Condensed Consolidated Financial Statements

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

Condensed Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars)	March 31 2013	December 31 2012
Assets		
Current		
Cash	$ 24,736	$ 30,647
Accounts receivable	51,891	51,011
Inventory (note 4)	5,156	690
Prepaids and deposits	5,533	3,829
	87,316	86,177
Development & production assets (note 6)	521,798	522,807
Exploration & evaluation assets (note 6)	8,345	13,492
	$ 617,459	$ 622,476
Liabilities and Shareholders' Equity		
Current		
Accounts payable, accrued liabilities and other	$ 64,221	$ 64,187
Derivative contracts (note 5)	593	-
Deferred disposition proceeds on joint arrangement (note 6)	-	3,051
Taxes payable	687	2,185
	65,501	69,423
Long-term debt (note 7)	86,850	89,137
Decommissioning obligation (note 8)	105,213	110,453
Deferred income taxes	8,950	9,333
Deferred lease obligation	264	528
Shareholders' Equity		
Share capital	778,070	778,070
Contributed surplus	19,952	19,517
Deficit	(447,200)	(451,700)
Accumulated other comprehensive loss	(141)	(2,285)
	350,681	343,602
	$ 617,459	$ 622,476

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(unaudited)

Three months ended March 31	2013	2012
(in thousands of Canadian dollars, except per share amounts)		
Revenues		
Petroleum & natural gas revenues	**$ 41,155**	$ 53,745
Royalties	**(3,415)**	(5,236)
Petroleum & natural gas revenues, net of royalties	**37,740**	48,509
Processing & gathering revenues	**3,399**	2,654
Petroleum, natural gas & other revenues, net of royalties	**41,139**	51,163
Expenses		
Production & operating	**18,279**	24,531
General & administrative	**2,722**	4,325
Exploration & evaluation	**4,499**	3,189
Derivative contract losses (note 5)	**604**	7,182
Net financing (note 9)	**1,813**	2,340
Depletion, depreciation & amortization (note 6)	**17,969**	26,043
Gains on disposition of properties (note 6)	**(6,259)**	(1,324)
Foreign exchange & other (gains) losses (note 6)	**(2,948)**	313
	36,679	66,599
Income (loss) before income taxes	**4,460**	(15,436)
Income taxes (recovery) expense		
Current income tax expense	**630**	1,732
Deferred income tax recovery	**(670)**	(77)
	(40)	1,655
Net income (loss)	**4,500**	(17,091)
Foreign currency translation gain (loss) on foreign operations	**2,144**	(1,554)
Comprehensive income (loss)	**$ 6,644**	$ (18,645)
Net income (loss) per share, basic and diluted (note 10)	**$ 0.02**	$ (0.08)

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars, except common shares)	Common Shares (thousands)	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance as at December 31, 2011	**214,188**	**$ 778,070**	**$ 17,240**	**$ (360,672)**	**$ 73**	**$ 434,711**
Share-based compensation	-	-	827	-	-	827
Other comprehensive loss for the period	-	-	-	-	(1,554)	(1,554)
Net loss for the period	-	-	-	(17,091)	-	(17,091)
Balance as at March 31, 2012	**214,188**	**$ 778,070**	**$ 18,067**	**$ (377,763)**	**$ (1,481)**	**$ 416,893**
Balance as at December 31, 2012	**214,188**	**$ 778,070**	**$ 19,517**	**$ (451,700)**	**$ (2,285)**	**$ 343,602**
Share-based compensation	-	-	435	-	-	435
Other comprehensive income for the period	-	-	-	-	2,144	2,144
Net income for the period	-	-	-	4,500	-	4,500
Balance as at March 31, 2013	**214,188**	**$ 778,070**	**$ 19,952**	**$ (447,200)**	**$ (141)**	**$ 350,681**

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Three months ended March 31		2013		2012
(in thousands of Canadian dollars)				
Operating Activities				
Net income (loss)	**$**	**4,500**	$	(17,091)
Add (deduct):				
Accretion and amortization of deferred financing fees		**765**		844
Depletion, depreciation and amortization (note 6)		**17,969**		26,043
Exploration & evaluation expense		**4,499**		3,189
Unrealized loss on derivative transactions and swap option (note 5)		**593**		6,917
Gains on disposition of properties (note 6)		**(6,259)**		(1,324)
Share-based compensation		**435**		827
Deferred income tax recovery		**(670)**		(77)
Foreign exchange and other non-cash charges		**(3,365)**		(154)
Decommissioning expenditures (note 8)		**(828)**		(1,524)
Change in other non-cash working capital (note 10)		**(13,747)**		(5,272)
Cash flow from operating activities		**3,892**		12,378
Financing Activities				
Long-term debt repayment		**-**		(38,325)
Deferred financing charges (note 7)		**(2,347)**		-
Cash flow from financing activities		**(2,347)**		(38,325)
Investing Activities				
Capital expenditures		**(25,046)**		(23,446)
Exploration and evaluation expenditures		**(3,109)**		(3,040)
Proceeds on property dispositions (note 6)		**13,060**		54,740
Change in non-cash working capital (note 10)		**7,555**		(464)
Cash (outflow) inflow from investing activities		**(7,540)**		27,790
Change in cash, during the period		**(5,995)**		1,843
Cash, beginning of period		**30,647**		11,475
Cash, foreign exchange		**84**		(217)
Cash, end of period	**$**	**24,736**	$	13,101

Other supplementary cash flow information *(note 10)*

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

Three months ended March 31, 2013 and 2012
Tabular amounts in thousands of Canadian dollars, except as noted

1. Reporting Entity

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

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

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

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

2. Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared following the same accounting policies as disclosed in note 3 in the audited consolidated financial statements for the years ended December 31, 2012 and 2011 with the exception of the new accounting policies disclosed in note 3 below. These unaudited condensed consolidated financial statements for the three months ended March 31, 2013, should be read in conjunction with the consolidated financial statements for the years ended December 31, 2012 and 2011 and the notes thereto. These unaudited condensed consolidated financial statements for the three ended March 31, 2013, do not include all of the required disclosures for annual consolidated financial statements.

Statement of Compliance

These condensed consolidated financial statements have been prepared by management in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting principles consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2013.

Basis of Measurement

The condensed consolidated financial statements have been prepared on the historical cost basis with the exception of derivative financial instruments which have been measured at fair value.

Functional and Presentation Currency

These condensed consolidated financial statements are presented in Canadian dollars which is also the Company's Canadian and Corporate segments' functional currency. The Tunisian segment's functional currency is the United States ("US") dollar. Accumulated other comprehensive income is comprised of gains (losses) on the translation of Chinook's US dollar functional Tunisian operations to Chinook's Canadian dollar reporting currency and would be reported on the statements of operations and comprehensive income (loss) upon sale or partial sale of these operations.

3. New Standards

Current Year Accounting Changes

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), and fair value measurements (IFRS 13). Chinook also adopted the amendment to IFRS 7 "Financial Instruments: Disclosures" to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar agreements.

The adoption of these standards and amendment had no impact on the amounts recorded in the condensed consolidated financial statements as at March 31, 2013 and December 31, 2012.

4. Inventory

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

During the three months ended March 31, 2013, Chinook sold the approximately 15,000 barrels of crude oil inventory as valued at cost of $0.7 million that it held at December 31, 2012 and reported the sale through the condensed consolidated statements of operations and comprehensive income (loss). At March 31, 2013, Chinook had approximately 88,000 barrels of crude oil inventory as valued at cost of $5.2 million.

5. Derivative Contracts and Swap Option

Chinook's realized and unrealized losses from commodity price risk management contracts for the three months ended March 31, 2013 and from commodity price risk management contracts and the swap option contract for the three months ended March 31, 2012 were as follows:

Three months ended March 31		2013		2012
Realized loss on commodity contract(s)	**$**	**11**	$	265
Unrealized loss on commodity contracts and swap option		**593**		6,917
	$	**604**	$	7,182

Chinook uses commodity price risk management contracts to reduce its exposure to fluctuations in commodity prices. The following price risk management contracts were in place as at March 31, 2013:

Indexed Price	Notional Volumes	Company's Received Price	Remaining period
AECO	7,000 GJ/d	$3.20/GJ	April 1, 2013 to December 31, 2013
Brent	500 bbl/d	$95.00 US/bbl to $115.50 US/bbl	April 1, 2013 to December 31, 2013

The swap commodity price contracts were assessed as level 2 on the fair value hierarchy and were reported at March 31, 2013 at their fair value liability estimate of $0.6 million as partially determined through the difference in the referenced market forward prices of the respective commodity over the remaining period of each contract as compared to each contract's strike price multiplied by the notional volumes during the remaining period. At December 31, 2012 there were no outstanding swap option or risk management contracts.

Subsequent to March 31, 2013, Chinook entered into the following contract:

Indexed Price	Notional Volumes	Company's Received Price	Period
AECO	3,000 GJ/d	$3.40/GJ	May 1, 2013 to October 31, 2013

6. Development & Production and Exploration & Evaluation Assets

The following table reconciles Chinook's development & production ("D&P") and exploration & evaluation ("E&E") assets:

	Development & Production Assets	Exploration & Evaluation Assets	Total
Cost of Assets			
Balance as at December 31, 2012	**$ 844,031**	**$ 58,960**	**$ 902,991**
Capital expenditures	19,176	5,870	25,046
Cost of exploration efforts expensed	-	(1,390)	(1,390)
Cost of properties sold	(17,472)	(6,805)	(24,277)
Transfer from E&E to D&P	3,793	(3,793)	-
Change in decommissioning asset	394	-	394
Foreign exchange adjustment	3,269	7	3,276
Balance as at March 31, 2013	**$ 853,191**	**$ 52,849**	**$ 906,040**
Accumulated Depletion, Depreciation & Amortization			
Balance as at December 31, 2012	**$ (321,224)**	**$ (45,468)**	**$ (366,692)**
Depletion, depreciation & amortization	(15,552)	(2,417)	(17,969)
Inventoried depletion	(2,368)	-	(2,368)
Reversed on sale of properties	8,476	3,381	11,857
Foreign exchange adjustment	(725)	-	(725)
Balance as at March 31, 2013	**$ (331,393)**	**$ (44,504)**	**$ (375,897)**
Net Book Values			
Balance as at December 31, 2012	$ 522,807	$ 13,492	$ 536,299
Balance as at March 31, 2013	**$ 521,798**	**$ 8,345**	**$ 530,143**

The Company capitalized $1.3 million and $1.0 million of direct G&A costs as related to its exploration and development activity for the three months ended March 31, 2013 and 2012, respectively.

Exploration Wells

During the three months ended March 31, 2013, management continued its evaluation from December 31, 3012 and determined that an exploration well drilled during 2012 was unsuccessful for petroleum or natural gas reserves. Drilling costs of $1.4 million that were initially capitalized to exploration and evaluation assets as reported on the December 31, 2012 statements of financial position were expensed for the three months ended March 31, 2013 through the line item exploration and evaluation on the condensed consolidated statements of operations and comprehensive income (loss). In addition, Chinook incurred exploratory lease rental and geological and geophysical costs for the three months ended March 31, 2013 which were directly charged to exploration and evaluation expense.

During the three months ended March 31, 2012, Chinook started drilling its BJA-2 exploration well, located on its Sud Remada exploration permit onshore Tunisia. Subsequent to March 31, 2012, the well was completed but determined to be unsuccessful for petroleum or natural gas reserves. Drilling costs including the estimated decommissioning charge, of the BJA-2 exploration well as at March 31, 2012 of $1.5 million, in addition to $1.7 million of exploratory lease rental and geological and geophysical costs, were charged directly to exploration and evaluation on the condensed consolidated statements of operations and comprehensive income (loss).

Gains on Disposition of Properties

During the three months ended March 31, 2013, Chinook completed the sale of several petroleum and natural gas properties for aggregate net proceeds of $13.1 million ($54.7 million for the three months ended March 31, 2012). The carrying amount of these sold properties, less $5.6 million of associated decommissioning obligations (see note 8), was less than the sales proceeds received resulting in a gain of $6.3 million for the three months ended March 31, 2013 ($1.3 million for the three months ended March 31, 2012).

Joint Arrangement

On March 19, 2013, Chinook and NZOG Hammamet Pty. Ltd ("NZOG") acknowledged that each had given a negative final investment decision ("FID") as defined under the terms of the farmout agreement (the "Farmout Agreement"), which terminated NZOG's optional right to complete its earning and acquisition of an interest in the Cosmos Concession per the terms of the Farmout Agreement. Given this terminated optional right, Chinook reported the initial US$3.0 million cash proceeds it received from NZOG as realized through the line item foreign exchange & other (gains) losses on the condensed consolidated statements of operations and comprehensive income (loss).

7. Debt

	March 31 2013	December 31 2012
Canadian revolving term credit facility	**$ 89,500**	$ 89,500
Deferred financing costs, Canadian revolving term credit facility	**(303)**	(363)
Deferred financing costs, international credit facility	**(2,347)**	-
Balance, end of period	**$ 86,850**	$ 89,137

Canadian Revolving Term Credit Facility

On December 11, 2012, Chinook signed a new Canadian reserve-based 364 day revolving credit facility (the "Canadian Revolving Term Credit Facility") with a syndicate of Canadian banks with a maximum availability of $115.0 million. 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 March 31, 2013, Chinook had drawn $89.5 million on the Canadian Revolving Term Credit Facility (December 31, 2012 - $89.5 million) resulting in available credit on this facility of $25.5 million (December 31, 2012 - $25.5 million). Unamortized deferred financing costs of approximately $0.3 million remained at March 31, 2013 and will be amortized through to the expiry of the facility in June 2014.

The Canadian Revolving Term Credit Facility is guaranteed by Chinook's Canadian subsidiaries and collateralized by floating charges and security interests over all present and future Canadian properties and other Canadian assets of Chinook and its Canadian subsidiaries. Interest payable on amounts drawn on this facility vary based on Canadian prime, U.S. Base rate, U.S. LIBOR or Bankers' Acceptances depending on the borrowing option selected by Chinook. The effective interest rate on draws against the Canadian Revolving Term Credit Facility for the three months ended March 31, 2013, was 5.23% (2012 – 3.8%). 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 March 31, 2013, Chinook was in compliance with this covenant.

International Credit Facility

On March 15, 2013, Chinook signed a US$75.0 million international amortizing reserve-based credit facility ("International Credit Facility") for a term of five years with an international bank. The 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. At March 31, 2013 Chinook had no outstanding drawings against the International Credit Facility. The term of the International Credit Facility can be reduced from the anticipated final maturity date of March 2018 or a date where the estimated reserve recoveries of the borrowing base assets fall below a prescribed rate.

The International Credit Facility is collateralized by floating charges and security interests over all of Chinook's Tunisian assets, including the shares of Chinook's international subsidiaries which have an interest in such assets. Interest payable on drawings from the International Revolving Credit Facility will vary based on a prescribed margin plus U.S. LIBOR. Chinook recognized approximately $2.3 million in deferred financing costs at the time of signing the International Credit Facility, which will be amortized through to its expiry.

8. Decommissioning Obligation

The total future decommissioning obligations were estimated by management based on Chinook's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. At March 31, 2013, Chinook has estimated the net present value of its total decommissioning obligation based on a total future undiscounted liability of $113.6 million ($118.2 million at December 31, 2012). At March 31, 2013 management estimates that these payments are expected to be made over the next 51 years. A risk free rate of 2.5% in 2013 (2012 – 2.5%) and an inflation rate of 2% in 2013 (2012 - 2%) were used to calculate the present value of the decommissioning obligations.

Balance as at December 31, 2012	**$**	**110,453**
Dispositions		(5,619)
Development activities and change in estimate		394
Settlement		(828)
Accretion expense		704
Foreign exchange adjustment		109
Balance as at March 31, 2013	**$**	**105,213**

9. Net Financing Expenses

Three months ended March 31		2013		2012
Interest on bank debt and other interest	**$**	**1,275**	$	1,341
Interest earned on bank deposits		**(299)**		(2)
Finance charges and fees		**72**		157
Amortization of deferred financing costs		**61**		-
Accretion of decommissioning obligation (note 8)		**704**		844
Net financing expenses	**$**	**1,813**	$	2,340

10. Supplemental Disclosures

Changes in non-cash working capital:

Three months ended March 31		2013		2012
Cash provided by (used for):				
Accounts receivable	**$**	**(661)**	$	(10,883)
Accounts payable and accrued liabilities		**(314)**		3,956
Inventory		**(2,016)**		(78)
Prepaids, deposits and other		**(1,701)**		576
Taxes payable		**(1,500)**		693
	$	**(6,192)**	$	(5,736)
Cash provided by (used for):				
Operating activities	**$**	**(13,747)**	$	(5,272)
Investing activities		**7,555**		(464)
	$	**(6,192)**	$	(5,736)

Other supplemental cash flow information:

Three months ended March 31		2013		2012
Cash taxes paid	**$**	**2,128**	$	1,039
Cash interest paid	**$**	**1,219**	$	1,331

Per share amounts:

The per share amounts for the three months ended March 31, 2013 and 2012, were calculated as per the following table.

Three months ended March 31		2013		2012
Net income (loss)	**$**	**4,500**	$	(17,091)
Weighted average shares outstanding - basic and diluted (thousands)		**214,188**		214,188
Net income (loss) per share - basic and diluted ($/share)	**$**	**0.02**	**$**	(0.08)

Diluted income per share assumes the exercise of options and warrants as if issued at the later of the date of grant or the beginning of the period. This calculation takes into account only the options and warrants that are considered to be “in-the-money”. At March 31, 2013, Chinook’s options and warrants were considered to be “out-of-the-money” per the treasury stock method and had no effect on the diluted weighted average shares outstanding. For the three months ended March 31, 2012, as Chinook had a net loss, the dilutive effect of any “in-the-money” options and warrants was excluded in the calculation of diluted weighted average shares outstanding because inclusion would result in an anti-dilutive effect.

11. Segmented Information

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

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

Selected Segment Information

Three months ended March 31				2013				2012
	Canada	Tunisia	Corporate	Consolidated	Canada	Tunisia	Corporate	Consolidated
Capital expenditures	**$ 17,182**	**$ 7,834**	**$ 30**	**$ 25,046**	$ 14,058	$ 9,337	$ 51	$ 23,446
As at				March 31, 2013				December 31, 2012
Development & production and exploration & evaluation assets	**$ 401,766**	**$ 125,152**	**$ 3,225**	**$ 530,143**	$ 411,768	$ 121,343	$ 3,188	$ 536,299
Total assets	**$ 460,109**	**$ 139,741**	**$ 17,609**	**$ 617,459**	$ 465,576	$ 141,140	$ 15,760	$ 622,476

Results by Segment

		Canada		Tunisia		Corporate		Consolidated
Three months ended March 31	2013	2012	2013	2012	2013	2012	2013	2012
Revenues								
Petroleum, natural gas & other revenues, net of royalties	**$ 28,046**	$ 33,485	**$ 13,093**	$ 17,678	**$ -**	$ -	**$ 41,139**	$ 51,163
Expenses								
Production & operating	**15,020**	20,631	**3,259**	3,900	**-**	-	**18,279**	24,531
General & administrative	**1,216**	1,206	**167**	49	**1,339**	3,070	**2,722**	4,325
Exploration & evaluation	**3,098**	1,054	**1,401**	2,135	**-**	-	**4,499**	3,189
Derivative contract losses	**-**	-	**-**	-	**604**	7,182	**604**	7,182
Net financing	**1,778**	2,304	**36**	36	**-**	-	**1,813**	2,340
Depletion, depreciation & amortization	**13,768**	21,574	**4,201**	4,469	**-**	-	**17,969**	26,043
Gains on disposition of properties	**(6,259)**	(1,324)	**-**	-	**-**	-	**(6,259)**	(1,324)
Foreign exchange & other losses (gains)	**198**	34	**(3,146)**	76	**-**	203	**(2,948)**	313
	28,811	45,480	**5,870**	10,665	**1,998**	10,455	**36,679**	66,599
(Loss) income before income taxes	**(765)**	(11,994)	**7,223**	7,013	**(1,998)**	(10,455)	**4,460**	(15,436)
Income taxes								
Current income tax expense	**-**	-	**630**	1,732	**-**	-	**630**	1,732
Deferred income tax expense (recovery)	**-**	(893)	**(670)**	816	**-**	-	**(670)**	(77)
	-	(894)	**(40)**	2,548	**-**	-	**(40)**	1,655
Net (loss) income	**$ (765)**	$ (11,100)	**$ 7,263**	$ 4,465	**$ (1,998)**	$ (10,455)	**$ 4,500**	$ (17,091)