Per sales ($/boe) [1]	**$ 26.34**	$ 17.13	**$ 17.70**	$ 15.98

(1) Cash flow, cash flow per share and cash flow per boe are non-IFRS 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 of $28.8 million for the fourth quarter in 2012 is higher as compared to the same quarter in 2011. This increase was due to higher Tunisian crude oil sales, Cash G&A and financing expenses in addition to higher realized derivative transaction gains. Cash flow of $78.7 million for the year ended 2012 was lower as compared to the same period in 2011. This decrease resulted from lower Canadian petroleum and natural gas revenues and higher Tunisian current taxes.

Revolving Term Credit Facility

	December 31	December 31
($ thousands)	2012	2011
Revolving term credit facility outstanding balance	$ **89,137**	$ 137,500
Less:		
Working capital excluding mark-to-market derivative contracts	**(16,754)**	(2,600)
Net debt [1]	$ **72,383**	$ 134,900

(1) Net debt and working capital excluding mark-to-market derivate contracts are not IFRS 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 uses net debt to assist them in understanding Chinook's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's fair value or loss.

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 current 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) less approximately $0.4 million in deferred financing costs, which were recognized at signing and are being amortized through to the expiry of the facility in June 2014.

Chinook's net debt of $72.4 million as at December 31, 2012, decreased relative to $134.9 million as at December 31, 2011 due to a net repayment of a portion of outstanding principal of $48.0 million. This net repayment was financed from cash flow, reduced non-cash working capital and Canadian property sales during the year ended December 31, 2012. Net debt was further reduced by an increase in surplus cash as mostly held in Chinook's international subsidiaries resulting in an increase of $14.2 million of working capital excluding marked-to-market derivative contracts.

The new Canadian Revolving Term Credit Facility is guaranteed by Chinook and its 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 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 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 financing costs at the time of signing the International Credit Facility, which will be amortized through to its expiry.

Capital Expenditures

Three months ended December 31				2012				2011
($ thousands)	Canada	Tunisia	Corporate	Total	Canada	Tunisia	Corporate	Total
Land and lease	**$ 390**	**$ -**	**$ -**	**$ 390**	$ 206	$ -	$ -	$ 206
Drilling and completions	**3,848**	**11,991**	**-**	**15,839**	13,041	7,820	-	20,861
Facilities and equipment	**1,658**	**1,503**	**-**	**3,161**	4,338	657	-	4,995
Field expenditures	**5,896**	**13,494**	**-**	**19,390**	17,585	8,477	-	26,062
Capitalized G&A	**364**	**814**	**-**	**1,178**	101	122	-	223
Furniture and equipment	**-**	**-**	**7**	**7**	-	-	58	58
Property acquisitions [1]	**29,881**	**-**	**-**	**29,881**	-	-	-	-
Total	**$ 36,141**	**$ 14,308**	**$ 7**	**$ 50,456**	$ 17,686	$ 8,599	$ 58	$ 26,343
Proceeds from dispositions	**$ 33,087**	**$ -**	**$ -**	**$ 33,087**	$ 30,810	$ -	$ -	$ 30,810

Year ended December 31				2012				2011
($ thousands)	Canada	Tunisia	Corporate	Total	Canada	Tunisia	Corporate	Total
Land and lease	**$ 1,208**	**$ -**	**$ -**	**$ 1,209**	$ 3,048	$ -	$ -	$ 3,048
Drilling and completions	**18,195**	**42,797**	**-**	**60,992**	56,817	28,727	-	85,544
Facilities and equipment	**7,566**	**5,776**	**-**	**13,342**	23,161	1,738	-	24,899
Field expenditures	**26,969**	**48,573**	**-**	**75,542**	83,026	30,465	-	113,491
Capitalized G&A	**1,624**	**2,465**	**-**	**4,089**	1,651	449	-	2,100
Furniture and equipment	**-**	**-**	**69**	**69**	-	-	438	438
Property acquisitions [1]	**29,957**	**-**	**-**	**29,957**	-	3,672	-	3,672
Total	**$ 58,550**	**$ 51,038**	**$ 69**	**$ 109,657**	$ 84,677	$ 34,586	$ 438	$ 119,701
Proceeds from dispositions	**$ 106,287**	**$ -**	**$ -**	**$ 106,287**	$ 83,751	$ -	$ -	$ 83,751

(1) Includes business combination of $29.9 million

A summary of Chinook's drilling activities for the year ended December 31, 2012, is as follows:

Wells Drilled

Three months ended December 31	Tunisia		Canada		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	2.00	**1.72**	3.00	**1.24**	5.00	**2.96**
Gas	-	**-**	-	**-**	-	**-**
Dry	-	**-**	-	**-**	-	**-**
Development wells	2.00	**1.72**	3.00	**1.24**	5.00	**2.96**

Year ended December 31	Tunisia		Canada		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	-	**-**	4.00	**1.86**	4.00	**1.86**
Dry	2.00	**0.96**	-	**-**	2.00	**0.96**
Exploration wells	2.00	**0.96**	4.00	**1.86**	6.00	**2.82**
Oil	6.00	**4.35**	6.00	**1.88**	12.00	**6.23**
Gas	-	**-**	1.00	**1.00**	1.00	**1.00**
Dry	-	**-**	-	**-**	-	**-**
Development wells	6.00	**4.35**	7.00	**2.88**	13.00	**7.23**
Total	8.00	**5.31**	11.00	**4.74**	19.00	**10.05**

Canada Capital Expenditures

During the year ended 2012, Chinook participated in the drilling of 11 wells (4.74 net). This included 1.0 net at Gilby in central Alberta, one (0.37 net) at Kaybob in west central Alberta, one (0.25 net) at Winmore in SE Saskatchewan, seven (3.12 net) in the Grande Prairie core area of NW Alberta, and one additional well in west central Alberta (0.02 net). The drilling activity was concentrated early in 2012, with seven of the wells drilled in the first quarter, one in the third quarter, and three in the fourth quarter. In addition to the 11 wells which rig released in 2012, three additional wells were spud just prior to year-end, including one (0.37 net) at Kaybob, one (0.75 net) at Red Creek in NE British Columbia, and one (0.50 net) in the Grande Prairie area.

The well drilled at Gilby was cased for potential natural gas production from two separate Mannville sands, but completion operations were deferred due to low natural gas price benchmarks.

The Kaybob area contains an exciting Montney oil prospect. The horizontal well drilled in 2012 tested at significant gross rates of over 500 barrels of oil per day and 1.5 mmcf per day. A follow-up well was drilled in early 2013. Both Kaybob non-operated wells have been equipped for production and pipeline connected and are expected to be on production through third party facilities in the second quarter of 2013. Chinook has identified another 14 drilling locations on this prospect in which it holds a working interest and expects to drill additional wells in 2013.

In the Grande Prairie core area, two of the wells drilled were on the Karr property. These are horizontal Dunvegan oil wells following up on the discovery well drilled there in late 2011, which cumulatively totaled over 57,000 barrels of crude oil production and continues to make over 100 barrels of oil per day. The two Karr wells drilled in the fourth quarter of 2012 were brought on production in February 2013. Two additional horizontal wells were also drilled in the first quarter of 2013 and are expected to be on production by the end of the first quarter of 2013. Chinook has recently added three sections (1.1 net) of prospective land at Karr and has identified up to 23 (8.6 net) additional horizontal drilling locations.

One 2012 Grande Prairie area well was vertically drilled, targeting Charlie Lake oil. The main zone of interest was eroded but the well was cased for an uphole natural gas zone which will be completed for production once natural gas prices increase.

The additional three Grande Prairie area wells drilled in 2012 were horizontal Dunvegan oil wells located in the Wapiti property. The current average production rates for each of these three wells are 192 boe per day. Chinook has identified up to 30 (11.25 net) additional horizontal drilling locations on its Wapati property.

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 at the time of acquisition using the timing and estimated costs associated with the abandonment, restoration and reclamation of the acquired wells and facilities.

Late in 2012, one (0.50 net) horizontal Dunvegan oil well was drilled on the acquired property in the Knopcik area. The well was completed and put into production in the first quarter of 2013. Chinook drilled two additional horizontal oil wells (1.0 net) on this aquired property early in 2013 and identified up to twenty more horizontal drilling locations along with significant optimization and waterflood upside.

Chinook spent approximately $0.5 million acquiring land in its core areas during 2012, adding a total of 8,960 acres (6,680 net)

Tunisian Capital Expenditures

Chinook's drilling program for the year ended 2012 included the drilling of eight wells (5.31 net) and included four multi-stage hydraulically fractured horizontal wells (3.44 net) which were the first wells in Tunisia to successfully apply this drilling and completions technology. During the first half of the year Chinook spudded its BJA-2 exploration well (0.86 net), located on its Sud Remada exploration permit onshore Tunisia and determined that this exploratory well was uneconomical and the costs incurred on the drilling of this well were expensed through the line item exploration and evaluation expense on the consolidated statements of operations and comprehensive loss.

Included in the four horizontal wells drilled during 2012, Chinook drilled its TT10 horizontal well (0.86 net) and completed the TT11 horizontal well (0.86 net) during the fourth quarter. The TT11 well was completed with a 12 stage multi-stage hydraulic fracture stimulation. This well was fractured with a combination of conventionally pumped stages and some pumped with a third party's HiWAY fracture technology. The HiWAY pumping technique reduces the event of premature screen out and offers improved fracture conductivity. The TT11 well was brought on at 10 day gross average production rate of 1,473 barrels of oil per day (792 net).

The TT10 horizontal well was drilled during the fourth quarter. A 12 stage multi-stage completion system was run in the lateral section with the stimulation planned to take place during the first quarter of 2013.

Rationalization of Non-Core Properties

During the year ended December 31, 2012, Chinook completed the sale of several non-core petroleum and natural gas properties and several unit interests mostly located throughout Alberta, Canada, for aggregate net proceeds of $106.3 million, after including the final statements of adjustments for prior period dispositions. The non-core properties sold during the year ended 2012 included Manyberries, Coutts, Thorsby, Nipisi, Joffre, Brazeau, Craigmyle, Winmore, and miscellaneous properties in addition to certain unit interests. Chinook's production from these sold properties was approximately 1,600 per day.

The funds received for the above dispositions were used to partially finance the repayment of a portion of the drawn debt facility, prior to this facility being refinanced by the Canadian Revolving Term Credit Facility, and to partially fund Chinook's capital programs.

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 Canadian 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.

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.

Decommissioning Obligation

At December 31, 2012, Chinook has reported decommissioning obligations of $110.5 million (2011 - $95.4 million) 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 of 2.0% (2011 - 2.9%), in order to calculate the undiscounted total future liability. This future liability is then discounted at a liability specific risk-free interest rate of 2.5% (2011 - 2.0% to 3.0%).

Accretion charges of $2.9 million and $3.3 million for the year ended 2012 and 2011, respectively, were recognized in the consolidated statements of operations and comprehensive loss to reflect the increase in the obligation associated with the passage of time. This decreased accretion charge mostly resulted from a lower risk free discount rate, in addition to a $30.2 million lower decommissioning obligation as initially reported at December 31, 2011 and decrease in 2012 decommissioning obligations resulting from non-core Canadian property dispositions. In addition, $3.0 million of abandonment and reclamation expenditures, which included the plugging and abandoning of the Nessma well, located on the producing Adam Concession, the plugging of the BJA-2 well located in close proximity to the producing BBT Concession, both onshore Tunisia, with the remainder incurred on Canadian suspended wells (2011 - $3.0 million) also lowered the decommissioning obligation.

During the year ended 2012, additions to the decommissioning liability of $1.0 million related to the period's drilling activities (2011 - $4.5 million) and $0.6 million from a Canadian business combination.

For December 31, 2012, management evaluated the cost assumptions included in the estimated decommissioning obligation. The result of this review resulted in an increase to Chinook's estimated decommissioning obligation of $29.2 million as at December 31, 2012 (2011 - reduction of $22.9 million).

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,	2012	2011
Common shares outstanding	**214,187,681**	214,187,681
Share options	**13,860,866**	15,454,854
Share purchase warrants	**1,279,000**	1,279,000
Fully diluted common shares	**229,327,547**	230,921,535
Weighted average common shares - basic and diluted	**214,187,681**	214,187,681

At March 26, 2013, Chinook had 214,187,681 common shares, 13,752,753 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 will enter into commodity price contracts for both crude oil and natural gas. 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.

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 whereby Chinook will receive a fixed price of $3.20 per GJ and pay a floating price based on the AECO spot rate.

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.

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 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 salary and directors fees paid, in addition to share-based compensation and other benefits, 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.

Outlook

Canada

The Company will continue to improve its Canadian assets with a non-strategic asset sale process in 2013 and a drilling program focused exclusively on oil opportunities. The disposition of non-core assets as a means to maintain a strong balance sheet and redeploying proceeds to more profitable oil opportunities will increase the per barrel profitability of the Company's core Canadian assets and will be a continued priority for the Company.

A cash flow based capital expenditure program focused on Dunvegan and Montney oil locations opportunities in the Kaybob and Grande Prairie areas is already in place and being executed. The Company anticipates that in 2013 16 wells will be drilled with a focus on the above areas. Our recent Doe Creek/Dunvegan oil asset acquisition has already had three (1.5 net) horizontal wells drilled with expected initial production to be in April 2013 With an additional three horizontal wells planned for 2013.

Chinook continues to focus on improving its Canadian operating and general and administrative cost structure which has resulted in various process changes and cost saving initiatives which the impact should be fully recognized in 2013.

Tunisia

The Company will continue accelerated development and plans to increase the oil production from the BBT concession which attracts a premium Brent benchmark price per barrel. The development plan for 2013 includes six (5.6 net) horizontal wells being drilled at BBT, in addition to one (0.86 net) exploration well at El Bell located on the Sud Remada permit and one (0.1 net) well on the Borj El Khadra permit. A 250 kilometer 3D seismic program will also be competed on the southern portion of the Sud Remada permit.

On March 15, 2013, the Company signed an "up to" US$75 million amortizing international reserve-based credit facility for a term of five years with an international bank. The initial availability is US$46.5 million. This facility will be used to further develop the Tunisia assets.

2013 Guidance(1)

The guidance for 2013 is set forth below.

($ millions, except boe/d)	Consolidated	International	Canada
Production (boe/d)	9,500-10,200	2,150 - 2,450	7,350 - 7,750
Cash flow	$95 - $100	$55 - $58	$40 - $42
Capital expenditures	$102 - $107	$58 - $60	$44 - $47
Net debt(2)	$60 - $65	$ -	$60 - $65
Debt facility	$ 161.5	US$ 46.5	$ 115

(1) guidance is based on: AECO gas price of $3.22/mcf; Edmonton light oil price of $89.80/bbl (CDN); Brent oil price of $104.75/bbl (CAD); 54% natural gas production; 46% liquids.
(2) Net of property dispositions already closed to date.

Tunisia Security Update

The operating environment in Tunisia has become more complicated and the necessity to increase security at the Company's operations has risen since late last year. Although operations are impacted, production has not been impacted owing to storage capacity being well in excess of the duration of the stoppages to date. From a security perspective, Chinook has completed the planning phase of an audit and upgrade of its capabilities and systems and will be implementing the majority of the recommendations prior to the commencement of its next program. This was in progress prior to the most recent events that continue to destabilize the political landscape but those recent events clearly reinforce the necessity that the Company minimizes risk by increasing its awareness and preparedness.

Quarterly Information

Summarized information by quarter for the two years ended December 31, 2012, appears below:

($ thousands, except where noted)	Dec. 31 2012	Sept. 30 2012	Jun. 30 2012	Mar. 31 2012	Dec. 31 2011	Sept. 30 2011	Jun. 30 2011	Mar. 31 2011
OPERATIONS								
Production								
Oil *(bbl/d)*	**4,035**	3,516	3,195	3,819	4,206	3,705	3,394	3,634
Natural gas liquids *(bbl/d)*	**1,003**	1,141	1,122	1,202	1,591	1,343	1,329	1,692
Natural gas *(mcf/d)*	**39,585**	43,839	43,387	51,445	55,927	56,364	56,834	55,922
Average daily production *(boe/d)*	**11,636**	11,964	11,548	13,596	15,119	14,443	14,196	14,646
Sales Prices								
Average oil price *($/bbl)*	**$ 97.72**	$ 95.61	$ 89.11	$ 101.06	$ 97.11	$ 94.19	$ 97.71	$ 82.38
Average natural gas liquids price *($/bbl)*	**$ 57.71**	$ 56.42	$ 55.46	$ 70.66	$ 71.23	$ 67.15	$ 67.03	$ 59.13
Average natural gas price *($/mcf)*	**$ 3.39**	$ 2.57	$ 2.08	$ 2.27	$ 3.31	$ 3.84	$ 4.00	$ 3.85
Corporate Netbacks (1)								
Average commodity pricing *($/boe)*	**$ 51.30**	$ 44.67	$ 33.97	$ 43.35	$ 47.00	$ 45.63	$ 44.74	$ 41.86
Royalties *($/boe)*	**$ (0.64)**	$ (2.50)	$ (3.29)	$ (4.22)	$ (6.03)	$ (5.24)	$ (7.57)	$ (8.12)
Net production expenses *($/boe)* (1)	**$ (18.98)**	$ (18.38)	$ (14.46)	$ (17.65)	$ (17.75)	$ (20.25)	$ (16.96)	$ (13.48)
Cash G&A *($/boe)* (1)	**$ (4.48)**	$ (2.54)	$ (3.74)	$ (3.03)	$ (5.13)	$ (1.80)	$ (1.85)	$ (2.22)
Corporate netbacks *($/boe)* (1)	**$ 27.20**	$ 21.25	$ 12.48	$ 18.45	$ 18.10	$ 18.34	$ 18.36	$ 18.04
Wells Drilled *(net)*								
Oil	**2.96**	1.11	0.86	3.16	6.12	7.45	0.90	4.64
Gas	**-**	-	-	1.00	1.02	0.65	0.10	5.96
Dry	**-**	-	0.86	0.10	-	-	-	-
Total wells drilled *(net)*	**2.96**	1.11	1.72	4.26	7.14	8.10	1.00	10.60
FINANCIAL *($ thousands, except per share amounts)*								
Petroleum and natural gas revenue, net of royalties (2)	**$ 55,303**	$ 48,012	$ 29,979	$ 48,509	$ 57,274	$ 53,920	$ 47,204	$ 44,365
Cash flow (1)	**$ 28,757**	$ 20,935	$ 9,830	$ 19,174	$ 23,950	$ 22,114	$ 17,799	$ 21,140
Per share - basic and diluted *($/share)*	**$ 0.13**	$ 0.10	$ 0.05	$ 0.09	$ 0.11	$ 0.10	$ 0.08	$ 0.10
Net loss (3)	**$ (36,708)**	$ (12,417)	$ (24,812)	$ (17,091)	$ (58,077)	$ (3,543)	$ (1,890)	$ (241)
Per share - basic and diluted *($/share)*	**$ (0.17)**	$ (0.06)	$ (0.12)	$ (0.08)	$ (0.27)	$ (0.02)	$ (0.01)	$ -
Capital expenditures	**$ 50,456**	$ 22,674	$ 13,083	$ 23,446	$ 26,343	$ 30,687	$ 18,975	$ 43,696
Net debt (1)	**$ 72,383**	$ 80,428	$ 77,092	$ 89,182	$ 134,900	$ 151,014	$ 165,771	$ 176,542
Total assets	**$ 622,476**	$ 628,542	$ 637,238	$ 692,023	$ 745,403	$ 870,908	$ 864,568	$ 888,500
Common Shares *(thousands)*								
Weighted average during period - basic and diluted	**214,188**	214,188	214,188	214,188	214,188	214,188	214,188	214,188
Outstanding at period end	**214,188**	214,188	214,188	214,188	214,188	214,188	214,188	214,188

(1) Cash flow, net debt, corporate netback, net production expense and cash G&A are not IFRS 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) Tunisian production of 77,000 barrels was not reported as sold at June 30, 2012.

(3) Includes $43.0 million, $26.5 million and $55.5 million in impairment charges against Canadian properties for the three months ended December 31, 2011, June 30, 2012 and December 31, 2012, respectively.

Factors That Have Caused Variations over the Quarters

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

Generally, Chinook's Canadian non-core property disposition program, which commenced in 2011 and continued through 2012, has resulted in a lower trend of Canadian production volumes, especially natural gas and natural gas liquids. This effect was partially offset by increased Tunisian crude oil production from Chinook's BBT Concession since the third quarter of 2011 resulting in crude oil production volumes generally recovering during 2012 from the effect of the 2011 and 2012 Canadian property dispositions. When combined with the increasing trend of the Brent benchmark as partially offset by a decrease in the trend of the AECO and Edmonton par benchmarks, petroleum and natural gas revenues, net of royalties have recovered in the fourth quarter of 2012, relative to the same quarter in 2011, with a corresponding higher cash flow.

Of particular note, the average commodity price, corporate netback per boe and the petroleum and natural gas revenues, net of royalties for the second quarter of 2012 declined as a result of a significant increase in the relatively higher priced Tunisian crude oil production that remained unsold at the end of this quarter. Further, for the fourth quarter of 2011, second quarter of 2012 and fourth quarter of 2012, $43.0 million, $26.5 million and $55.5 million, respectively, of impairment charges were reported against Chinook's Canadian CGUs resulted in significantly higher net losses during these quarters, in comparison to the other quarters. Comprehensive income essentially trends with net income (loss) but can differ should there be a change in the value of the Canadian dollar relative to the US dollar, the functional currency of Chinook's Tunisian operations. Capital expenditures have historically been focused on the Canadian drilling and completions programs but during the second quarter of 2012 shifted in favor of Tunisian organic growth.

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 management's discussion and analysis 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. The risks set out below are not an exhaustive list, nor should be taken as a complete summary or description of all the risks associated with Chinook's business and the oil and natural gas business generally. 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.

Please refer to Chinook's AIF for the year ended December 31, 2012 for additional risk factors.

Additional Risks Relating to Tunisian Operations

Political and Security 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. The new government is led by a three party coalition with the largest party being a moderate Islamic party Ennahda. An election in Tunisia has been scheduled for later in 2013, however, a date has not yet been set. In response to protests that arose following the assassination of a leading opposition politician in January 2013, the governing coalition lead by the Ennahda party has appointed several new Ministers who are deemed capable but not politically aligned with any party at this stage, with the intent that they hold key portfolios until the next election which is widely expected early in 2014.

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. The operating environment in Tunisia has become more complicated and the necessity to increase security at Chinook's operations has risen since late last year. The number of local land use concerns continues to rise and the precedents to resolve them are nonexistent or ineffective in many cases. Stakeholder frustrations often manifest themselves as "sit ins" that disrupt Chinook's work or logistics. There are ongoing efforts to resolve the issues and streamline the process but until material commitments and progress are evident, Chinook is unable to achieve the economies or operational timelines that had been planned. Although operations have been impacted, to date, production has not been impacted due to storage capacity being well in excess of the duration of the stoppages. From a security perspective, Chinook has completed the planning phase of an audit and upgrade of its capabilities and systems. Chinook intends to implement the majority of the recommendations prior to the commencement of its next operational program and all of the recommendations by the end of 2013. 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 Chinooks 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 natural 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 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, Chinook’s existing reserves, and the production from them, will decline over time as Chinook produces from such reserves. A future increase in Chinook’s reserves will depend on both the ability of Chinook to explore and develop its existing properties and on its ability to select and acquire suitable producing properties or prospects. There is no assurance that Chinook will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of Chinook may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that Chinook will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as 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, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, and 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, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively 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, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, 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.

As is standard 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, liabilities associated with certain risks could exceed policy limits or not be covered. In either event Chinook could incur significant costs.

Global Financial Markets

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 events and conditions have caused a decrease in confidence in the broader United States and 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. While there are signs of economic recovery, these factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions taken by OPEC and the ongoing global credit and liquidity concerns. This volatility may in the future affect Chinook's ability to obtain equity or debt financing on acceptable terms.

Prices, Markets and Marketing

Numerous factors beyond Chinook's control do, and will continue to affect the marketability and price of oil and natural gas acquired or discovered by Chinook. 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. Deliverability uncertainties related to the distance Chinook's reserves are to pipelines, processing and storage facilities, operational problems affecting pipelines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect Chinook.

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. Prices for oil and natural gas are also subject to the availability of foreign markets and Chinook's ability to access such markets. A material decline in prices could result in a reduction of Chinook's net production revenue. The economics of producing from some wells may change because 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 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. 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.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions, and 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.

Operational Dependence

Other companies operate some of the assets in which the Chinook has an interest. The Chinook has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Chinook's financial performance. The Chinook's return on assets operated by others depends upon a number of factors that may be outside of the Chinook's control, including, but not limited to, 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 over-runs 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 be unable to market the oil and natural gas that it produces effectively.

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. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. 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.

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (exploration, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur 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. In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, Chinook's business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the Competition Act (Canada) and the Investment Canada Act (Canada).

Royalty Regimes

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt a new or modify the royalty regime which may have an impact on the economics of Chinook's projects. An increase in royalties would reduce Chinook's earnings and could make future capital investments, or Chinook's operations, less economic.

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 environmental 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.

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;
- royalty rates;
- tax burden due to current and future 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. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, Chinook's access to additional financing may be affected.

Because of the global economic volatility, Chinook 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, 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 affected materially and adversely 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.

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. The actual interest of Chinook in properties may, therefore, vary from Chinook's records. If a title defect does exist, it is possible that Chinook may lose all or a portion of the properties to which the title defect relates, 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 Chinook 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 in this document are estimates only. Generally, 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; and
- 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.

The estimation 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. 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 natural 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 and 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, except as may be specifically stated, 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.

Geopolitical Risks

Political events throughout the world that cause disruptions in the supply of oil continue to affect the marketability and price of oil and natural gas acquired or discovered by Chinook. Conflicts, or conversely peaceful developments, arising outside of Canada have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and 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.

Expiration of Licences and Leases

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

Income Taxes

Chinook files all required income tax returns and believes that it is in full compliance with the provisions of the Tax Act and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Chinook, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects Chinook. Furthermore, tax authorities having jurisdiction over Chinook may disagree with how Chinook calculates its income for tax purposes or could change administrative practices to Chinook's detriment.

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 as the demand for natural gas rises during cold winter months and hot summer months.

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

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 are 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 $26.5 million and $55.5 million at June 30, 2012 and December 31, 2012, respectively, resulting in a total impairment charge of $82.0 million for the year ended December 31, 2012 ($43.0 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 a 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 income.

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.

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 December 31, 2012 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, 2012, 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, 2012 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.

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 2013; 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 2013 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, 2012 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.